

Trends in World Poverty – Ideology and Research

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First draft, June 19, 2000; revised June 28, 2000

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Introduction

The study of inequality and poverty is politically correct, morally superior, at the cutting edge of power derived from policy prescriptions, and in a world dominated by the public sector (governments, and government organizations (GOs), quasi government organizations (QGOs) and non-government organizations (NGOs)) it is Big Business. Which is why there has been the largest amount of ideology in the study of the subject – at least since Karl Marx documented that ideology is king.

This paper has two objectives. First, to estimate the levels, and changes, in income distribution and absolute poverty in the world, from 1975 to 1997. This large task is made less difficult by the availability of data on incomes, and income distribution, for approximately 100 economies, covering more than 90 percent of the world population. Generally, data on incomes, consumption, investment etc. are available from the National Accounts, data that are processed by each individual country. Survey data on incomes is a necessary input to derive implications about the distribution of income e.g. what percentage of the population has what percent of the income. Given survey and national accounts data, and a definition of a poverty line, and international equivalence in purchasing power, simple accounting yields estimates of poverty and income distribution.

The World Bank is the only source for estimates on world poverty. Given that the generation of these estimates involves simple accounting (albeit one involving the assembly of large amounts of data), there should be little difference in estimates of world poverty produced by different organizations. Unfortunately, as Section 3 documents, there is a large difference. For example, in 1987, the World Bank states that the number of poor in the world totaled 1183 million; nine years later, in 1996, the number of poor stayed the same at 1191 million, while the population share of the poor decreased from 28.3 to 24.5 percent. Our estimates (Tables 1 and 2) show that world poverty declined from 1407 million in 1987 to 1100 billion in 1996 – and the share of the poor in the world's population declined sharply from 32.9 percent in 1987 to 22.2 percent in 1996.

How accurate are these estimates? There is an academic interest. What is the “truth” or at least the best estimate of the truth? But there is a more important reason to establish the veracity of estimates on poverty. Such estimates affect policies that are

recommended, or abandoned, by developing economies; policies affect lives, especially poor lives (the rich can migrate, seek greener pastures and green cards, etc.) A fundamental objective of all economies is the reduction in poverty; besides defense, the only really important use of tax money is poverty reduction, and the provision of equal opportunities to all citizens.

Section 3 presents estimates of world poverty and world income distribution; these estimates use only published data and the methodology, for lack of a better term, is called Keep It Simple, Stupid (KISS). Section 4 goes behind the numbers, and differences in numbers, to investigate the reasons behind the discrepancies. This is the second major objective of the paper.

The most likely explanation for the large variation in estimates is ideology. That economists, especially policy economists, are ideological animals first, and researchers second, is the worst kept secret of the profession. So the argument that ideology (and its first cousin, politics) is behind the strange goings on in poverty and inequality research is not new, though some of the evidence presented *is* new. Including the evidence that World Bank estimates of levels and trends in absolute poverty, and claims about trends in world inequality, are likely to be grossly in error.

Section 2: The Data, the Method, the Estimates

The Data

The collection and dissemination of data today is such that an individual researcher can attempt to construct estimates of variables as formerly formidably difficult as “the world distribution of income” or trends “in world poverty”. The assembly line of analysis consists of the following steps:

1. Each individual country produces its National Accounts (NA) data; large elements of these data (GDP, population, fiscal deficits etc) are reproduced in two important data publications: the *World Development Indicators (WDI)*, World Bank and the *International Financial Statistics (IFS)*, International Monetary Fund. The WDI is state of the art, easy to use and also within reach of an ordinary, non-institutional researcher. The same, unfortunately, cannot be said about the IFS.¹
2. Several different household surveys are being conducted across the world. Compilation of the results of such data used to be an extremely difficult task. The World Bank published the first such compilation in the mid-seventies (Jain), and Gary Fields made a brave attempt in the eighties.
3. The World Bank has been doing the most exhaustive research on poverty and income distribution since the early seventies. However, dissemination of the core results of household surveys has not, to date, been undertaken by the World Bank. The WDI only *publishes* latest point estimates of income distribution in different countries, but does not publish them in electronic form. The argument against electronic publication may be that such data are not clean, and can be misinterpreted. The discussion in Section 4 is suggestive of a different conclusion. But competition among the institutions (IMF, UN and the World Bank) is predictably leading to increased benefits for researchers. The UN-WIDER institute (WIDER (2000)) has electronically published an excellent compilation of the results of income distribution² surveys conducted since World War II across both developed and developing countries.

¹ I may be mistaken about ease of use of the IFS since the last CD-ROM I used was in 1996. Hopefully, the product has improved since then in which case I am happy to be proven wrong.

² Throughout this paper, income distribution is short-hand for different surveys: wage surveys of individuals, household surveys of income or consumption or savings etc. The common denominator of selection in the WIDER tabulation is that the survey was national in scope and produced a distribution of either income or consumption.

4. There is an additional important data requirement: linking of incomes across countries. The pioneering and now almost twenty year old UN sponsored Kravis et. al. PPP (purchasing power parity) project provides individual country, by year, estimates of PPP incomes. This allows use of country specific national accounts (NA) data to be transformed into comparable data in international currency.

The above three types of data are necessary, and sufficient, for any calculation on country, or region specific estimates of world distribution. Estimates of trends in poverty require an additional input – definition of a “head count ratio” (HCR) poverty line i.e. an income level below which an individual can be considered poor. It is important to emphasize that an absolute poverty line is *relative*. Development means an increase in the absolute poverty line and a decrease in the number of poor. Currently, the accepted definition of a poverty line is consumption of \$ 1 per person per day in 1985 international (PPP) prices.

The Method: Survey or national account estimates?

Given the above data, and definitions, it is now a straightforward procedure to derive the levels of poverty at different points in time, and income/consumption distributions across time and space.³ But there remains one important issue; the population mean consumption estimate is to be derived from which data – survey or national accounts?

Unlike national accounts, the frequency of survey data is only once every five to ten years. Such data, therefore, cannot be used to compare trends across the world i.e. at any point in time, there might be only 10 national surveys and estimates are needed for the combined population of over a 100 countries. But there are problems even if survey data are available for all the countries at a point in time.

Assume that survey data for an individual year, say 1987, are available for India. The survey itself yields an estimate of per capita consumption. But it is an impossibility that this estimate will be the same as that yielded by the national accounts. Apart from sampling and other statistical problems, there are differences in coverage. For example,

³ The revised PPP data are only available from 1975 onwards and since coverage has increased considerably since the mid-sixties, no attempt is made in this paper to link NA data with pre-1975 PPP data.

the survey data refers to households, while NA data includes the consumption of the population residing in institutions e.g. prisons. And unless the survey asked for data on consumption outside of the home, and provided by the employer, the household based estimate of total consumption in an economy will be *less* than the estimate provided by the National Accounts. However, it is unlikely that the *ratio* of household based data estimate to NA estimate should vary much over time for a particular economy.

The second problem pertains to the relative accuracy of household and NA data. On some items, it is plausible that a direct estimate of consumption is more accurate than an indirect estimate (based on production plus imports plus change in stocks minus exports minus leakage). For some others e.g. watches or cars or clothing or computers, NA based expenditure data might be more accurate. Both sets of data have their individual strengths and should be jointly used to arrive at estimates of mean consumption and income.⁴

The legitimate question remains: when confronted with two alternative estimates of mean consumption – survey and national accounts – is there an objective way of choosing between the two? Bhalla-Glewwe(1985) and Bhalla(2000b) attempt to answer this question via use of a consumer utility maximization model. In a world of two goods – food and non-food – and “known” income and price elasticities – a *predicted* value of consumer expenditure can be obtained. These predicted values can then be compared with survey and national accounts estimates. In the case of Sri Lanka (Bhalla-Glewwe), the above Engel elasticities method indicated that the survey data was substantially more accurate than the national accounts data. This conclusion was supported later by evidence that the Sri Lankan consumer price series had been understated by the left of center government in the seventies, presumably to avoid making the necessary COLA (cost of living allowances) payments to unionized and government workers.

Bhalla(2000b) applies the same method to assess whether the National Sample Survey of India (NSS) are correctly revealing the underlying reality. For the twenty-five year period, 1973-1998, the NSS data indicated a total expenditure change of 731 percent.

⁴ However, this is a classic example of something good in theory not working in practice. And why not ? Because of the human “problem” – egos and turf. For various reasons (see discussion in Section 4), different individuals at different bureaucratic institutions find it difficult to co-operate for the benefit of the common good.

(All estimates are for *nominal* expenditure change). The NA estimate was 1170 percent and the utility maximization model predicts 1063 percent. For the period 1973-1987, the model and NA estimates are strikingly close (277 and 283 percent respectively), while the NSS data estimate of expenditure change is only 246 percent.

Note that each 1 percent error in the growth in consumer expenditures, is a one-percent error in the level of nominal incomes, and therefore a corresponding error in the estimate of the head count ratio of poverty (after correcting nominal expenditure change for inflation). How much of an error depends on the trickle-down elasticity (TDE) i.e. the elasticity of the change in the head count ratio with respect to change in *real* per capita income (or expenditures). Bhalla(2000a) explores the determinants of this elasticity for different countries, regions, and time-periods. This elasticity varies significantly with respect to “initial conditions” i.e. it depends on the base-period HCR level, and whether the poverty line income level was in the flat, steep or fat portion of the log-normal income distribution. For India, for the last decade, the estimate is close to -0.75 , and this is also the result obtained by Deaton-Tarozzi(2000) in their study of poverty in India, based on NSS data, for the time-period 1987-1993.

The world estimate of the elasticity is close to -0.4 . Note that this elasticity is different than the elasticity of the growth in incomes of the poor with respect to the growth in mean incomes. The difference arises because the HCR is censored at a particular expenditure level e.g assume the poverty line is a 100, and the mean income of the poor is 50, and the standard deviation is 10. A 10 percent increase in real incomes is unlikely to make any dent in the level of poverty.

Alternative Methods and Alternative Estimates of Poverty in India

Since for India, the various estimates of TDE converge on -0.75 , one can derive the “error” being caused by gross under-estimation of total expenditures by the NSS data. For the period 1987-98, the NSS data shows no change (indeed a small decline) in real per capita expenditures in India. The NA estimate of real expenditure change is close to 37 percent. Applying a -0.75 elasticity to an expenditure change of 37 percent yields a , 28 percent (-0.75 times 37) decline in absolute poverty; a worst case estimate of TDE for this period is close to -0.50 , or a 19 percent decline in the HCR. Assume that the NSS estimate of 39.3 percent poor in India in 1987 is accurate. This suggests that poverty in

India, in 1998, was between 11 and 19 percent, or around 15 percent; an estimate radically different than that obtained by the government of India (GOI); the GOI estimate for 1998 is a level close to 42 percent, some 3 percentage points higher than 1987, and almost three times the above alternative estimate. (These estimates of poverty are according to the national poverty line, which is lower by about 15 percent from the international poverty line of \$ 1 per capita per day, 1985 prices.)

In their important study, Deaton-Tarozzi (D-T) estimate the level of HCR (Indian definition of poverty line) to be 28.7 percent in 1993-94. This estimate is based on the NSS data alone, and differs from the official government of India, and World Bank, estimate of poverty of 35.9 percent *for the same year*. The large difference arises because D-T derive price indices based on the NSS data, rather than obtain them from official consumer price index series. According to national accounts data, real per-capita expenditure increased by 20.5 percent from 1993-94 to 1998-99. Applying a TDE of minus 0.75, this suggests that poverty in 1998, according to the base D-T estimate of 28.7 percent in 1993-94, was lower by 15.4 percent in 1998, or 13.3 percent (28.7 percent minus 15.4 percent) in 1998. A TDE of -0.5 yields an estimate for 1998 close to 19 percent.

Using alternative NCAER (National Council of Applied Economic Research) survey data, Bhalla(2000b) estimates that poverty in India was 27.8 percent in 1994-1995. Four years later, per capita expenditure is estimated to be higher by 17.2 percent. Applying a TDE of -0.75 , estimated poverty in 1998 is 14.9 percent.

Three different estimates of poverty for India suggest that it is likely to be between 11 and 19 percent in 1998 compared to the official government of India estimate, and World Bank re-estimate (which is close to a rubber stamp) of 42 percent. Given the time-period over which the large discrepancy arises (the nineties), one is able to conclude that either economic reforms (albeit minimal) and accelerated economic growth have had a substantial impact on poverty reduction, or that they have had **no** effect. The next section explores why organizations may choose to believe, and report, highly inconsistent, and most likely wrong, and grossly exaggerated estimates of poverty in India, and the world.

Poverty Estimates: What is to be done ?

Both survey and national accounts data are important sources of information for estimation of poverty and income distribution. Both should be used, rather than the dogmatic approach of the Planning Commission of the Government of India (EG-GOI(1993)) or the World Bank(1997) that only survey data should be used for estimation of poverty levels. ⁵ Given that co-operation between survey organizations and national accounts units is not likely anytime soon, analysts have to develop methods to jointly use both sets of data. Table 4 provides an estimate of the ratio of the estimate of survey to national accounts data for several countries. The ratio ranges from 24 percent for the Czech Republic to over 200 percent for Algeria. Excluding the extreme outliers, the median ratio is close to 90 percent. Thus, for the preferred poverty calculations, the mean consumption for any given year or country is taken to be 90 percent of the stated NA estimate.

Note that there are few alternatives to the above simple KISS⁶ rule. One might change the ratio used (0.95, 0.90 or 0.85) but as long as the ratio is kept constant over time, the method has substantial justification. One alternative to the KISS rule of taking mean estimates from national accounts is to take the mean level from the survey data. This procedure is favored and endorsed by the World Bank (an organization with considerable expenditures and resources devoted to the study of the important subject of income distribution and poverty). The procedure is also held by World Bank to be correct, and sacrosanct i.e. survey data, no matter what the provocation, are never to be adjusted.

But this rule is violated by the World Bank itself in its procedure of estimating country, and world poverty. As a "poverty organization", the World Bank finds it necessary to come up with annual estimates of world poverty. In addition, every decade (1980, 1990 and 2000) the World Bank, attempts, via its prestigious *World Development Reports*, to

⁵ Bhalla(2000b) documents that this joint view is unlikely to be co-incidental; indeed, the evidence is suggestive of the Indian Planning Commission approach being initiated by the World Bank. There is considerable evidence to suggest that the World Bank was one of the few (perhaps only) research organizations to endorse the highly questionable methodology. There is also some evidence to suggest that both the Government of India appointed Expert Group and the World Bank, were motivated by ideology; an ideology which pre-determined that economic reforms, and liberalization, do not materially affect the lives of the poor. See also the next section.

⁶ This method also follows the important KISS rule of individuals (Wall Street) for whom simplicity is often the key difference between profits and losses: Keep It Simple, Stupid.

communicate to the world a state of the art message on the state of world poverty. Every year, the World Bank attempts to communicate trends in the world via publication of its *Global Economic Prospects*. Since survey data are not available for every country for every year (and even if it were, processing delays would mean that such data are not available), how can the World Bank, or any organization or researcher, estimate mean consumption for a year for which survey data are not present? “The survey estimates were adjusted using the closest available surveys for each country and applying the consumption growth rate from the national accounts” (World Bank, 1999, notes to Table 1.8a).

The method’s logic is as follows: levels of income estimated by the national accounts are inaccurate; but growth in incomes is accurate. An example will illustrate the (relative) absurdity of this procedure. Assume the level of income in a base year is 100, and that the economy grows at 15 percent an annum (in nominal terms). In just five non-survey years, the imputed national accounts estimate will be 200 i.e. fully half of the estimate of mean income is due to the *unreliable* national accounts data. Now assume further that in year 6, the survey estimate of mean consumption is 140. The World Bank adjusts the national estimate downward by 30 percent, in one year! That these are not hypothetical examples is shown by the World Bank estimates for poverty for the two largest poor economies in the world – India and China (Table 3).

There is one circumstance for which the method of exclusive reliance on survey estimates, and inter-temporal growth estimates from NA data, is justifiable. This is when the all important ratio of survey estimate to the corresponding national accounts estimate (the X-ratio) stays relatively constant. But this method breaks down into absurdities when the X-ratio changes significantly from one survey to the next. This dancing in the wind of the X-ratio yields, in a line made famous by President Johnson, a “pissing in the wind” estimate of national consumption. But that is getting ahead of the story.

Section 3: World Poverty and World Income Distribution

The suggested *Keep It Simple, Stupid* or “KISS” method of deriving poverty and income distribution estimates for different countries, and different combinations of countries, is straightforward and as follows. First, PPP data on income and consumption (mean per capita estimates) are obtained for different country-year combinations; second, 90 percent of the PPP consumption per capita estimate is taken to be the representative mean; third, distribution of consumption (or income) per capita (or household) estimates from the most recent survey are assumed to be representative; fourth, via simple accounting, estimates of poverty (number of people below a given absolute line (\$ 1 PPP 1985 prices) and income and consumption distribution are obtained.

The methodology outlined in the previous section is used to generate trends in world poverty (Table 2), and trends in world distribution of income and consumption. These results indicate the following:

Poverty in the developing world declined at a rapid pace in the nineties – from approximately 34.4 percent in 1987, to 32.4 percent in 1990, to about 22 percent in 1997.

World income distribution has improved since 1977. Data on income distributions for over 80 developing economies (WIDER data set) do not show any significant worsening in income distribution for any major country. (See Bhalla 2000a for details). Indeed, given the rapid growth in incomes in both China and India, distribution of income (and consumption) has improved in the LDC’s for the last twenty-five years. (Table 5).

Data on income distribution for developed economies does show some increase in inequality. All of the increase in inequality is due to the quintile share of the top 10 percent improving, especially in the nineties.

No other estimates of world poverty exist, beside ours and the World Bank. The difference in the two estimates was extensively discussed earlier. No other estimate on world distribution of income, or consumption, exist. However, there are claims by the World Bank that income inequality has increased in the world (see WDR 2000). This result is obtained by a method which looks at the standard deviation of income levels

across nations, and not across individuals. The World Bank method assumes that China's 1 billion people has the same weight as Antigua's less than 1 million – clearly an inappropriate method. Our methodology lines up all the individuals in the world according to their per capita income in PPP terms; the regional income is then aggregated upwards, individual by individual (more correctly, country percentile by country percentile) to obtain regional (or world) estimates of income distribution. The latter method shows inequality to have become less; the former, that inequality has worsened. The choice between the two methods should not be dictated by the nature of the match between the result and the priors (prejudices) of the researcher or the institution to which the researcher belongs.

The results contained in Table 5 are consistent with the interpretation that openness and global integration has been good for the poor regions of the world. Their incomes have grown faster and they now have a larger (albeit from a small base) share of the world pie. Bhalla(2000a) documents how the poor have fully shared in the bounty. Thus, globalization has apparently, all along, had a human face.

Poverty Trends: Large Differences in Estimates

Simple accounting also allows one to estimate global poverty, poverty by regions, global income distribution etc. If it is all simple accounting, then where is the “beef”? The beef is contained in the next section; Section 4 discusses why one persons beef is another's holy cow.

This simple accounting procedure leads to the following results: the total number of poor in the world are estimated to have declined significantly from 1.5 billion in 1977 to 1.3 billion in 1987 to under 1 billion in 1997. Also reported are estimates without the 90 percent adjustment. (Table 2)

In 1987, the World Bank reports that 28.3 percent of the population in developing and transition economies was living under \$ 1 per day. (Table 1). This compares with our estimate of 30.2 percent. The discrepancy maybe due to the fact that the World Bank estimated its numbers on the basis of availability of “at least one household survey for the period 1985-1998” and use of the most recent survey estimate. Our estimates are on the basis of the most recent *lagged* survey no matter when undertaken e.g. if a survey

was undertaken in 1980 and 1990, the distribution from 1980 is used for the estimate for 1987. Further, if a country had only one survey (e.g. in 1980) it would still be used for computation of our estimates but not be used for World Bank estimates.

The differences between the World Bank and our methodology are minor; further, both are using the same data (more appropriately, I am using only those data published by the World Bank). Thus, it is not surprising that the two estimates are radically close to each other in 1987.⁷ But it is a different story for the estimates of poverty only seven years later, in 1996 (actually the estimates diverge starting in 1993). For 1996, the World Bank states that the number of poor in the world stayed at the same level as 1987 – about 1.2 billion; our estimates show a decline of approximately 300 million – from 1.3 billion to under 1 billion.

How can the same data, and almost identical methods, yield such large differences in the level of absolute poverty in any given year? The key adjective in the above sentence is almost – the only difference between the WB method and KISS is that the former uses mean consumption estimate from surveys and the latter uses national accounts data for the same.

The similarity of WB estimates with ours for 1987 appears to be no more than a coincidence. Presumably because of some special status for China, the World Bank publishes individual country estimates for that country. Actually it does not – it publishes two estimates for East Asia: East Asia and Pacific, and an estimate for the same “excluding China”. The derived China estimates are reported in Table 3 and make for a most interesting comparison. Several conclusions emerge: first, there is no relationship between the two estimates – for 1987, WB reports “only” 293 million poor while our estimate is that the poor in China totaled 520 million or 48 percent of the population in the same year. There is “convergence” in 1993 when both estimates yield about 360 million poor in China.

Part of the price for convergence is the following strange World Bank conclusion for China for the six year period 1987 to 1993 – absolute poverty *increased* during these six

years from 303 million (or 28 percent of the population) to 348 million (or 29.5 percent of the population). During this same time-period, Chinese national accounts data suggest that per capita GDP increased by 52 percent and PPP per capita increased by 49 percent. A higher savings rate also meant that per capita PPP consumption increased by 36 percent over the six years. Yet the World Bank claims that poverty went up during the period when the Chinese government, and the world, and other World Bank documents were singing eulogies to the great Chinese miracle. Bhalla(1999) documents how this period was the beginning of expansionary mercantilist policies in China; policies that led to extra growth, particularly at the expense of its Asian neighbors; there are other non-NA data (reserves, exports, imports) to suggest that this period was witness to accelerated growth in China.

There is too much inconsistency in what the World Bank is claiming for China, a fault that is also observed with regard to India (see Bhalla(2000a) and below). Some of this inconsistency can be regarded as political e.g. China needed to show that its per capita income was not high in order to be eligible for low interest IDA loans, and the World Bank was eager to comply, perhaps encouraged by the US government willing to do the same.⁸

⁷ To the best of our knowledge, these are the only two estimates for global poverty. The IMF has stated that it is getting into the “poverty business” so in the next few years, there will be other estimates to compare – and debate!

⁸ Restraints on freedom to write about China is not the exclusive misfortune of Chinese citizens. A research paper (Bhalla(1992)) documenting the role of economic and political freedom in generating growth in developing countries had a footnote pertaining to the inconsistent nature of the statistics on Chinese growth and China’s level of per capita income. This note was as follows: “Incidentally, these growth rates, along with the World Bank assessment of Chinese per capita income as \$ 370 in 1990, suggest that China had a per capita income of approximately \$ 92 in 1960, 1987 prices. This figure is put in perspective by noting that with this income, China ranks as the poorest developing country in 1960 followed by Lesotho (\$93), Burundi (\$99) and Ethiopia (\$103). The Summers-Heston data are not so ridiculous - out of 118 countries China ranks 66 from the bottom.” It is unclear as to what bothered the research management at the World Bank more – the fact that political freedom affected growth positively (a result which emerges again in Bhalla(2000c) or the fact that World Bank inconsistencies were being highlighted. The end result was that this paper was rejected for publication in the non-refereed World Bank discussion paper series! It is another story that results of this study were echoed in articles written subsequently at the World Bank (without attribution, of course!) e.g. Pritchett (1997) who concludes that it is difficult to find any returns to education in conventional growth models, and Dollar-Kraay (2000) who conclude that rule of law (civil liberties) have a positive effect on growth.

The next section documents how the particular methodology chosen by the World Bank suits its ideology, and is consistent with its perceived role in the world. If the World Bank is a poverty removal organization, then if poverty is actually going down in substantial numbers, then a re-invention of the role of the Bank would be called for – an intellectual exercise that while possible, and laudable, is not entirely suitable to an inherently bureaucratic organization.⁹ The conceptual problem remains – how can one evaluate whether national accounts data or survey data are more accurate ?

One approach to differing estimates is to state that all of them have merit, that all of them are in equal parts right and wrong. This view is intellectually, and practically, not very satisfactory. But then how can the circle be squared – one estimate of mean consumption in a population is a 100, another estimate 120 and a third estimate 60. What is to be believed, and how?

Regardless of the method adopted, it should satisfy basic consistency checks – what does other evidence indicate? However, there should be consistency in the consistency checks – otherwise one is led to absurd results such as those documented for China and India. Note also that discussions of growth and poverty generally go together. Is it not a bit disingenuous to talk of poverty levels while alluding to survey data, and growth in the incomes of the poor while alluding to national accounts data ? Is it possible to have it the following two, need three different ways? The World Bank claims that India, by implementing World Bank suggested economic reforms grew at an accelerated real per capita rate of 4.5 per cent per annum in the nineties; it also states that the bottom 40 percent of the population did not increase its consumption levels by even 1 paise during this period; and that the reason it did not do so was because the growth rate was so distorted, and uneven, in different parts of the country. (See Bhalla(2000b) for a detailed discussion on the plausibility of World Bank's (and government of India) recipe of "How to Achieve High Growth and Even Higher Poverty").

⁹ There is another approach towards keeping poverty high in the world – change the definition of poverty from \$1 per capita to \$ 1.25 per capita. If absolute poverty is relative, which it is, then a sign of development is the increase in the absolute poverty line. The advantage of raising the poverty line is to allow a better factual picture to be presented, and hopefully more intelligent policies to be framed, and policies which actually benefit the poor to be implemented.

Poverty in India – Non Government of India, non World-Bank Estimates

There have been two important non World Bank pieces of research – Dubey-Gangopadhyay(1999) and Deaton-Tarozzi(1999). Both studies eschew any discussion of whether the mean consumption yielded by NSS is anywhere close to the truth; neither study compares NSS consumption data with other survey data; both studies rely exclusively on NSS data for both nominal consumption and price information. D-T, by using implicit prices, show that poverty in India in 1993-94 is likely to be 28.7 percent compared with the official GOI estimate of 35.9 percent, and the WB (rubber stamp?) estimate of 34.9 percent for the same year. In other words, by just applying the correct price data, D-T in their important study, show that poverty in India was over-estimated by 7 percentage points, or 20 percent higher! If this is what price adjustment alone would do, it is (happily) frightening to think what minimum adjustments to the mean consumption estimates to survey data would do to poverty estimates.¹⁰

Importance of High Indian Poverty

High and non-declining levels of Indian poverty is a necessary, and sufficient, requirement for the World Bank conclusion that poverty has not declined in the world in the nineties. India and China accounted for over 70 percent of the world's poor in 1987. In 1996, conventional wisdom has it that poverty in China has declined. There is too much politics and "lost face" in claiming that poverty in China has not declined. India is a different story – it is still immensely politically correct to state that poverty in India has not declined, and it helps immensely to note that official government of India estimates claim the same! Thus, India is the jewel in the poverty crown of thorns.

¹⁰ Unfortunately, it is difficult for researchers (such as myself) to access NSS data. The World Bank is a privileged institution, and obtains the data soon after it is compiled. The fact that the World Bank does not question the reliability of the NSS data may not be more than a coincidence; is it also a coincidence that independent researchers are muted in their criticism of NSS data, for fear of losing access, or never having access if they cross the "line of control" ?

Section 4: Ideology and Research

Policies to help eliminate absolute poverty should have the highest priority. Formulation of policy requires knowledge of the facts, or at least of the approximate reality. The previous section documented how for one important country, India, there was a wide difference between the estimates of the government of India-World Bank, and independent researchers on the level of poverty. Based on its own “research”, the World Bank has concluded that the head count ratio in India has not declined over the last 10 years. This conclusion has led it to further conclude the following (excerpts taken from recent World Bank documents, including the draft report of the latest WDR, 2000 on “Attacking Poverty”):

1. Economic reforms and liberalization have only helped the rich become richer; some areas, and income groups, have benefited disproportionately while others have lagged; this shows that the growth process is highly uneven in India, and likely to be the same in other parts of the world; liberalization is conclusively proven to not be a solution; so called market-friendly policies have failed.
2. This suggests that governments have to pursue policies *independent of growth* oriented policies, in order to reduce poverty; better targeting of the poor is needed; the role of governments (and the World Bank) has to be expanded. “Actions at the global level, by regional and international organizations...are essential to ensure that the gap between the rich and the poor does not continue to grow”. But evidence presented here suggests the opposite – the gap has narrowed significantly (Table 5).
3. The poor in developing economies need to be empowered in order that they can rightfully claim their share of the resources.
4. Income redistribution should be an important aspect of policy. “The best actions for poverty reduction are those that *moderate* economic growth and *encourage* the rich to share their bounty with the poor” (emphasis added).
5. “Actions that force too rapid an integration into world markets are good for neither growth nor poverty reduction. Until the preconditions for beneficial integration are in place, countries should open up to *trade and capital flows* cautiously”. (italics added). No evidence is provided for this assertion; indeed, considerable evidence on trade , and new (but limited evidence) on capital flows suggests the opposite.

There are several other quotable quotes from official World Bank documents. The purpose here is to document that research does affect policy recommendation, and policy formulation. World Bank research, and analysis, may have little to do with policies adopted by the government of India. The same, fortunately or unfortunately, but objectively, cannot be said for most developing countries. Thus, what the World Bank states is important, especially in the new world where the traditional purpose of the World Bank – transferring capital to developing economies – has been completely overshadowed by the world capital market. There is increasing talk about the World Bank re-inventing itself as a knowledge bank – a laudable goal.

The World Bank's results on world income distribution, and poverty reduction, are at a minimum highly questionable; further, independent non World Bank research is proving things opposite to what the World Bank is officially claiming to be true.¹¹ Why such differing estimates? It is highly unlikely that the legions of World Bank staff and consultants working on such issues¹² did not know that their results were yielding highly contradictory results, and/or that they were using questionable methodology. The study of poverty and income distribution is justifiably a politically charged subject. But this should be irrelevant to *research* pointing out highly divergent results. In India, politicians and policy makers start discussions with the phrase *bis-mil-muflis* or "I begin in the name of the poor" – as if invocation is reason enough to support whatever is said, or advocated.

The detailed study of Indian poverty trends, outlined in the previous sections, is important because it helps reveal the basic trends. World Bank poverty estimates are no longer seen the output of a "black box"; errors of commission have been made by those estimating poverty according to the method outlined by the Expert Group, Government of India (1993). Two interpretations are possible, and one – that government of India expert group or World Bank staff members – were incompetent is simply far-fetched. Which leaves the other alternative explanation – that an ideological predisposition

¹¹ An important exception is the recent study by two World Bank staff members, Dollar-Kraay (2000), whose paper questions the recent claims by the World Bank that growth and economic liberalization have been ineffective in reducing poverty in the world.

¹² Just the World Development Report each year has contributions from over 50 people and a budget in excess of \$ 5 million.

towards showing that economic liberalization was ineffective is at the core, driving the research, and the results.

Research results on poverty are just the tip of the *ide(ology)berg*. The recent East Asian crisis revealed several other components to the philosophy according to GO-QGOs. Until 1997, considerable research (mostly at the IMF) showed how capital controls were costly, how infringement of basic economic freedoms had a cost in terms of significantly lower growth (See Bhalla(1992,1994) whose result on openness, and lower capital controls, has been reinforced by the recent Dollar-Kraay study). It is also curious to note how the QGOs now believe that financial sector weakness was the key cause of the East Asian crisis. A plethora of studies (Including World Bank's WDR of 1991, *The Challenge of Development*, and the World Bank's East Asian miracle study) maintained that the basic reason for extra East Asian growth was that their financial sector was less repressed, and more advanced, than other developing economies. How is ideology involved in as straightforward a research question as to what caused the East Asian crisis? Bhalla(1998, 1999) contends, along with several others, that operation of a GO-QGO mandated fixed exchange rate regime, rather than underdeveloped financial markets, was the core cause of the crisis. So there is a clear choice – underdeveloped financial markets (market failure, government intervention necessary, institutions need to be developed, etc) caused the crisis or too much government intervention (restrictions on capital flows, short-term or long-term, operation of a quasi-fixed exchange rate regime where prices only clear through official government or QGO intervention) caused the crisis ? It should now be obvious why the identification of the politically and QGO correct cause of the crisis is so important – and why WDR 2000, *without offering any evidence*, concludes that ““Actions that force too rapid an integration into world markets are good for neither growth nor poverty reduction. *Until the preconditions for beneficial integration are in place, countries should open up to trade and capital flows cautiously*”(emphasis added).

Yet another ideology example is the large body of research now being conducted at the World Bank on democracy and corruption. Discussions about the former could not be included in Bank documents in the early nineties (e.g. World Development Report, 1991); now it is *de rigeur*. This is welcome. The view on corruption is also laced with ideology. The conventional view is that “institutional development” is very important; this

view has little regard for the likely reality that institutions are *endogenous*, not exogenous. (If institutions were all important, then India, with its talented Indian Administrative Service, would have been far ahead of Japan today, instead of 23 years of annual 8 percent growth *behind* Thailand today). Also, there is little (or no) discussion contained in the tidal wave of World Bank research on corruption on the major cause of corruption, in state directed and market economies – discretion, whether on the part of government officials handing out licenses, or procurement contracts being handled by a public sector officials for the government, or procurement contracts handled by the private sector. The ideology is omnipresent, the choice is not made obvious – is government needed with more controls, more regulation, and higher pay for overpaid and under-productive civil servants, or will market discipline reduce the rents obtained when discretion is absent?

The above examples serve to underline the self-serving ideology of GO-QGOs – a decrease in the role of the government is never advocated. Government mis-performance is criticized, and a new, improved government (not unlike Surf) is always recommended. (See World Development Report, 1997 – *The Role of the State*, for a perfect example of such ideological research).

The problem with economic research is that results are not known with certitude. Given this reality, the other problem is one of *identification* – how does one know whether a research result is genuine, or laced with ideology? It is difficult to question research which ends up with more motherhood – better growth, more well distributed growth, less poverty, and more happiness. And always with governments, and their bureaucracy, playing a leading role in the transformation. Rather than the alternative of saving government resources for guaranteeing equality of opportunity, and a minimum standard of living, and relying on individual initiative, endogenous institutional development, and individual entrepreneurship for guaranteeing the rest. Which reasoning has a greater chance of winning? Depends on the ideology of senior management, and presumably about correct predictions about the future blowing in the wind.

Public Governance, not Corporate Governance

The fundamental issue for governments, and quasi governments like the World Bank, IMF and the UN, is one of accountability, or what goes by the fashionable phrase of

“corporate governance”. The World Bank has been at the forefront in asking for corporate governance in the private sector. As argued elsewhere (see Bhalla(1997)), and before the explosion in GO and QGO sponsored research on corporate governance, this demand is quite misplaced. Corporate governance is *ensured* in the private sector via the market. Stock prices, and differing price-earning ratios for otherwise identical firms reflect the investors perception of corporate governance. If a firm is perceived to even have a shade of corporate mis-governance, the highly competitive international marketplace is very quick to penalize it. To ask for corporate governance in today’s competitive international world, for publicly listed firms, is like mandating rules that a politician has to campaign – she will do so because it is in her self-interest to do so.

However, it is not amusing to note that corporate governance is asked for by “firms” which need it the most, and for whom the market discipline is absent i.e. the various O’s.¹³ As the large set of evidence presented in the previous section documented, there has been less than desirable accountability at the World Bank, certainly at the research level.

Institutions like the World Bank prescribe policies for governments – policies that affect freedoms and lives of entire populations, poor and non-poor. The knowledge that such institutions (e.g. World Bank, IMF and UN) possess, and the human capital of their staff, is nothing short of brilliant, and certainly something that governments of most developed economies cannot match, let alone governments of most poor economies. The research at these institutions also carries with it a stamp of authority – it comes with the turf. Hence, the necessity for checks and balances, or “market governance” of QGOs is immensely important.

The question of why still remains. Given the expertise at the World Bank, and the high quality of its staff, how is it possible that bald-faced errors of the kind documented earlier have occurred ? This also applies to the government of India, which introduced the

¹³ This paper is somewhat World Bank centric because of two reasons: the central evidence emanates from research on poverty, a heretofore a “preserve” of the World Bank; and secondly, full disclosure (private governance!) requires that I state that I have spent, off-and-on, fourteen enjoyable years at the World Bank (1978 to 1992). It is hoped that researchers more familiar with institutions like the IMF and the UN would reveal accountability problems at these institutions as well.

policy that set in motion wrong estimates of the impact of policy; the staff that worked on the expert committee was also not short on talent. So what gives? Ideology.

Institutions and Individuals:

After almost 40 years of state directed capitalism, Indian policy makers ushered in economic reforms in the early nineties. This action went against the recommendations of a large segment of Indian economists, industrialists, politicians, and bureaucrats.¹⁴

There was little popular support for the old policies of bureaucratic discretion; the verdict increasingly became clear – economic reforms were politically popular. But economists never fail to find evidence for their ideology. The belief was that market forces are bad for the poor segment of the population; these people need the guiding (albeit rapacious) hand of the government. Poverty removal is in the nature of a public good, and only governments can provide public goods.¹⁵ Evidence that the poor had not benefited from state directed economic growth was offered for the perpetuation of the belief that the “state knows better”!

The Indian economy continued to grow after the implementation of partial reforms. There were more goods in the market, and more consumption. There was also a greater (but still restricted) freedom for individual action. There was no smoking gun against reforms – until it appeared heavenly sent via the National Sample Survey. These data showed that the consumption of the poor had gone down in the reform nineties. These data were the necessary fuel for ideology and provided clinching evidence that economic reforms did not benefit the poor; that liberalization did not have a human face etc.

It did not matter for the practice of ideology that accepting this strong bit of evidence meant accepting the implication that the Indian economy had not grown at all for ten years; that *nominal* expenditures on non-food items (more than a third of the consumption basket) had not increased for six high growth years 1993-1998; that qualitative questions in the NSS (e.g. “how many square meals a day is your family able

¹⁴ World Bank economists were keen on state directed capitalism in the sixties and seventies, but ever agile (but never early) to shifting trends and opinions, had changed their views on policies like import substitution somewhat earlier.

¹⁵ That there is a large distinction between the *finance* of public goods, and their *production*, does not fit a particular ideology. Is there a logical, or practical, basis, for nurses, and doctors, and school teachers, to be government employees? Yes, if the arrogant “I and the state know better” ideology is present, and corruption (that arises out of discretion) is to be encouraged.

to obtain”) showed a large improvement during the period when absolute poverty had gone up.

Ideology emanates from individuals. There are large number of people in the Indian government who believe that reforms have helped the poor; equally there are a large number who believe, especially with the NSS “evidence”, the opposite. But while it starts with individuals, it ends with institutions, and policies. As documented in the previous section and Bhalla(2000b), the NSS debate has been made possible due to one single ideological decision of the Expert Group appointed by the Government of India (EG-GOI(1993)) – that national accounts data are to be completely ignored in the generation of poverty statistics. It is inconceivable that the Expert Group did not know the consequences of this decision; they had considerable evidence on the mis-match between survey and national accounts, *and the increasing disparity between the two*. It also helped that that *other* poverty research outfit, the World Bank, fully supported this decision (World Bank(1997)). It maybe no more than a co-incidence that use of the NSS data does mean more poor, and more business for experts anointed to help bring down the number of the poor.¹⁶ Ideology originates with individuals and gets transmitted to institutions, and eventually to policy. Which is why the latest World Bank report on India, (World Bank (2000)) does a complete flip-flop and states that of primary importance is the reconciliation of survey with national accounts data. The flip is over the flop contained in World Bank(1997); this report lauded the decision of EG-GOI and stated “The recommendations of the expert group *significantly strengthen the methodological basis* of poverty measurement in India, and can be regarded as a major step towards “*best practice*” Following publication, the Expert Group’s recommendations were *widely adopted in the academic and research community*, but it was not until December 1996 that the Planning Commission declared its intention to also accept these recommendations. (emphasis added, World Bank(1997)).While the flip is welcome, it does point to the importance of ideology of individuals shaping different ideologies (infighting ?) at the GO-QGOs.

The simple point is that ideology matters, particularly among the staff of governments and quasi-government organizations. The research and collection of evidence, and its

¹⁶ See Bhalla(2000d) for why this may not be a co-incidence; and why because poverty is big business, ideologically and otherwise.

interpretation, affects the formulation of policies, and the advocacy of such policies. Given that the data or the method or the analysis can be questionable, the responsibility for the staff, and researchers, is immense. The flip side is that this “responsibility” is sought after because it gives power to the individuals – a power which disproportionately affects lives of the poor.

Why is ideology allowed to play such a large role? It is because of a lack of checks of balances, lack of public sector governance, lack of accountability (loss in profits, or job, are not consequences of the privileged public sector). Lack of accountability may mean the ability to suppress evidence, or to at least change its color. What evidence is there of “ideology matters” at government and quasi-government organizations? The example on the misuse of NSS data is important. Other examples (financial sector problems in East Asia, desirability of capital controls) are two others.

As this paper was being written, news broke that the Ravi Kanbur, lead author of World Development Report, 2000 , *Attacking Poverty*, had been made to resign. The draft WDR, available on the web, had drawn strong criticism from academic circles. To an outsider (myself), the draft seemed to perfectly reflect the prevailing World Bank ideology – economic liberalization is problematical, democracy and the rule of law is good (a welcome change from a decade earlier when such views were not allowed to be expressed in World Bank documents, possibly because of pressure from China); economic growth is neither necessary nor sufficient for alleviating poverty, the “new” mantra is “empowerment” of the poor, and so on.

Regardless of the views expressed, there seems to be little reason to censor the document, or its lead author. Much better for the report to be attacked, or praised, in an open forum. By its unwarranted action, the World Bank will ensure that any criticism of the report will be (wrongly) associated with the view that it was correct to censor Ravi Kanbur, and/or his no-evidence-is-necessary report on the state of world poverty.

The reactions to WDR 2000 point to the simple fact mentioned earlier – different people, at the same organization, have different ideologies. The institutional view emerges after considerable bureaucratic churning, and in the process becomes more ideological and less evidential. The only “corporate governance” response is to allow research to be

openly debated; modification, subtle “coercion” to change one’s views, or prevention of publication, are now the exclusive preserve of the public sector (GOs, QGOs and NGOs).

The Ravi Kanbur WDR 2000 censorship is the latest, and most publicized example of ideological censorship at the World Bank. That such practices have gone on for at least twenty-five years is documented below with evidence from my own personal experience. All have to do with research output; all these papers were rejected (by different World Bank staff) for publication in the non-refereed World Bank discussion paper series.¹⁷ It is evidence I know best; I would welcome the documentation of such experiences from others.

Item 1, 1979: **“Distribution of Income in Korea – A Critique and a Reassessment”**; This paper showed that in Korea, increased growth came at the expense of increased inequality. The ideology at that time was “growth with equity”; now the World Bank ideology is that growth does not bring about equity. Nobody questioned the findings then; the results are now conventional wisdom. The paper was rejected for publication as an unrefereed World Bank Staff Working Paper.

Item 2, 1980: **“Measurement of Poverty – Issues and Methods”**; This background paper, commissioned by the World Development Report, 1980 showed that the World Bank advocated method of poverty measurement, via calorie consumption, was heavily flawed. Acceptance of the World Bank method (outlined in Reutlinger-Selowsky(1976)) implied acceptance of the conclusion that 67 percent of the American males, and 80 percent of American females, had a caloric consumption level below the FAO-World bank requirement – and hence were malnourished. Certainly, visual wisdom would suggest that the percentages pertain to the over-nourished.

How can there be ideology in a method? A decade or so later, the World Bank itself decided against caloric measurements. Nobody has questioned the findings; the results

¹⁷ This is not to imply that censorship only occurs because of ideology, and that censorship does not occur in the “competitive” academic market-place. Stealing of ideas via prevention of publication of *other* people’s ideas is something well known in the academic profession.

are now conventional wisdom. The paper was rejected for publication as an unrefereed World Bank Staff Working Paper.

Item 3, 1990: “**Role of welfare policies and income growth in improving living standards in India and Sri Lanka**”. This background paper, commissioned by the World Development Report, 1990 developed a cross-section time-series data base of government expenditures and living standard achievements for Indian states. The results showed that economic growth was far more important than government expenditures in explaining living standard achievements. It did not help that about seven years later, research by World Bank’s own staff would yield the same result. At *that* time, the ideology was different. The paper was rejected for publication as an unrefereed World Bank Staff Working Paper.

Item 4, 1992: “**Freedom and Economic Growth – A Virtuous Cycle?**” – This paper was based on research conducted for the World Development Report, 1991. Part of the results were published in that report. The paper had several firsts to its credit - the first to develop, and estimate, the impact of *separate* indices for political and economic freedom on economic growth – the results suggested that provision of freedom was the surest path to development, a result eloquently echoed by Sen(1999); one of the firsts, after Scully(1989) to argue for the importance of the Hayekian notion of economic freedom; the first to show that it was difficult to obtain any significant effects of education externalities, a necessary result for authentication of the “new growth” theory models (a result endorsed five years later (without reference) by Pritchett (1997)); the first to offer a “colonial heritage” variable to identify growth regressions (a method used by Barro(1998), without acknowledgment). The paper was presented at a Nobel Symposium in 1994, with Amartya Sen as a discussant. But it was deemed not worthy of publication as an unrefereed World Bank Staff Working Paper.

When I questioned these decisions of the staff at the World Bank, the response invariably was “You believe so much in the market, why don’t you publish it outside. Nobody is stopping you”. A response that has not changed in twenty-five years.

Ideology – The Nature of the Beast

What differentiates economics from other subjects is the subjectivity of its influence. A physicist who helps make a plane fly is fired if the plane does not. A chemist who helps make plastic is fired if the product melts in sunlight. But what happens to an economist who advocates import substitution to promote growth – he is made chief economist in the government, and is paid off by domestic industrialists.

A few years later, the economy crashes because of the “in the name of the poor” policies advocated by the chief economist. But there were so many other intervening variables that it is impossible to cast blame; in the meanwhile the economist has risen up the power hierarchy; further, when confronted, she claims that her recommended policies were not followed in full. It is a matter of “he said, she said”; all sides have equal proof; both survey data and national accounts are right; and so on.

It is difficult to prove anything in economics. Economic policies affect lives, and misfortunes, of individuals, and countries. Being an economist provides a celebrity forum to implement one’s beliefs, one’s ideology. It is a heady mixture of power without accountability; of success without the possibility of failure. There is nothing that can, or should, be done about this power. Except to encourage the calling of the bluff, the identification of the wrongs, the implementation of checks and balances.¹⁸

The simple point is that the practice of economics attracts a bucket-full of policy wonks. By definition, policy wonks (and I consider myself a card carrying member of the tribe) like the feeling of power. Policy wonks are often opinionated (a necessity for being a successful wonk) and opinions are derived from ideology. Indeed, ideology is the guiding force – the sequence is from ideology, to research, to advocating the results of this research, to power, to celebrity fame. And broad political appeal is ensured if at the forefront of all this advocacy is concern for the poor.

Michel de Certeau(1984) captures this urge, and the phenomenon, very well. “The ministers of knowledge have always assumed that the whole universe was threatened

¹⁸ In an article titled “The High Price of Policy Advice”, Samad(2000) documents the lack of questioning of the often wrong advice advocated, and forcibly implemented, by international institutions. And how, unlike the Pope, these institutions have yet to apologize for mistakes that affect lives.

by the very change that affected their ideologies and their positions. *They transmute the misfortune of their theories into theories of misfortune.* When they transform their bewilderment into “catastrophes”, when they seek to enclose the people in the “panic” of their discourses, are they once more necessarily right?” (p. 95-96, emphasis added).

The great divide is between those who advocate the role of individual freedom and those who maintain that freedom can only be granted after the state has provided for material progress. There is brilliance in both views – as exemplified by Nobel prizes to those who advocate markets to those who advocate an improved role for government. This debate is not new – in the depression thirties, it was Keynes versus Hayek; today, it is Keynes with a human face versus Hayek.

But there is a gross asymmetry - there is very little power to be derived for those who advocate an increased role for the markets. It is not a domain friendly to the pursuit of power with ideology – markets are impersonal, indeed that is the defining difference. If markets are relied on, then, by definition, no set of individuals is responsible for “improvement” in human welfare. The politician cannot claim credit for progress; and the chief economist cannot claim credit for having initiated happiness among the poor.

As Lenin said, “what is to be done?” Nothing. Processes are already in place, the “market” is springing up its own checks and balances. Competition among international organizations will ensure that the bluff gets called, and that resources finance research that help question findings, and (ideological) conclusions.

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Table 1: World Bank and Alternative Estimates of World Poverty

Region/Country	For 1987:					For 1996:				
	World Bank:			KISS estimates		World Bank:			KISS estimates	
	Population (mil)	Poor (mil)	HCR (%)	Poor (mil)	HCR (%)	Population (mil)	Poor (mil)	HCR (%)	Poor (mil)	HCR (%)
1	2	3	4	5	6	7	8	9	10	
East Asia and Pacific	1569.5	417.5	26.6	660.8	42.1	1779.2	265.1	14.9	329.2	18.5
Eastern Europe & Central Asia	550.0	1.1	0.2	1.7	0.3	466.7	23.8	5.1	51.8	11.1
Latin America and the Caribbean	416.3	63.7	15.3	35.4	8.5	487.2	76.0	15.6	45.3	9.3
Middle East & North Africa	216.3	9.3	4.3	16.2	7.5	277.8	5.0	1.8	14.2	5.1
South Asia	1056.6	474.4	44.9	456.4	43.2	1257.0	531.7	42.3	348.2	27.7
Sub-Saharan Africa	466.1	217.2	46.6	236.3	50.7	595.9	289.0	48.5	292.0	49.0
Total World	4274.8	1183.2	28.3	1406.8	32.9	4863.7	1190.6	24.5	1080.6	22.2
India	800.0	307.2	38.4	352.8	44.1	945.0	399.7	42.3	273.1	28.9
China	1058.6	303.4	28.7	551.5	52.1	1220.0	210.1	17.2	287.9	23.6
Excluding India	3474.8	876.0	25.2	1054.0	30.3	3918.7	790.9	20.2	807.5	20.6
Excluding China	3216.2	879.8	27.4	855.3	26.6	3643.7	980.5	26.9	792.7	21.8
Excluding India & China	2416.2	572.6	23.7	502.5	20.8	2698.7	580.8	21.5	519.6	19.3

Notes:

- 1) The (KISS) "Keep It Simple, Stupid" method of poverty measurement is the most naïve approach to constructing poverty estimates; the national accounts consumption level are multiplied by 0.9 for estimating mean consumption level in the population; poverty line is PPP \$ 1 per capita per day in 1985 prices; PPP data used to convert to international prices; WIDER data (which includes World Bank data) used for income and/or consumption distributions.
- 2) The difference between the World Bank and KISS estimates primarily arise due to different assumptions about mean consumption; World Bank relies exclusively on *unadjusted* survey data. For gross inconsistencies in this method, see text.

Table 2: World Poverty – 1975-1997

Year	Poor (Basic Estimate)	% Poor	Poor (Estimate with 90 % adj.)	% Poor
1975	1232	47.1	1381	52.8
1976	1375	51.5	1528	57.2
1977	1410	51.7	1537	56.4
1978	1311	47.2	1454	52.3
1979	1395	49.2	1547	54.6
1980	1310	42.5	1458	47.3
1981	1370	42.9	1518	47.5
1982	1435	44	1566	48.1
1983	1436	43.2	1578	47.5
1984	1435	42.2	1592	46.8
1985	1335	38.6	1505	43.5
1986	1223	34.5	1379	39
1987	1116	30.2	1272	34.4
1988	1009	26.6	1180	31.1
1989	1066	27.1	1268	32.3
1990	1110	27.6	1301	32.4
1991	1225	29.9	1420	34.7
1992	1085	26.1	1281	30.8
1993	1039	24.6	1226	29
1994	924	21.6	1102	25.7
1995	861	19.8	1027	23.6
1996	815	18.5	988	22.4
1997	741	16.6	915	20.5

Notes:

1. The definition of poverty is \$ 1 per capita per day, PPP 1985 prices.
2. Estimates are based on the KISS method which uses national accounts data for the estimate of mean consumption in the population.
3. The 90 percent adjustment (i.e. "actual" consumption is 90 percent of national accounts consumption) provides an upper bound to poverty estimates; and also accounts for the possibility that the poor miss out on some part of growth. The 90 percent method can alternatively be viewed as an increase in the poverty line by 10 percent.
4. These estimates differ from those in Table 1 because Table 1 uses population estimates for different regions as reported in World Bank(1999); i.e. the head count ratio above is imposed on regional population data. The latter is different for countries for which we do not have any poverty estimates e.g. North Korea, Taiwan, Vietnam before 1990 etc.

Table 3 : Alternative Estimates of Poverty in China and India

Year	World Bank Estimates				KISS estimates			
	China (mil)	HCR (%)	India (mil)	HCR (%)	China (mil)	HCR (%)	India (mil)	HCR (%)
1977				48.3	811	86	366	57
1987	303	28.1	384	38.4	564	52	351	44
1990	360	31.6	374	35.4	534	47	340	40
1993	348	29.5	384	34.9	436	37	359	40
1996	210	17.2	402	42.5	292	24	274	29
1997					258	21	250	26

Notes:

- (1) Estimates of poverty are on the basis of the international poverty line of \$ 1 per capita per day, international prices.
- (2) The KISS estimate is a calculation based on simple accounting and the use of national accounts data for the mean of the distribution, and survey data for the data on the distribution of income, or consumption. The NA consumption estimate is multiplied by 0.9. See Table 4.

Table 4: X-ratio for different economies, 1977 – 1997

Country	Year	KISS	World Bank	Ratio
Algeria	1995	4	2	115
Belarus	1993	.	2	42
Botswana	1985	32	33	97
Brazil	1995	11	23.6	57
Bulgaria	1992	.	2.6	21
Chile	1992	.	15	34
China	1995	21	22.2	99
Colombia	1991	6	7.4	96
Costa Rica	1989	5	18.9	39
Cote d'Ivoire	1988	14	17.7	90
Czech Republic	1993	.	3.1	24
Dominican Republic	1989	.	19.9	
Ecuador	1994	.	30.4	36
Egypt	1990	.	7.6	65
Estonia	1993	3	6	79
Ethiopia	1981	73	46	175
Guatemala	1989	17	53.3	29
Guinea	1991	19	26.3	109
Guinea - Bissau	1991	.	88.2	
Honduras	1992	24	46.9	59
Hungary	1993	.	2	29
India	1994	19	47	68
Indonesia	1996	.	7.7	63
Jamaica	1993	2	4.3	90
Jordan	1992	.	2.5	77
Kazakhstan	1993	.	2	57
Kenya	1992	55	50.2	116
Kyrgyz Republic	1993	3	18.9	56
Latvia	1993	.	2	70
Lesotho	1986	33	48.8	66
Malaysia	1995	.	4.3	81
Mauritania	1988	14	31.4	76
Mexico	1992	.	14.9	39
Moldova	1992	51	6.8	286
Morocco	1990	1	2	97
Nepal	1995	34	50.3	82
Nicaragua	1993	26	43.8	66
Niger	1992	47	61.5	80
Nigeria	1992	65	31.1	233
Pakistan	1991	20	11.6	120
Panama	1989	3	25.6	46
Philippines	1994	1	26.9	44
Poland	1993	.	6.8	48

Country	Year	KISS	World Bank	Ratio
Russian Federation	1993	.	2	91
Rwanda	1984	30	45.7	84
Senegal	1991	31	54	57
Slovak Republic	1992	.	12.8	24
Slovenia	1993	.	2	24
South Africa	1993	6	23.7	52
Sri Lanka	1990	2	4	94
Thailand	1992	.	2	74
Tunisia	1990	1	3.9	83
Turkmenistan	1993	5	4.9	103
Uganda	1989	31	69.3	58
Ukraine	1992	.	2	49
Venezuela	1991	.	11.8	50
Zambia	1993	51	84.6	34
Zimbabwe	1990	31	41	79

Notes:

1. World Bank estimates are taken from World Development Indicators, 1998; these estimates use survey data for the consumption mean.
2. The Kiss estimate uses national accounts data for mean consumption.

Table 5: Estimates of Income Distribution in the World, 1987-1997

<i>Share of income</i>	DC			LDC			World		
	1977	1987	1997	1977	1987	1997	1977	1987	1997
Quintiles									
1	5.6	5.9	5.5	3.0	3.4	3.8	1.2	1.7	2.1
2	10.8	10.8	10.6	5.6	6.0	7.0	2.4	3.3	4.2
3	16.3	15.9	15.6	8.1	10.2	11.0	4.5	6.4	7.3
4	24.3	23.9	23.2	15.1	18.2	18.9	14.8	16.3	16.0
5	43.0	43.4	45.2	68.1	62.2	59.4	77.1	72.2	70.4
Mean weighted inc	32.2	41.0	46.5	3.6	5.5	6.7	9.7	11.7	12.9
<i>% change</i>		27.4	13.3		54.9	20.6		21.0	10.4
			44.4			86.8			33.6

Notes:

- 1) Above estimates are based using a simple accounting method which allocates income according to income distribution and population and PPP data on incomes. See Tables 1 and 2 and text for details.