

# Politics will be crucial to reduce poverty

prof. François Bourguignon



François Bourguignon, Maurizio Bussola and Luiz A. Pereira da Silva are editors of and contributors to 'The impact of macroeconomic policies on poverty and income distribution: Macro-Micro evaluation techniques and tools'. This book, published recently by the World Bank and Palgrave MacMillan, links macro modeling with household-level micro analysis to examine the consequences on poverty and individual incomes of changes in macro-economic policies in developing countries, including the structure of taxes, public spending, trade, or financial regulation. It also takes a look at the consequences of micro-level programs, such as conditional cash transfer programs, at the macro-economics level. An interview with prof. François Bourguignon, who also addresses the consequences of the international credit crunch.

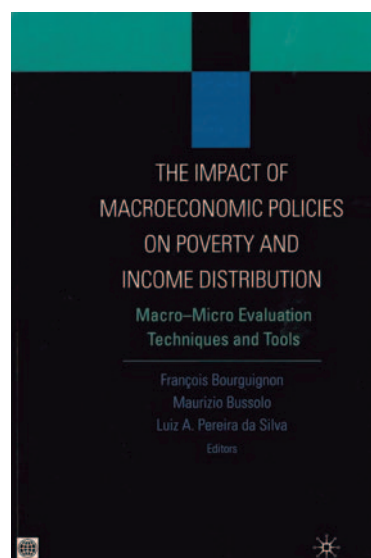
“There are economic instruments to help reduce poverty; when there is a political will, there are results”, says prof. François Bourguignon, director of the Paris School of Economics, and former vice president and Chief Economist of the World Bank (2003-2007). “I always give the example of Brazil, where inequality has been a very prominent factor for many years. Yet, during the last six or seven years, we have seen a very noticeable drop in the degree of inequality and, consequently of poverty, basically because Brazil has adopted extremely efficient and progressive redistribution policies.” According to the professor, the authorities in Brazil were convinced that inequality had a weakening effect on the development of their economy and adopted an efficient of measures to reduce it. “One of the big programs they launched a few years ago is ‘Bolsa Familia’. It is called a ‘conditional cash transfer program’, whereby cash is

transferred to the poor, but with conditions attached. Parents are obligated to send their kids to school until completing secondary, and make sure that their children visit a doctor at least twice a year. This kind of program thus is not only very efficient in reducing poverty today, but expectedly - because the next generations will be better educated and probably in better health - also in the future. Brazil and Mexico are the forerunners in this kind of redistribution policies, but similar programs have now been introduced in countries like Bangla Desh and Cambodia, and there are pilot studies in Mozambique and Burkina Faso. The success of this particular program has prompted even the City of New York to adopt and develop the idea. But there

are other redistribution channels. If authorities really want to, there is a good chance that poverty, if not completely eradicated, can certainly be reduced dramatically.” Prof. Bourguignon hopes that the current financial crisis, which will be felt in most countries of the world, including China and India, won’t affect ‘conditional cash transfer’ and similar programs in a negative way. “My personal expectation is that the programs will not be eliminated, although they may be marginally scaled down in case of a very tight budget constraint.”

## Credit crunch

Talking about the credit crisis, prof. Bourguignon is certain ‘it will pass’. “For the moment, the effect on every day life is limited, but it is completely inconceivable that this crisis would not have at least an indirect, and negative impact on the situation of the poor in many developing countries. This is too bad, in a sense. For the first time since the 1960s and 1970s a new development momentum had built up among the poorest countries over the last 5 years, which allowed them to grow faster than the richest nations on a per capita basis. Rich





nations could compensate the negative effects of the worldwide financial crisis by sending more aid to developing countries, but it is unlikely that they are able to put in any additional effort. They are seriously affected by the credit crunch as well, which means that their budgets are much tighter. It is clear that there will be a lot of suffering, especially in some poor countries indirectly affected by the crisis, even if they adopt those macro-economic policies that our macro-micro models show are the least costly for the poor." Integrating macroeconomic and microeconomic analysis in the study of recent crises has indeed shown that poor people, or the middle class, were often hurt more by a crisis than the economic elite, even when the latter was most directly impacted by it. "Take for example the Mexican crisis of 1994. This was at first a financial crisis that affected directly wealthy people. In the end, however, those people didn't lose very much and, some of them may even have gained something in the process by repatriating their money from abroad after the devaluation of the currency. The middle class and the poor people were those who paid for the crisis. In this case you can see that what is going on at the macro-level does not produce the same effect on all individuals at the micro-level." Referring to the present crisis in developed countries, Prof. Bourguignon adds: "To me, it is completely obvious that the same thing is happening in developed countries with the present crisis. The US House of Representatives initially voted against the 700 billion dollar rescue package, because some members felt that it was wrong to have tax payers pay for the mistakes made by bankers, many of whom have gained astronomical amounts of money in the banking business. I am not saying that no rich people will be affected by the crisis, some had very risky portfolios and might lose very much. The point is that the burden of this crisis should be worn primarily by those who have benefited from the system the most, and not by the many people who didn't profit at all from the bonanza we've seen. Looking at the United States, you may observe that income inequality has increased enormously over the last twenty years. The real income of the median households (half way between the richest and the poorest) has not changed much over the same period of time, but that the very top earners have seen their income increase dramatically."

## Change of approach

Prof. Bourguignon has almost constantly been working on issues related to poverty and inequality in developed and developing countries or at the global level. When he joined the World Bank in 2003, he decided to change the way that institution approached these issues. "For a very long time, the dominant view in the World Bank was that only economic growth mattered for the reduction of poverty in the world. Other important matters for the evolution of poverty, such as the distribution of income and opportunity in the population, were not taken into consideration. The word 'inequality' was rarely used. Following my predecessors in the Bank, Joe Stiglitz and Nick Stern, I insisted on the fact that focusing development strategies solely on fast growth is simply wrong, because growth could come with some increase in inequality, and poor people may not benefit from it. Don't take me wrong, growth is critical to poverty reduction, but we need to analyse more closely who actually benefits from it, and determine which policies, programs and projects will make poor people participating in overall growth. Is a particular development strategy or policy reaction to a shock reducing or increasing inequality? Are they pro-poor, benefiting everybody in the same proportion or benefiting relatively more those who are already better off? These questions

must be addressed. But I also went further than the distributive features of economic growth. I tried to show that inequality itself, or more precisely the inequality of opportunities, may itself affect the rate of growth of an economy. Thus, even if you are interested only in the overall growth rate of an economy, you just cannot ignore distribution issues. An economy where all the economic opportunities (wealth, land, education, access to credit, infrastructure, justice, public decision making, etc...) is concentrated in the hands of the very few, will not be able to grow and develop as fast as economies where the distribution of opportunities is more egalitarian. The importance of micro level circumstances like the distribution of opportunities for macro aggregates like the growth rate of an economy has been ignored for too long. I hope I have contributed to reverting that trend." Liberalising trade is probably a good instrument to increase the aggregated level of output in an economy, but some people might lose from it if the adequate redistribution channels of overall benefits are not in place. Although it could mean some loss of efficiency, Bourguignon is advocating for redistribution in cases policies generating an overall surplus hurt poor people, in order to compensate what they have lost. "It is our role to identify the distributive impact of policies, how it can be corrected by redistribution and also situations where redistributing opportunities may enhance the efficiency of the economy. "

"The major obstacle to the struggle to end poverty is politics. In many countries elites are in power, who are not really that much interested in ending poverty. They simply try to avoid social tensions when they appear. Moreover, rich nations are not encline to send aid to countries where their money might not go to the people who need it the most. There is also poverty in developed countries, although poverty is defined with an income threshold much higher than in developing countries. There is poverty in the United States and there are poor people in Europe. There are big differences with poor countries, however. On the one hand, redistribution channels are more developed. On the other hand, the political system is more open. Yet, reducing poverty remains a political challenge there too. "

Prof. François Bourguignon is the former chief economist (2003-2007) of the World Bank. He is the director of the Paris School of Economics. Prof. Bourguignon is a global authority on the economics of growth and development. He played a vital role in placing economic growth and its relationship with inequality and income distribution and poverty at the center of the World Bank's agenda. Bourguignon was born in France and studied at the École Nationale de la Statistique et de l'Administration Économique (ENSAE) and the University of Paris VI, where he earned a post-graduate degree in Applied Mathematics (1973). He went on to earn a Ph.D. and the Merrit Brown Award for the best thesis at the University of Western Ontario, Canada (1975), and a Doctorate in Economics at the University of Orléans in France (1979). Since 1986, he was also the professor of Economics in Paris, where he founded and directed a research unit in theoretical and applied economics. Prof. Bourguignon is a Fellow of the Econometric Society, and was president of the European Economic Association for Population Economics. He received the silver medal for academic achievements from the French National Centre of Scientific Research in 1999. He has authored or edited several books and over one hundred articles in leading journals.  
[francoisbourguignon@speakersacademy.eu](mailto:francoisbourguignon@speakersacademy.eu)

