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Growth, Poverty and Inequality: From Washington Consensus to Inclusive Growth

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Abstract

This paper reviews recent economic policy debates about the relationship between growth, poverty and inequality. These debates have tended to focus on whether market-led growth is sufficient to eliminate poverty and reduce inequality, or whether specific policies are necessary because untargeted growth may be insufficient or even perverse. The paper charts the degenerating outcomes of these debates, and the emergence of the inclusive growth (IG) paradigm within the World Bank. A critical examination of IG suggests that its weaknesses are best addressed through a more ambitious restatement of the pro-poor goals of economic policy.

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Contents

Introduction 1

1. **Early poverty debates** 2
2. **The Washington Consensus** 3
3. **The post-Washington Consensus** 6
4. **The pro-poor policy debates** 8
5. **Policy shift at the World Bank?** 10
6. **Inclusive growth and its limitations** 13

Conclusion 16

Tables

1. The post-Washington Consensus 7
2. From the Washington Consensus to Inclusive Growth 14

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Growth, Poverty and Inequality: From Washington Consensus to Inclusive Growth

Alfredo Saad-Filho[1]

Introduction

The dominant views about the relationship between economic growth, poverty, and inequality between the late 1950s and the early 1970s drew heavily upon the Kuznets (1955) and Solow (1956) models. While Kuznets' inverted-U hypothesis suggested that economic growth in poor countries would initially lead to greater inequality, which would later decline as the economy continued to develop, Solow's growth model indicated that poor countries would tend to grow faster and, therefore, converge with the developed countries through the equalization of the marginal returns to the factors of production. In this favourable context, heavy state intervention in the process of development, and World Bank and other international support for infrastructure and capital-building projects in poor countries, fostered the expectation that capitalist economies could deliver growth, poverty alleviation and international convergence, at least as rapidly as their socialist rivals.

In the mid-1970s, many observers agreed that these hopes were misplaced: most poor countries were failing to converge with the rich 'core' of the world economy, and the distribution of income was deteriorating in several parts of the world. It was difficult to find evidence that equality-generating processes would eventually prevail either in the global economy or within most developing countries. The ensuing debates were, inevitably, framed by controversies surrounding both economic theory and policy in rich countries, especially the disputes between the Keynesians and the monetarists. While the former tended to argue that convergence would require state intervention, industrial policy and redistribution, the latter claimed that intervention would inevitably fail, and that "free market" policies offered the most promising avenue for rapid growth and the improvement of the lot of the poor.

The rise of monetarism and new classical economics between the mid-1970s and the late 1980s shifted development theory towards the trickle-down proposition. The dividends of growth that would trickle down would arise, presumably, from application of Washington Consensus (WC)-type economic policies. By the start of the 1990s, the apparent failure of this strategy, the rise of new institutional economics and growing pressure on the World Bank and the International Monetary Fund (IMF) by several country Governments, international organizations (including some United Nations agencies), non-governmental organizations (NGOs), universities and social movements compelled the mainstream and the international financial institutions (IFIs) to address the problems of inequality and poverty reduction explicitly once again. During the 1990s and early 2000s, the mainstream approach—now split between the WC and the post-Washington Consensus (PWC)—gradually lost ground to the emerging pro-poor alternatives. This shift in the terms of the debate was nowhere more evident than in the global commitment to the Millennium

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Development Goals (MDGs) in 2000. However, the pendulum swung back again in the late 2000s, with a sophisticated attempt by the mainstream to recapture the theoretical, if not moral, high ground with the notion of "inclusive growth" (IG).

This paper has three main goals. First, it reviews the debates about growth, poverty and inequality, arguing that they have tended to revolve around the question of whether market-led growth is *sufficient* to eliminate poverty and reduce inequality (because benefits of growth automatically trickle down to the poor) or targeted industrial policies and redistribution of assets and/or income are *necessary*, because trickling down benefits may be insufficient. Second, it charts the degenerating outcomes of some of these debates, especially the recent rollback of the pro-poor growth (PPG) viewpoint by the mainstream's emerging IG paradigm. Debates about growth, poverty and distribution have tended to revolve around the suitability of conventional policy prescriptions, which may be informed by the neoclassical synthesis, the WC, or the PWC. However, alternative policies have generally been proposed as a "critique," *in opposition to the mainstream* ideas rather than as a *positive platform*, drawing upon heterodox economic theories. Consequently, each fluctuation of the mainstream, caused by either internal developments or critiques, tends to destabilize the alternative views—at least until a new mainstream consensus stabilizes, and dissenting views can reassemble in opposition to it. Third, the paper critically scrutinizes the IG paradigm, and suggests that its inadequacies are best confronted through a broader and more ambitious statement of the pro-poor goals.

This paper has seven sections. The first reviews the debates around poverty and policy before the WC. The second and third sections outline the rise and decline of the WC and the PWC, respectively. The fourth surveys the pro-poor debates of the 1990s and early 2000s. The fifth tracks the emergence of the World Bank's IG paradigm, and the sixth examines the IG paradigm and its inadequacies from a pro-poor perspective. The seventh concludes the study.

1. Early poverty debates

The pre-WC period is most closely associated with Robert McNamara's Presidency at the World Bank (1968-81). The rhetoric of this period is related to anti-communism, at a time when the Soviet and Chinese models seemed to offer an alternative to developing countries in the wake of widespread decolonization and unprecedented left activity. The notion of development within the orthodoxy was linked to modernization and underpinned by Keynesianism, structuralism and an elementary version of welfarism. Methodologically, most branches of development economics were attached to the notion that development involved a transition through modernization to the ideal-type of advanced capitalism, represented most notably by the five stages of economic growth popularized by Rostow (1960) (see also Fine and Saad-Filho, 2011).

Development policy was perceived to require state coordination of large-scale investment projects, including public ownership of key sectors, if necessary, in order to provide the economic infrastructure required for private sector-led industrialization. This "big push" approach was presumably essential to deliver rapid growth, employment creation, macroeconomic stability and a sustainable balance of payments, which, in turn, should reduce poverty through trickle down, especially via employment creation. In either case, poverty reduction was the *indirect* outcome of growth. By the same token, some increase in inequality was thought to be unavoidable in the early phase of development, because the inequality would be helpful for capital accumulation, since, as suggested by the Keynesian theory of consumption, the rich have a higher marginal propensity to save than the poor.

It is not surprising that the pre-WC was heavily contested. This was manifested by the strength of suggested radical alternatives, even though these were directed against an orthodoxy that now seems disconcertingly progressive by comparison to that of today. A prominent challenge to the orthodoxy was represented by the various forms of dependency theory, which promoted the view that development and underdevelopment constitute two sides of the same coin, and that autonomous development was possible only under socialism (see Cardoso and Faletto, 1979; Kay, 1989, ch.5; and Saad-Filho, 2005).

The debate around competing development strategies was fuelled by the realization that rapid growth during the 1960s and early 1970s was accompanied by continuing poverty and rising inequality in many countries aligned with the West. These outcomes were surprising, given the expectations of spontaneous reduction of poverty through the trickle down process (see Bigsten and Levin, 2004, pp. 254, 258). These regressive outcomes, and the proliferation of right-wing dictatorships across the so-called "Third World", were in sharp contrast with the achievements of the rich countries under the post-war Keynesian-social democratic consensus, and the economic successes of the countries following the Soviet and Chinese models.

In 1974, Hollis Chenery, the World Bank's vice president for development policy, published *Redistribution with Growth* (Chenery and others, 1974), in collaboration with the Institute for Development Studies at the University of Sussex. This study expressed a growing scepticism with the Bank's earlier strategy of supporting "big push" growth projects, while expecting market processes to reduce poverty and inequality spontaneously (see McKinley, 2009, pp. 15-16). *Redistribution with Growth* triggered a review of the World Bank's emphasis on capital-intensive development and maximization of the investible surplus, as these seem to lead to income and wealth concentration and unable to generate sufficient employment. It was thought that the Bank's new priorities should be towards promotion of labour-intensive industries and provision of education and infrastructure for the poor, especially in small-scale agriculture (now deemed to be at least as productive as large-scale production), and through transfer of land and other assets to the poor. These policies were to be supported by improvements in the labour, credit and other markets directly bearing upon the welfare and productive capacities of the poor, and in provision of health, education and other basic services.

Shifts in the global political economy never gave these changed priorities enough time to gel and be implemented in a comprehensive manner. Rather, poor countries were caught up in the international debt crisis, which consumed resources that could have been deployed to support "redistribution with growth". On the other hand, the economics profession shifted decisively towards monetarism and the related supply-side and new classical economics. These strands of the mainstream acquired canonical status after the consolidation of neoliberalism in the United States of America, the United Kingdom of Great Britain and Northern Ireland and elsewhere during the 1980s (see Milonakis and Fine, 2009). In development economics, concerns with rent-seeking and corruption became increasingly prominent, and the responsibility for persistent poverty was placed on the poor countries themselves, in particular on their unwillingness to follow the "correct" economic theory and policies prescribed from the West. Clearly, under this view, the scope for distributive policies was very limited.

2. The Washington Consensus

The WC emerged in the early 1980s as a dramatic right-wing reaction against the perceived weaknesses of the pre-WC developmentalist consensus. Rhetorically, the WC involved a heavy attachment to a universalist neo-liberal ideology, with absolute commitment to the free market and the presumption of the state as a source of both inefficiency and corruption, not least through rent-seeking (for a clear statement, see Krueger, 1974). At the level of scholarship, the WC suppressed the old development economics as a separate and respected field and instead imposed rigid adherence to the deductive and formal methods of neoclassical economics that were thought to be equally and directly applicable for analysis of the problems of poor countries (see Jomo and Fine, 2006).

The WC comprised four elements. First is the hegemony of modern neoclassical theory within development economics. In general, the neoclassical theory assumes that the market is efficient and the state is inefficient. It naturally follows from this assumption that the market rather than the state should address such economic problems of development as industrial growth, international competitiveness and employment creation. Unquestioned belief in the neoclassical theory also leads to the assumption that capital mobility and the relentless advance of "globalization" is good for the world economy and all individual economies. Although these policies offer the possibility of rapid growth by attracting foreign capital, this can be achieved only if domestic policies conform to the interests of the (financial) markets—otherwise capital will be driven elsewhere. Finally, given the priority attached to monetary policies over fiscal policies, interest rates became the most important economic policy tool. It was believed that "correct" interest rates could deliver balance of payments equilibrium, low inflation, sustainable levels of consumption and investment, improved allocation of resources and, therefore, high long-run growth rates.

Second, for the pre-WC, the main reason why poor countries remain poor is their lack of capital (machines, infrastructure and money), and development is a process of systemic transformation through modernization and industrialization, driven by domestic consumption and domestically-financed capital accumulation. In contrast, in view of the WC, countries are poor because of misconceived state intervention, corruption, inefficiency and misguided economic incentives. According to WC, development is the inevitable outcome of a set of "appropriate" incentives and neoclassical economic policies, including fiscal restraint, privatization, the abolition of government intervention in prices, labour market "flexibility", and trade, financial, and capital account liberalization. There is little specification of what the end-state would look like but, presumably, all countries would eventually approach an idealized version of the United States.

Third, the WC emphasis on the virtues of the market was supported by the neo-Austrianism associated with Friedrich von Hayek and the general equilibrium theory of mainstream economics (see Fine and Saad-Filho, 2011). Despite the libertarian streak associated with these theories, even the most ardent supporter of freedom of the individual in general, and through the market in particular, agrees that these freedoms can be guaranteed only through state provision of, and coercion for, a core set of functions and institutions. These range from fiscal and monetary policies to law and order and property rights, and includes military intervention to secure the "market economy" when this becomes necessary. Not surprisingly, then, WC policies are often associated with authoritarianism, while the WC declarations of support for political democracy are hedged and conditional in practice (Chile serves as a classic illustration; see Barber, 1995). While the WC claimed to be leaving as much as possible to the market, in practice it encouraged state intervention on a discretionary basis, and directed to systematic promotion of a globalized and heavily-financialized capitalism.

Fourth, under the WC the World Bank set the agenda for the study of development, with the Bank and the IMF imposing the standards of orthodoxy within development economics, and enforcing the relevant policies through conditionalities imposed on poor countries facing balance of payments, fiscal or financial crises.

It is apparent that this combination of policies, regulations and incentives is designed to shift the economic role of state institutions away from direct intervention in the allocation of resources, and transfer to the (financial) markets control over the levels of investment and consumption, the allocation of investment funds, the composition of output and employment, and the selection of competitive advantages. In these circumstances, poverty alleviation cannot be a priority except only rhetorically and, even then, distributive aspirations were tempered by "recognition" of their alleged inefficiency-generating implications. Significantly, with the WC, states lost much of their capacity to select, implement and monitor distributive and welfare policies because of legislative changes, departmental reorganizations, salary reductions and large-scale redundancies. Given these pressures, the improvement of the lot of the poor under the WC would depend upon the vicissitudes of the trickle-down process.

The conditionalities through which WC policies were imposed upon poor and post-Socialist countries went far beyond the core monetary and fiscal macroeconomic policies (in the case of the IMF) and the sector-specific, micro and financial policies (for the World Bank) that were prevalent in the pre-WC period. An expanding set of policy areas were claimed by the IFIs in the 1980s, including pricing policy, ownership of productive and financial enterprises, market structures and regulation, public sector management and political and economic governance (see UNCTAD, 2002, pp. 16-17). The widening scope of policy conditionality was justified by the need to avoid moral hazard and adverse selection, and by the hope of securing improved governance, which would demonstrate public sector commitment to the new policy agenda. At a further remove, the endogenous growth literature suggested that economic convergence was not inevitable, as was implied by the Solow model. Rather, convergence was conditional on "good policies" and sound investment decisions which could be secured only by market-friendly Governments (see Bigsten and Levin, 2004, p. 255).

In the late 1980s and 1990s, the hegemony of the WC came under attack both in the academia and in the emerging social movements, with three (not necessarily complementary) criticisms pushed to the fore. The first was inspired by the notion of the developmental state (see Fine, 2006), thought to apply to the successful East Asian newly industrializing economies (NIEs), with Japan as the precursor, followed by the four "tigers" (Hong Kong Special Administrative Region of China, Republic of Korea, Singapore and Taiwan Province of China) in the 1960s and 1970s, followed, in turn, by China, Indonesia, Malaysia, Thailand and Viet Nam. In all these cases, it was found that the state had violated the main tenets of the WC through long-term planning, protectionism, directed finance and other departures from the free market.

The second approach focused on the notion of "adjustment with a human face." Irrespective of the merits of WC in bringing stability and growth, the adverse impact of the WC policies on those in, or on the borders of, poverty was highlighted by a growing literature beginning with Cornia, Jolly and Stewart (1987). They documented the human costs of the crisis, showed that poverty was rising in the "adjusting" countries, and demonstrated the tendency of the adjustment costs to fall on the most vulnerable. The WC stood accused of being at least oblivious to the disproportionate burden on the poor arising from the processes of adjustment and stabilization (see Chang, 2003 and Chang and Grabel, 2004). In its defence, the World Bank deployed questionable appeals to the empirical evidence, selective reference to the occasional if invariably temporary star performers, and the argument that the problem was not with the policies but with their insufficient implementation, opening the way to subsequent discourses around corruption, good governance and the like, invariably shifting the blame to the underperforming countries themselves (see UNCTAD, 2002, p. 5). This effort culminated in the publication of a major report on the East Asian newly industrialized countries (NICs) (World Bank, 1993), arguing that government intervention had been extensive but had only succeeded because it had been along the lines of what the market would have done had it been working perfectly, and that the East Asian experience, in any case, was not replicable elsewhere. These implausible claims were received with a combination of astonishment and derision, and the Bank's report was soon forgotten (see Wade, 1996).

The third criticism of the WC concerns the interface between economics and politics. The closely related transitions to neoliberal economic policies and to political democracy in several countries in the South and in Eastern Europe have introduced a potentially severe tension because of the deployment of democratic and supposedly *inclusive* political systems to enforce *exclusionary* economic policies. The neoliberal economic policies demand a state hostile to the majority, even though a democratic state should be responsive to majority pressures.

3. The post-Washington Consensus

Discontent with WC policies spread since the 1990s, with disquiet reaching even some Washington institutions. Nevertheless, the IMF has continued to stress the "virtues" of the reforms, and to blame the poor countries for their own failures (see, for example, Krueger, 2004). The implication is that, in view of the IMF, countries must "do more of the same, and do it well" (Rodrik, 2006, p. 977). The World Bank, on the other hand, has scrutinized WC policies more carefully, starting with the implications of the East Asian success and recognizing the association of this success with the distribution of income and assets, mass education and state guidance of investment.

The Bank's shift away from the neoliberal orthodoxy became evident after the appointment of Joseph Stiglitz as its chief economist, in 1997. Stiglitz is one of the main proponents of the new institutional economics, and he used his new position to promote a PWC (see, for example, Stiglitz, 1998). Although he was ejected from the Bank in 1999, Stiglitz's views remain highly influential, as was demonstrated by his Nobel Prize in 2001 and his high-profile recent interventions in development debates.[2]

The intellectual thrust of the PWC has been to shift the analytical focus away from the neoclassical emphasis on competition and the virtues of (perfect) markets, and towards the institutional setting of economic activity, the significance of market imperfections, and the potential outcomes of differences or changes in institutions. The PWC rejects the WC for its unwavering antipathy to state intervention, and questions the conventional stabilization policies for their adverse short- and long-term impacts.

Inspired by new institutional economics, the PWC can provide a more nuanced understanding of economic development (see Harriss and others, 1995). For example, the PWC acknowledges that at the core of the development process lies a profound shift in social relations, the distribution of property rights, work patterns, urbanization, family structures, and so on, for which an analysis limited to macroeconomic aggregates is both insufficient and potentially misleading. Policy-wise, the rhetoric of the PWC is comparatively state-friendly but in a limited and piecemeal way, with intervention only justified on a case-by-case basis, should it be demonstrable by mainstream criteria that narrow economic benefits would most likely accrue. Despite its obvious limitations, the PWC offers a rationale for discretionary intervention across a much wider range of economic and social policy than the WC. Nevertheless, the PWC remains fundamentally pro-

2 See Fine, Lapavitsas and Pincus (2001) and Waeyenberge (2007).

market, supporting a poorly examined process of "globalization" which, however, should have a more human face because it would be supported by appropriate institutions and the gentle steer of the national state and the IFIs.

For its proponents, the PWC represents a distinct break with the WC, as they associate neoliberalism narrowly with the WC and the dogmatic belief in the virtues of the free market. Nevertheless, the PWC tends to exaggerate the contrast with the traditional WC concerns, allowing Stiglitz to protest stridently policies imposed by the IMF on the Russian Federation and the Republic of Korea, in particular, which triggered his enforced departure from office at the World Bank (see, for example, Wade, 2002). In contrast, critics claim that the PWC is essentially the WC (and the continuation of neoliberalism itself) by other means (see Marangos, 2007, 2008, and Williamson, 2007).

As was suggested above, PWC discourse emphasizes heavily the importance of appropriate institutions for growth. "Getting the institutions right" has sometimes been exaggerated to the point of becoming a mantra, just like "getting the prices right" was the mantra of the WC (see Rodrik, 2006, pp. 979-80). An excessive emphasis on institutions suffers from problems at three levels. First, the literature has been unable to establish strong links between institutional design(s) and long-term economic performance. Second, the institutional reforms demanded by the PWC are rarely new; for example, the World Bank has, for several decades, advised poor countries to improve the investment climate, invest in infrastructure and agriculture and educate girls. Third, even if these relationships could be demonstrated, their implications may be disabling for the poor countries, because institutions are context-specific and rigid over time, suggesting that poor countries with weak institutions would be unable to implement rapidly the institutional reforms necessary for "development".

The outcome of these shifts within the orthodoxy was the *augmentation* of the list of WC policy reforms by a long but imprecise list of "second generation" reforms, to create what many have termed as the post-Washington Consensus. Referring to the add-on list of reforms, Rodrik (2006, p. 978) noted that "The precise enumeration of these requisite institutional reforms depends on who is talking and when, and often the list seems to extend to whatever it is that the reformers may not have had a chance to do." Thus, there is no unanimous list of PWC policies, just as there is none of WC policies. Nevertheless, Rodrik offers the following comparison of WC and PWC policies or reforms (table 1).

Table 1: The post-Washington Consensus

Washington Consensus	*post-Washington Consensus (Original WC plus)*
Secure property rights	Anti-corruption
Deregulation	Corporate governance
Fiscal discipline	Independent central bank and IT
Tax reform	Financial codes and standards
Privatization	Flexible labour markets
Reorientation of public expenditures	WTO agreements
Financial liberalization	"Prudent" capital account opening
Trade liberalization	Non-intermediate exchange rate regimes
Openness to FDI	Social safety nets
Unified and competitive exchange rates	Targeted poverty reduction

Source: Rodrik (2006, p. 978).

These policy recommendations, or “enhanced conditionalities”, added by PWC, were eventually welcomed even by the IMF, as can be seen from the following:

> In the past decade or so, we have come to realize that economic stability has to encompass a much wider range of factors than had previously been recognized. There has to be fiscal and debt sustainability, of course. But sound governance—at the national and corporate level; effective and respected institutions; a well-established legal system; recognition of, and protection for, property rights; a well-functioning financial sector: these are all vital ingredients for lasting economic success … I include labor markets in this list. To reduce poverty, faster growth in poor countries has to bring employment growth: but rigid markets often prevent that (Krueger, 2004).

The accretion of conditionalities and policy reforms by the IFIs reveals their continuing attachment to a conception of development as the natural outcome of shifting, but unambiguously “correct”, policies imposed from above, and implemented under external guidance. Paradoxically, the expansion of the list of conditionalities has been compatible with an *increase* in the legitimacy of these policies as they have been embraced, within limits, even by some of their erstwhile critics, perhaps because of the rhetorical concessions and the partial recognition of the imperative of poverty alleviation in the PWC.

4. The pro-poor policy debates

In the late 1990s the mainstream was compelled to admit that poverty reduction and redistribution were not spontaneous by-products of growth, the correction of macroeconomic imbalances, or improvements in macroeconomic policies and governance. Instead, poverty has to be addressed directly through a dedicated set of economic and social policy tools. The IFIs also had to confront claims that inequality is harmful because it induces political and economic instability and, in extreme cases, political violence and civil war.

The gradual shift in the terms of the debate was accompanied by the deployment of a broader concept of poverty in World Bank documents, drawing upon the debates around the Human Development Index in the early 1990s (see, for example, McGillivray and White, 1993, and Srinivasan, 1994). Debates about growth and inequality since the late 1990s have tended to focus on, or around, the concept of pro-poor growth. Take, for example, the key exchanges between Nanak Kakwani (see Kakwani, Khandker and Son, 2004 and Kakwani and Pernia, 2000) and Martin Ravallion (see Ravallion, 2004; Ravallion and Chen, 2003; DFID, 2004; for an overview of the debate and for additional references, see Besley and Cord, 2007, and McKinley, 2009).

For Kakwani, pro-poor growth (PPG) is defined by the *increase in the income share of the poor* (alternatively, in PPG, the incomes of the poor grow faster than those of the non-poor, in which case poverty falls faster than it would if all incomes had grown at the same rate). In contrast, Ravallion focused on the *absolute improvement of the living standards of the poor*, regardless of changes in inequality. Typically, Ravallion stressed the pro-poor implications of growth in China because it reduced absolute poverty, regardless of worsening inequality in the country (McKinley, 2009, pp. 5-6). While Kakwani rejected Ravallion’s definition of PPG because it is too elastic and can potentially include most growth processes in history, Ravallion criticized Kakwani for the alleged inconsistency of his definition of PPG.[3]

Debates around the definition of PPG were heavily influenced by concurrent exchanges about the relationship between growth and equity.[4] On the one hand, Deininger and Squire (1998) tested the Kuznets hypothesis using land distribution as a proxy for asset inequality and concluded that high inequality is bad for growth (see Bigsten and Levin, 2004, p. 259). Also, Birdsall and Londono (1997) claimed that, given asset inequality, income inequality does not improve growth outcomes (see World Bank, 2009, p. 6). On the other hand, Dollar and Kraay (2004, originally published in 2002) famously suggested that growth is, on average, distribution-neutral: "growth-enhancing policies and institutions tend to benefit the poor—and everyone else in society—equi-proportionately" (p. 30; for a similar claim, see Ravallion and Chen, 1997). Their conclusion triggered a wide-ranging controversy about methodology and policies, focusing on Dollar and Kraay's suggestion that although

> policy interventions … [to] raise the share of income captured by the poorest in society … [may improve] the lot of poor people in some countries and under some circumstances, we are unable to uncover any evidence that they systematically raise the share of income of the poorest in our large cross-country sample (p. 32).

In other words, while the impact of targeted interventions is both uncertain and weak, growth can *certainly* improve the welfare of the poor. Consequently, attempts to shift the income distribution are largely a diversion, and conventional policies ("private property rights, stability, and openness", p. 57) lead to optimal outcomes both for the rich and for the poor.

Despite their somewhat grandiose claims, Dollar and Kraay's work can be read, more simply, as merely confirming that "empirical evidence ... consistently indicates that size distributions of income are quite stable, in the absence of radical changes in institutions and political power" (Rao, 2002, p. 7). Although Dollar and Kraay's and Rao's arguments depart from very different ends of the policy spectrum, they suggest that significant shifts in distribution must be pursued *deliberately* through public policy, and that a more equal distribution of income does *not* necessarily impair growth performance.

The search for a general relationship between growth and equity has highlighted the implications of the two competing definitions of PPG commonly found in the literature. If PPG is defined as *growth that promotes equity*, equity becomes the key principle for the selection of economic policies, and only those policies which directly promote equity are "pro-poor". Conversely, if PPG is defined as *growth that improves the absolute condition of the poor*, PPG includes all non-perverse types of growth, and any poverty-alleviating policy is "pro-poor". In this case, equity has only instrumental value: it is a tool which *may* be deployed *if* it increases the poverty-alleviating impact of a given set of economic policies (see McKinley, 2009, p. 10).

3 "By focusing on inequality, the relative definition could lead to sub-optimal outcomes for both poor and non-poor households. For example, a society attempting to achieve pro-poor growth under the relative definition would favour an outcome characterized by average income growth of 2 per cent where the income of poor households grew by 3 per cent, over an outcome where average growth was 6 per cent, but the incomes of poor households grew by only 4 per cent. While the distributional pattern of growth favours poor households in the first scenario, both poor and non-poor households are better off in the second scenario. *There is broad recognition that when poverty reduction is the objective, then the absolute definition of pro-poor growth is the most relevant* … Using the absolute definition, the aim is to increase the rate of growth to achieve the greatest pace of poverty reduction" (World Bank, 2009, p. 3).

4 For an overview, see Bowman (1997), Cornia (2004), Cramer (2000), Kanbur (1998), Niggle (1998) and Persson and Tabellini (1994).

If the latter (absolute) definition of PPG is accepted, mainstream growth-maximizing policies naturally become more attractive than the narrower set of equity-promoting policies that follow from the former (relative) definition of PPG. This is because faster growth normally benefits everyone to a greater or lesser extent, despite its differential impact upon distinct social groups, regions, professions, skill levels, genders, age groups, and so on. Since almost everyone gains from faster growth, but some may lose out from equity-promoting growth, causing political tensions and loss of economic efficiency, it is difficult to reject the appeal of the absolute definition of PPG and its associated policies. These developments have helped the PPG debate to converge around the *terms* of a presumed trade-off between equity (benefiting the poor relative to the rich) and growth (benefiting everyone). As McKinley (2009, pp. 6, 9) observes, over time,

> the definitions of Kakwani and Ravallion have become more similar. They have tended to reach agreement on the ultimate goal of maximizing the reduction of poverty. And for this goal, they have tended to agree that both faster growth (implying *absolute* improvements) and greater equity (implying *relative* improvements) should be priorities … how to combine the two means now appears to be primarily a pragmatic issue for both researchers … The underlying conceptual problem … is that the Kakwani and Ravallion definitions of PPG have, indeed, converged towards a common pragmatism. In other words, they have chosen to mix and match both means, i.e., faster growth and greater equity, in order to maximize the impact on poverty. How exactly the impact is achieved is of secondary concern.

The logical consequence of shifting the terms of the debate away from the *principle of equity* and towards the *goal of poverty reduction* is the resolution of the PPG debate in terms that are unfavourable for promotion of equity. If everyone agrees that elimination of poverty is the ultimate goal, and admits that growth helps to achieve it, they can disagree only about the combination of policies which maximizes the poverty-reducing impact of growth (and which may or may not include certain modalities of equity).

5. Policy shift at the World Bank?

Despite the successes of researchers connected to the World Bank in the pro-poor policy debates, internal developments in the Bank, including its retreat from the WC and the appointment and subsequent ejection of Joseph Stiglitz, destabilized the Bank's views of development and equity and contributed to the fragmentation of its approach to development policy. In 2005, the Bank published *Economic Growth in the 1990s: Learning from a Decade of Reform* (World Bank, 2005) and, in 2008, a committee of prominent economists and "leaders" of successful economies assembled in the Bank-sponsored Commission on Growth and Development (CGD)[5] published *The Growth Report: Strategies for Sustained Growth and Inclusive Development* (CGD, 2008). These documents and complementary papers, especially Besley and Cord (2007) and World Bank (2008, 2009), stand in sharp contrast with the conventional presentations of the (P)WC. They ostensibly avoid offering blueprints for development and instead emphasize the virtues of experience, selective reforms, eclecticism, experimentation, the middle-ground and learning-by-doing.[6]

For the World Bank and the CGD, experience shows, first, that there was an economic collapse in the transition countries of the former Soviet bloc despite IFI guidance, that sub-Saharan African countries have failed to take-off despite significant policy reforms and aid and debt forgiveness, and that there were

5 The "Commission on Growth and Development [is] an independent group of policy makers, business leaders, and scholars, supported by the World Bank, the Hewlett Foundation, and the Governments of Australia, Netherlands, Sweden, and the United Kingdom" (CGD, 2008, p. 13).

6 '[P]olicy making will need to be patient, pragmatic, and experimental' (CGD, 2008, p. 15).

recurrent financial and balance of payments crises in the reforming countries. The Bank also admits that most poor countries have failed to match their growth performance in the pre-reform period. Finally, these reports acknowledge that rapid growth in China and India has been responsible for most poverty reduction in the world during the last generation and note, in passing, that these countries did not follow conventional policies. While *Economic Growth in the 1990s* avoids tackling this issue head-on, the CGD has invited representatives from both countries to contribute to its report. Second, the reports recognize that the mainstream has tended to exaggerate the advantages of small Governments (CGD, 2008, p. 5). Third, there has been too much emphasis on rules over discretion in government behaviour (CGD 2008, p. 54). Fourth, the reforms should not be overambitious both because this is politically impractical, and because it may be inadvisable on theoretical (second-best) grounds (World Bank, 2009, p. 7). Fifth, economic policy is necessarily contextual (CGD, 2008, p. 5). Therefore, these reports aim to "offer a framework that should help policymakers create a growth strategy of their own" (CGD, 2008, p. 2).[7]

Despite their claims to the contrary, the World Bank and the CGD offer a fairly detailed picture of the "correct" economic policies. They start from a long and wholly conventional list of objectives, including a stable macroeconomic environment, fiscal responsibility, price stability, improving the investment climate, strengthening property rights, regulatory improvements to lower transaction costs, high savings and investment rates, transparent markets responsible for resource allocation, greater access to infrastructure, improved mobility of resources, especially labour, trade openness and strategic integration with the world economy, and capable, credible and effective Government committed to growth.[8]

Distributive concerns are noticeably absent from these sprawling aims, with two exceptions. First, the CGD (2008, p. 7) is concerned that Kuznets-type inequality might trigger political instability. Second, and drawing on the pro-poor debates reviewed above, the Bank recognizes that large inequalities can hamper the translation of growth into absolute poverty reduction (Besley and Cord, 2007, p. 1). Having noted these reservations, the Bank's reports focus *entirely* on absolute poverty, without any consideration of "active" distributional policies. In other words, growth is both necessary and sufficient to achieve the key goals of development:

> Growth is not an end in itself. But it makes it possible to achieve other important objectives of individuals and societies. It can spare people *en masse* from poverty and drudgery. Nothing else ever has. It also creates the resources to support health care, education, and the other Millennium Development Goals to which the world has committed itself (CGD, 2008, p. 1).

Sustainable growth depends upon a range of conditions, first and foremost a competitive environment:

> Growth ... is the result of competitive pressure. Governments committed to growth must therefore liberalize product markets, allowing new, more productive firms to enter and obsolete firms to exit. They must also create room to manoeuvre in the labour market, so that new industries can quickly create jobs and workers can move freely to fill them (CGD 2008, p. 6).

Second, it requires Government commitment, rather than the mere absence of Government; specifically, "an increasingly capable, credible, and committed Government ... [providing] strong political leadership" (CGD, 2008, p. 3). Third, heavy public sector investment in infrastructure and the creation of

7 The CGD (2008, p. 7) pointedly remarks that "Governments in the high-growth economies were not free-market purists. They tried a variety of policies to help diversify exports or sustain competitiveness".

8 See Besley and Cord (2007, pp. 14, 17), CGD (2008, pp. 5, 15, 21), and World Bank (2009, p. 7).

physical and human capital, including roads, ports, airports, power, telecommunications, health and education, especially for girls. This type of investment crowds-in private investment, and raises its prospective rates of return (CGD, 2008, pp. 5-6). Fourth, labour market flexibility, to foster the expansion of the formal labour market (Besley and Cord, 2007, p. 17).[9] Fifth, growth and poverty alleviation depend on sustained productivity growth (World Bank, 2009, p. 11), and international integration through trade, investment and technology (CGD, 2008, p. 2). Sixth, growth also requires exchange rate management, in order to maintain export competitiveness. This is relatively simple to implement, and it is presumably advantageous because it is neutral between economic sectors (CGD, 2008, p. 50). Seventh, capital account liberalization can lower the cost of capital. However, it should be gradual because excessively rapid liberalization introduces avoidable macroeconomic risks. Capital controls should be imposed if necessary (CGD, 2008, p. 57).[10] Eighth, social safety nets are necessary, not primarily for pro-poor reasons, but for instrumental reasons: without them, "popular support for a growth strategy will quickly erode" (CGD, 2008, p. 6). However, these safety nets should be limited, because "[i]n poor countries such schemes can impose significant burdens on already stretched budgets, and it is theoretically impossible to reduce poverty through redistribution in countries where average income falls below US$ 700 per year" (World Bank, 2009, p. 2). Finally, there must be political support for the reforms, since even the best technical solutions can work only if they are politically viable (World Bank, 2008, Annex 1, p. 8).

Significantly, given the earlier pro-poor debates, the World Bank and CGD reports indicate that poverty reduction comes, primarily, from *faster growth*, rather than, say, from policies addressing the specific constraints faced by the poor:

> policymakers who seek to accelerate growth in the incomes of poor people ... would be well advised to implement policies that enable their countries to achieve a faster rate of overall growth. A successful pro-poor growth strategy would thus need to have, at its core, measures for sustained and rapid economic growth … These ingredients—good policies, stability and public goods—were essential in facilitating private initiatives and investments among the non-poor and especially the poor (Besley and Cord 2007, p. 19).

Implementation of these policy recommendations requires a selective, strategic and sequenced focus on the binding constraints on growth at each point in time. As Rodrik (2006, p. 982) starkly put it:

> Policy reforms of the (Augmented) [i.e., Post-] Washington Consensus type are ineffective because there is nothing that ensures that they are closely targeted on what may be the most important constraints blocking economic growth. The trick is to find those areas where reform will yield the greatest return. Otherwise, policymakers are condemned to a spray-gun approach: they shoot their reform gun on as many potential targets as possible, hoping that some will turn out to be the ones they are really after. A successful growth strategy, by contrast, begins by identifying the most binding constraints.

The World Bank is increasingly committed to this "growth diagnostics" approach, having held (together with the United Kingdom Department for International Development) at least one workshop

9 Three caveats are immediately added (ibid.): "First, labour market regulations are only one of a set of factors that affect the investment climate and the willingness of a firm to formalize … Second, loosening labour market regulations in some regions … may have little impact on labour markets, especially if employment is mainly in agriculture … Third, labour market regulations … constitute a form of social protection".

10 "Yes, capital controls are leaky, but so are taxes, and that does not stop Governments from trying to tax their citizens" (Pedro Pablo Kuczynski, in CGD 2008, p. 52).

on the issue, in mid-2008, to scrutinize the policy lessons on the linkages between growth diagnostics and existing work on governance and institutional arrangements that can deliver sustained growth (World Bank, 2008, p. 1).

6. Inclusive growth and its limitations

The incremental convergence of the participants in the PPG debates, combined with the new (but firmly neoclassical) growth framework developed by the World Bank and its associates have supported the development of the inclusive growth (IG) paradigm in the late 2000s. IG stresses the importance of growth for poverty reduction, admits that a wide range of policy combinations can deliver these outcomes, and aims to select the appropriate policies through "growth diagnostics":

> Inclusive growth refers *both* to the pace and pattern of growth, which are considered interlinked, and therefore in need to be addressed together … Traditionally, poverty and growth analyses have been done separately. This paper describes the conceptual elements for an analytical strategy aimed to integrate these two strands of analyses, and to identify and prioritize the country-specific constraints to sustained and inclusive growth … Encouraging broad-based and inclusive growth does *not* imply a return to Government-sponsored industrial policies, but instead puts the emphasis on policies that remove constraints to growth and create a level playing field for investment (World Bank, 2009, pp. 1-2).

For the World Bank, IG is *broader* than pro-poor growth:

> Rapid … growth is unquestionably necessary for substantial poverty reduction, but for this growth to be sustainable in the long run, it should be *broad-based* across sectors, and *inclusive* of the large part [*sic*] of the country's labor force … [T]he [relative] pro-poor approach is mainly interested in the welfare of the poor while inclusive growth is concerned with opportunities for the majority of the labor force, poor and middle-class alike (World Bank, 2009, p. 1).

Inclusiveness is understood as providing equality of opportunity "in terms of access to markets, resources, and unbiased regulatory environment for businesses and individuals" (World Bank, 2009, p. 2). Equality of access is instrumentally valuable, since "systematic inequality of opportunity [is] "toxic" as it will derail the growth process through political channels or conflict" (ibid.). Not surprisingly,

> The inclusive growth definition is in line with the absolute definition of pro-poor growth, but not the relative definition. Under the *absolute* definition, growth is … pro-poor as long as poor people benefit in absolute terms … In contrast, in the *relative* definition, growth is "pro-poor" if and only if … inequality declines. However, while absolute pro-poor growth can be the result of direct income redistribution schemes, for growth to be inclusive, productivity must be improved and new employment opportunities created. In short, inclusive growth is about raising the pace of growth and enlarging the size of the economy, while levelling the playing field for investment and increasing productive employment opportunities … [IG] focuses on productive employment rather than income redistribution … IG is typically fuelled by market-driven sources of growth with the Government playing a facilitating role (World Bank, 2009, pp. 3-4).

The World Bank's shift towards growth diagnostics and the identification of constraints (to inclusive growth), which should be addressed sequentially, replicates the debates about the "order of liberalization" in the 1980s that took place after the collapse of the first wave of radical reforms in Latin America, and the controversies about the speed of transition in the former Soviet bloc. In both cases, essentially the same package of WC policies was offered, with only the order and speed of implementation being open to debate, regardless of the persistent underperformance and repeated crises in the adjusting countries. Even under the PWC, the Bank's policies were presented to its clients as a package whose components may be sequenced, but should not be jettisoned. Interestingly, both WC and PWC economic policies were presumably identified *deductively*, starting from the "best" economic theory (either neoclassical or of the "new institutional economics" variety).

The new IG paradigm is different in two respects: first, the "correct" policies are, supposedly, drawn up *inductively* from successful growth experiences around the world. This is a way to incorporate carefully selected insights from the developmental state debates as if they were merely practical truths. Second, and despite this reversal towards empiricism, table 2 shows that IG policies are *essentially identical* to the PWC, *plus a Government-led push for growth*. In other words, the World Bank has conceded nothing of substance either on the content of its preferred policies or on the primacy of growth (rather than distribution) to improve the lot of the poor—only lip service is paid to the significance of equity.

This suggests that the IG paradigm is limited in six ways. First, IG assumes that economic growth is the most powerful tool for elimination of poverty. However, this overarching claim ignores the fact that growth can also *create* poverty because it brings technological changes, shifts in property and user rights and transformations in the labour markets which can dispossess and impoverish large numbers of people. Many workers may be unable to find alternative productive assets or jobs with equivalent pay, or to retrain in order to seek better opportunities elsewhere. The self-employed may also find that their prospects are depressed because of their insufficient access to credit and markets. IG also disregards the structural inequalities which can create poverty even as the economy expands. Clearly, if income and productivity growth are sufficiently rapid, most people benefit even if inequality rises (e.g., in Brazil and Mexico from the 1950s to the 1970s, the Gulf economies between the early 1970s and the early 1980s, and in China since the 1980s). However, if GDP growth is insufficient or erratic, this may lead to the stagnation or even decline of the welfare of large sections of the population (e.g., in Russia and other former Soviet countries in the 1990s, and in most Middle Eastern, African and poor Latin American countries in the 1980s and early 1990s)—which flatly contradicts the claims of the "absolute" definition of PPG (see section 4).

Table 2: From the Washington Consensus to Inclusive Growth

Original Washington Consensus	*post-Washington Consensus (Original WC plus)*	*Inclusive Growth*
Secure property rights	Anti-corruption	Competitive environment
Deregulation	Corporate governance	Government commitment to growth
Fiscal discipline	Independent central bank and IT	"Good policies"
Tax reform	Financial codes and standards	Public sector investment
Privatization	Flexible labour markets	Labour market deregulation
Reorientation of public expenditures	WTO agreements	Employment and productivity growth
Financial liberalization	"Prudent" capital account opening	International integration
Trade liberalization	Non-intermediate exchange rate regimes	Exchange rate management
Openness to FDI	Social safety nets	"Prudent" capital account opening
Unified and competitive exchange rates	Targeted poverty reduction	Social safety nets

Source: Table 1 and section 5.

Second, IG presumes that countries fail either because of their ignorance of the “correct” policies (which, incongruously, the Bank itself seems to have only just discovered) or through deviousness of governance (e.g., because of corruption or rent-seeking). However, it is equally plausible that countries could fail because their preferred policies could not be implemented due to currency or balance of payments crises, insufficient aid, lack of market access, domestic or external debt overhang, conditionalities or immersing growth.

Third, IG does not address the limitations of previous World Bank strategies, including the contradictions between policy legitimacy, ownership and participation[11], the cost of the policy shifts, and the absence of self-correcting mechanisms in IFI policies. Under IG, failure will continue to be blamed on the victims, and the remedy will continue to include the demand that they should try again, harder. These limitations cannot be addressed responsibly except through a considerable relaxation of the conditionalities imposed by the IFIs. Conditionality is the enemy of experimentation, without which the “leaders” brought together by the World Bank would have no lessons to reflect upon. Conditionality is also inimical to the contextual links between general principles and local conditions which is, allegedly, at the core of IG.

Fourth, the World Bank and CGD reports aim to present a plausible menu of “successful” policies and, simultaneously, to legitimize the displacement of pro-poor and equity-promoting concerns by a growth-enhanced version of the PWC. However, the arguments in these reports are biased. Two examples should suffice. The CGD (2008, p. 2) claims that “[g]rowth of 7 per cent a year … is possible only because the world economy is now more open and integrated”. This is presumably an argument for free trade and free capital movements. It may be appealing, but it is also flawed because it brushes aside numerous episodes of rapid and sustained growth *before* the “reforms” and neoliberal “globalization”, for example, in Brazil, China, India, Mexico, Norway, Poland, South Africa and the Russian Federation, not to speak of heavily selective “global integration” in the Republic of Korea and Taiwan Province of China until the mid-1980s. The second example refers to the dog that has failed to bark: although the World Bank increasingly recognizes the significance of asset ownership in its definitions of poverty, IG ignores the role of asset transfers in its *own* selected experiences of growth, including radical land reforms in China, Japan, Republic of Korea and Taiwan Province of China, and the distributive implications of resource rents in Botswana and Oman.

Fifth, the inclusion of social safety nets in IG is primarily instrumental. They alleviate poverty, provide political legitimacy for the World Bank’s preferred policies, and offer a channel for the poor to gain from growth—but they do *not* aim at distributive goals. Distribution is purely incidental to IG; the focus of this strategy is entirely on growth and on the potential welfare gains for the poor which might ensue from growth.

Finally, while expanding upon the supposed virtues of IG, the World Bank has consistently failed to accept its share of responsibility for providing misleading advice to its clients in the past, or to recognize that its preferred policies have had regressive implications in several cases. Inevitably, this failure to own up to the consequences of previous policy recommendations will impair the credibility of IG, as well as dilute the differences between IG, the PWC and the original WC. These evasions are also inconsistent with the Bank’s emphasis on the constraints under which policy decisions take place and must be implemented, for these constraints surely include the conditionalities imposed by the IFIs, buttressed by the carrots of refinance, aid

11 The Bank could never resolve such conundrums as this: “[r]esearch of the World Bank … suggests that the aspiration of the African poor is not the development of private property rights per se, but rather land reform (UNCTAD, 2002, p. 40). In these cases, the poor need not be listened to.”

and debt relief, and by punishing large sticks in cases of non-compliance. Although the World Bank does not currently claim the laurels in every case of success (it is merely happy to welcome the relevant "leaders" in the CGD), the Bank continues to devolve responsibility for failure to the poor and transition countries: apparently, if some have succeeded, those who haven't only have themselves to blame (see, for example, Besley and Cord, 2007, p. 20). Unless the World Bank accepts its share of responsibility for the economic underperformance of the poor, middle-income and transition countries, its claims to have—finally—nailed down the "correct" economic policies will ring hollow (see Cling and others, 2002, p. 9).

Conclusion

The (P)WC was criticized in the 1990s and early 2000s because of its theoretical inconsistencies, close association with weak macroeconomic performance and recurrent crises in the poor countries, and regressive shifts in the distribution of power, income and wealth in several cases. There was also a growing realization that conventional policies can hinder the achievement of pro-poor outcomes, including the MDGs (see Jomo and Fine, 2006; Milanovic, 2002 and 2003; and Weller and Hersh, 2004). These criticisms were tempered by the realization that, in order to counter the argument that the (P)WC is the only game in town, it is necessary to offer an alternative framework for macroeconomic policy in the poor countries.

The pro-poor policy framework emerged in the early 2000s, drawing upon the heterodox macroeconomic traditions (especially the Post-Keynesian, Institutionalist, Evolutionary, Kaleckian and Marxian schools), and closely related critiques of the mainstream drawing on the structuralist, developmentalist and other critical approaches to development economics.[12] Some of these traditions found space to thrive within the United Nations Development Programme (UNDP), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), the World Institute for Development Economics Research (WIDER) and other United Nations agencies, in some NGOs and in academia. These traditions offered a compelling case for economic policies focused on basic needs of the poor and better distribution of income, wealth and power in poor countries.

The "early" PPG literature attempted to confront the (P)WC by claiming that equity is an ethical imperative, and that distribution as well as growth would benefit the poor. The tension between these statements—one about principles and the other about instruments—was exploited by the mainstream in a four-stage process. First, the mainstream admitted that equity is good in itself. Second, it restricted the concept of equity to equality of opportunity only. Third, it "operationalized" the relationship between growth and distribution through detailed measurements of the impact of equity on growth. Finally, it concluded that poverty and inequality are mutually reinforcing, and that "inclusive" growth is the best way to address both of them simultaneously.

The mainstream strategy to contain, and turn back, the "early" PPG literature was largely successful for several reasons, including its vastly greater access to institutional resources and research support, and the ill-advised inclination of the PPG camp to seek an accommodation with the mainstream. In retrospect, it was unwise to concede that any growth process which improves the lot of the poor is "pro-poor", because this conflates the definition of pro-poor growth with one of its indicators of success. This concession was the

12 For an overview of the pro-poor policy literature, see Dagdeviren and others (2002), Kakwani (2001, 2002), Kakwani and Pernia (2000), McCulloch and Baulch (1999), McKinley (2001, 2003), Osmani (2001), Palanivel (2003), Pasha and Palanivel (2004), Rao (2002), Saad-Filho (2007), UNDP (2002), Vandemoortele (2004) and Winters (2002).

thin end of the wedge which rendered the PPG approach vulnerable to the mainstream containment strategy outlined above. Writers committed to PPG should also have avoided the degenerating debate with the mainstream about the quantitative implications of (disembedded) growth processes upon distribution and absolute poverty. This was a blunder, because there can be no valid debate about the distributional or any other impact of growth “in general”.[13] *Growth exists only concretely*, as the outcome of a development strategy including specific fiscal, monetary, industrial, employment, balance of payments, distributive and social policies. Since the modality of growth is inextricably bound up with its distributional (and other) outcomes, it makes no sense to examine the latter while leaving aside the institutional and policy context which contextualizes these results. At a tactical level, it would have benefited the PPG camp if the mainstream had been forced to spell out their preferred “pro-poor” policies. This would have made it clear that there had been very little movement on the opposite side and, therefore, that the mainstream’s interest in distribution remains secondary as well as heavily circumscribed.

The cost of rhetorical convergence was the capture of the moral and conceptual high ground by the mainstream, through the emerging IG paradigm. Critical assessment of IG demonstrates that it belongs squarely within the mainstream (P)WC tradition, and that the policy prescriptions associated with this tradition have been successful only exceptionally. These limitations and insufficiencies of the mainstream, including the IG paradigm, suggest that it is essential to develop a new generation of pro-poor development strategies, responding to the imperatives of sustainability, equity, democracy and social justice, and fostering economic growth, mass employment, social inclusion, satisfaction of basic needs and the provision of welfare for the vast majority. This is a difficult task, but its time has certainly arrived.

13 In other words, the growth-distribution dichotomy is false, and it is wrong to decompose poverty changes into its growth and distribution components, because the interaction between these elements is not simply additive: the impact of growth on inequality, and the growth-elasticity of poverty, vary with the degree of inequality, the level of development of the country, and so on (see Heltberg, 2004, pp. 82, 90).

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