Complaint to the Press Complaints Commission

The Economist, online article of 17 September 2013
"Poverty, Growth and the World Bank: A dollar a day
http://www.economist.com/blogs/feastandfamine/2013/09/poverty-growth-and-world-bank

Introductory points

a) Several problems in this article relate to its statements about a previous research paper from 2000-2. This research has clear conceptual flaws and has been widely criticised by academics. It is not clear why the Economist is now presenting the new research based on similar methods in the terms it uses in the article. It is not clear why the Economist staff consider that the problems, such as those mentioned in this complaint about the older research, might not apply equally to this new research. The article suffers from similar problems to some described in the supplementary report to the PCC of 29 August about its previous article on the older research. i

b) The points in this complaint relating to the older article should be read in the context of the above paragraph. In other words, they are relevant to questions on whether the Economist has misled readers about the newer research. Readers of the article may have justifiably inferred from the article that the Economist's statements about the older research also applied to the newer research.

c) The article is at least partly in conflict with the Economist article *"What the World Bank knows ...And what it only thinks it knows"* of 11 January 2007. That article pointed out that the team invited to evaluate the previous World Bank work of this kind was very critical; the Economist article of 2007 implied that a particular conclusion, was fragile. The 2013 article ignored this. ii

d) The article presented conjecture as fact in implying that the older research could show causative relationships between on the one hand "growth" and its "determinants" or policies, and on the other hand incomes of the poor. In reality the most the numbers could do, even if the numbers had really been mostly on income, was show correlations. A similar problem would seem to apply to the treatment of the newer research. iii

e) The article misled by implying that a rise in "income" (itself misleading since the data are in fact mostly spending and/or the imputed value of own produce) means a rise in profit. iv For instance, the article misled in implying benefit to the poor without considering inflation rates for the poor, which are not published by economists. Neither of the two pieces of research excluded, or even discussed the possibility that inflation for the poor (in so far as it is possible and reasonable to estimate it) or for that matter land ownership, debt levels, need for expenditure or anything else relevant to human welfare might vary systematically with the factors they mentioned. For example, the researchers did not use any safeguards to attempt to make sure that under the conditions specified, relative rises or falls in "income" were not outweighed by changes in assets or debts.

f) The article misleads that the author is familiar with the papers and the context, including the chronology and methodology necessary to make sense of them.

g) The article misleads by failing to mention the fact that the older paper had glaring flaws, and the fact that it was discredited by academics.

h) The financial crisis proved conclusively that income rises or spending rises are not the same thing as rises in prosperity. It is not clear why the Economist has not taken this on board.

i) In view of the fact that several problems may apply to particular passages, a potential problem mentioned with one piece of text should be read as applying to other similar text in relevant instances.

j) The article implies that averaging results of policies in countries from the past

Economist article text	Problem	Point no.
Poverty, growth and the World Bank	The article is not about poverty, which concerns gaps between resources and needs, but ostensibly about "income". Needs are not addressed, and nor are economic resources more widely. This problem is not restricted to the heading, in view of the text which refers among other things to claimed statistical measures of benefit, improvement and poverty.	1.
A dollar a day	This seems likely to mislead readers unfamiliar with the concept of purchasing power parity or alternatively of its use in the context of World Bank statements on extreme poverty that it in real dollars. A real dollar would be of the order of, typically, twice or more the value of the "purchasing power parity" units actually used. The impression is not dispelled by the text, given the mention of the "$1.25" without qualification.	2.
In 1991,	2000 v	3.
David Dollar and Aart Kraay, both of the World Bank, published an influential paper, "Growth is good for the Poor".	"Influential" misleads, since to the extent that the paper was influential this may have been because the World Bank promoted it heavily to the media, politicians and others and some influential media including Economist journalists promoted it without understanding it, rather than that it was influential among experts	4.

	who understood it. Arguably the Economist has this the wrong way round: arguably, the paper was publicised because of rich countries' policy, rather than causation going the other way. The finance ministers who made up the majority of governors of the World Bank had a predisposition to want more officially known economic activity, since other things being equal it brings more taxation. vi	
It established, as an empirical matter, that when	This is likely to mislead. The paper did not really "establish" that "when ...average...rise..poorest...rise" since apart from the other problems with the Economist's presentation, a) the conclusion was about an average of the relationships within countries, and b) the relationships reported were highly variable across countries. vii Also, it is not clear why the statistics should be regarded as reliable for any of the purposes of these studies. viii	5.
average incomes	"Incomes" is inaccurate, and in the context of the mention of "benefit", also misleading. Most of this kind of data from poorer countries were not on income but from: a) interviewees' answers on spending	6.

	and/or b) the monetary value imputed by researchers to what people reported having produced themselves and consumed. ix	
rise, the average incomes of the poorest fifth of society rise proportionately.	The parts about average rises conflate cross-sectional and longitudinal statistics. x	7.
The implication was	a) This sentence appears to present as fact what is in reality i) comment, since "benefit" is a subjective and not quantifiable matter, and/or ii) conjecture about economic welfare using more restricted concepts, since the research paper did not look at aspects of economic welfare related to prices faced, assets, debts or needs. b) The implication drawn by the researchers about determinants was not from the result mentioned. It was from their other tests, which may have had weaker evidence and may have had less acceptance among academics.	8.
that economic growth and its determinants—macroeconomic stability, rule of law, openness to trade and so on—	The reasons for calling such factors "its" determinants, which implies the authors looked at an exhaustive and definitive list of determinants of "growth" - are not clear.	9.
		10.

benefit the poorest fifth	The reason for inferring levels of "benefit" from the income/spending/imputation data is not clear. The article misled in claiming differences in levels of benefit to the poor while failing to mention that the researchers did not consider how much people needed to buy, pay for or use, in rent, food, fuel, transport, expenditure on water, medicines, or debt interest or what the quality of water was; or whether their assets or debts rose or fell, or they benefited or lost in other ways, economic or otherwise. xi	
as much as they do everyone else.	a) "As much as" misleads because "proportionately" does not mean "as much as". The researchers were actually saying that on average the poorest gained much less money than other people. xii b) The calculations cannot tell us what happened to "everyone else" since the calculations are averages for quintiles. It would seem imprudent to suggest that "everyone else" is known to have had income rises at all, or spent more, from these factors rather than that some had falls or spent less. xiii "As much as" is an even stronger claim even when defined, somewhat unusually and misleadingly as percentage rises. The idea that income measures "benefit" without considering	11.

	other things adds to the problems. In "average incomes rise, the average incomes of the poorest fifth of society..." the Economist makes the same mistake as the researchers between cross-sectional and longitudinal statistics. The aggregates are not "average rises" but "rises in the averages".	
This was the heyday of the "Washington consensus".	"Heyday" may be based on the error about the date.	12.
The term had been coined by John Williamson of the Institute for International Economics only two years before.	Eleven years.	13.
And the study helped confirm the then-widespread view that, as a guideline for policymakers, poor countries ought to concentrate on getting the basics of growth right, rather than on specific measures aimed at helping the poorest. They could do that too, of course. But the impact was not all that great.	These kinds of claims by Dollar and Kraay have been extensively criticised by academics.	14.
When Messrs Dollar and Kraay examined four interventions—primary education, social spending, agricultural productivity and improvements in formal democratic institutions—they found little evidence that these disproportionately benefited the poor. Now, Messrs Dollar and Kraay, together with Tatjana Kleineberg, have revisited their study. Using a larger and more detailed data set (118 countries not 92), they find that just over three-quarters of the improvement in the incomes of the poorest 40% is attributable to improvements in average incomes—ie, it comes mainly from growth.	They did not "find" causes of income improvements, since apart from the error that the data are all on incomes, and the error that income equals profit, the data do not tell the researchers or us about causation. It may be more accurate to say that the researchers advance the explanatory hypothesis about causation ("attributable"; "comes mainly from") to explain their "finding" of a correlation.	15.
		16.

The title of the new paper says it all: "Growth still is good for the poor".	The title leaves out the fact that the paper reports other people as having higher "income" rises and so "benefiting" more. Also, see above on absolute poverty, prices, needs and so on.	
But the context is very different from what it was in the early 1990s.	The repeated reference to the wrong date seems to imply the writer is unfamiliar with both the old and the new paper.	17.
Now, the talk is all about income inequality, people being trapped in poverty and the need to help the poorest directly.	The factual basis of this strong statement is not clear. xiv	18.
Barack Obama, David Cameron, the World Bank and dozens of non-governmental organisations, for example, have signed up to the idea that extreme poverty can be eradicated by 2030 (in practice, this means reducing to about 3% the share of the world's population	It is not clear what the Economist means by "eradicating...in practice this means reducing". Is it not truer in this case that eradicating minus reducing equals spin? 3% of 8 billion would be 240 million people – a fall of 80% from the 1.2 billion claimed to be in extreme poverty from the last World Bank estimates.	19.
subsisting on $1.25 a day or less). With hundreds of development agencies gathering in New York on September 25th to talk about "sustainable development goals"	"$1.25 a day" misleads: these are "purchasing power parity" units, not US dollars as a reader would likely assume from this and the heading "A dollar a day".	20.
to replace the millennium goals that expire in 2015, the air is thick with talk about the problem of inequality and about how the poorest can be trapped by "business as usual".	"goals that expire in 2015": The goals have no dates.	21.

But if economic growth produces four-fifths of the improvement in the incomes of the poorest, would it not be better to concentrate on that?	It is not an improvement at the level assumed by the researchers, if needs for expenditure vary significantly with "growth" or the other factors. Neither the researchers nor the Economist take this into account of this possibility.	22.
...the extra 25% or so of poverty reduction	Neither income nor expenditure themselves yield information on either what people could afford to consume or how adequately for their needs. The basis in economic theory for the Economist's reference to poverty reduction, and the specific percentage figure given, are not clear.	23.
		24.
		25.

i

These related to the Economist article of May 2000 which deals with the flawed and later widely discredited World Bank research paper first publicised in that year.

http://elibrary.worldbank.org/deliver/2587.pdf;jsessionid=3kt1f3vlk1ku2.z-wb-live-01?itemId=/content/workingpaper/10.1596/1813-9450-2587&mimeType=pdf

The supplementary report dealt with problems in that article in complaints 113 to 130.

The paper which the Economist wrongly attributes to 1990, "Growth is good for the poor", was criticised by a wide range of academics. These included the evaluation team chaired by Angus Deaton invited by the World Bank itself to evaluate its research, reporting in 2006. Those criticisms came from the thematic evaluator, another evaluator and the panel as a whole. Two other evaluators cast doubt on the reliability of the data.

The relevant thematic evaluator, Daron Acemoglu, is perhaps not unknown to relevant staff of the Economist. He wrote:

"David Dollar, Aart Kraay
Main paper: Growth Is Good for the Poor

*"...**if income inequality numbers are just made up** and are therefore highly persistent over time, **this regression will lead to a coefficient of unity**, since the income of the bottom 20th percentile will co-vary mechanically with mean income. The current paper .... **does not engage the sort of questions raised in this paragraph, which are central to the interpretation."***

*"**there is almost no mention of the literature that uses micro data to answer similar questions**."*

*"In my view, the main problem of the paper is that **the data on inequality are not very reliable**"*

*"Cross-country inequality data are **computed in a very suspect manner,** and I find them generally **unreliable**... the regression methodology, as explained above, **may bias the results toward finding the conclusions** that the authors do find."*

http://siteresources.worldbank.org/DEC/Resources/84797-1109362238001/726454-1164121166494/3182920-1164133928090/Daron-Acemoglu.pdf

From the main report of the evaluators:

*" Dollar's widely cited (893 cites on GS) paper with Aart Kraay on **"Growth is good for the poor,"** needs neither abstract nor summary. Another paper by Dollar and Kraay... All of this work has had an enormous influence on the intellectual debates about globalization and poverty reduction..."*

*"....we see **a serious failure in the checks and balances within the system** that has led to Bank to repeatedly **trumpet these early empirical results** without recognizing their **fragile and tentative nature**. As we shall argue, much of this line of research appears to have **such deep flaws** that, at present, **the results cannot be regarded as remotely reliable,** much as one might want to believe the results. There is **a deeper problem here than simply a wrong assessment** of provocative new research results. The problem is that in major Bank policy speeches and publications, it **proselytized the new work without appropriate***

caveats on its reliability. *Unfortunately, as one reads the research more carefully, and as new results come in, it is becoming clear that the* ***Bank seriously over-reached*** *in* ***prematurely putting its globalization, aid and poverty publications on a pedestal.*** *Nor has it corrected itself to this day."*

"...once the ***evidence is chosen selectively*** *without supporting argument, and* ***empirical skepticism selectively suspended, the credibility and utility of the Bank's research is threatened."***

"There is a similar set of issues with the paper "Growth is good for the poor" *which is sometimes used to argue that, in the presence of economic growth, explicit anti-poverty measures are redundant. Yet, here too, there are* ***serious questions about whether the conclusion is really supported by the evidence.*** *Their measure of the incomes of the poor (the average per capita income in the bottom fifth of the population) is derived from aggregate national income using either estimates of the share of the bottom quintile from surveys, or from estimates of Gini coefficients of income inequality together with the assumption that incomes are distributed according to the lognormal distribution. The problem is that* ***many of the estimates of the income shares and of the Gini coefficients*** *are quite* ***imprecisely measured*** *and, when the data are* ***uninformative about the true level of inequality****, Dollar and Kraay's procedure guarantees that, on average, the incomes of the poor will track average income. If the Gini coefficients were* ***random numbers, the conclusion would be guaranteed.*** *So, in the end,* ***we do not know*** *how much of the result is genuine, and* ***how much is driven by errors in the data.*** *In this case too,* ***there was a very different view in other Bank research****, in this case by Branko Milanovic, who was providing extensive empirical evidence of increasing income and consumption inequalities in the world, and taking a* ***much more jaundiced view of the benefits for the poor of growth and of globalization.*** *Milanovic's results have been criticized by others, and the panel takes no view on the issue, but there is certainly no consensus that his findings are incorrect. Yet* ***once again, the official position of the Bank gave selective prominence to one set of views*** *(for example, in the Monterrey document), although it is does not appear to the panel that one set of results is any stronger than the other."*

2006 Evaluation of World Bank research 1998-2005:
http://siteresources.worldbank.org/DEC/Resources/84797-1109362238001/726454-1164121166494/RESEARCH-EVALUATION-2006-Main-Report.pdf

Another of the evaluators, Esther Duflo, who is known to staff at the Economist, referred to

*"****misleading assertions*** *in another World Bank research project–Dollar and Kray—which has had a quite* ***devastating influence****".*

http://siteresources.worldbank.org/DEC/Resources/84797-1109362238001/726454-1164121166494/3182920-1164133928090/Esther-Duflo.pdf .

The main report cites two other evaluators who questioned the reliability of data used by Dollar and Kraay:

"The second evaluation of the poverty work was prepared jointly by Murray Leibbrandt and Martin Wittenberg.... ***they question whether the underlying data are really up to the task, particularly when it comes to analyzing changes over time****..."*

*"**Deficiencies in the inequality data** for OCED countries have previously been documented in a well-known paper by Atkinson and Brandolini, but they note that* ***the available South African data present similar problems (as presumably do those for other countries). Without a serious understanding of the way the South African data were collected, and of the structure of the various surveys, all of which were collected in different ways, users of the Bank's compilations would be seriously misled****, and the documentation on the websites is not sufficient to allow users to understand the problems.* ***The panel suspects that South Africa is by no means an outlier in this respect****."*

....

Inter-American Development Bank
Banco Interamericano de Desarrollo (BID)
Research department
Departamento de investigación
Working Paper #453
Is Economic Growth Good for the Poor?
Tracking Low Incomes Using General Means
June 2001

James e. Foster*
Miguel Székely**
*Vanderbilt University
** Inter-American Development Bank

"Among other results, we find that the growth elasticity of bottom sensitive general means is positive, but significantly smaller than one. This ***suggests that the incomes of the poor do*** **not** ***grow one-for-one with increases in average income.****"*

....

....

Anthony Atkinson of Oxford and Andrea Brandolini of the Bank of Italy wrote of the OECD data, which we might think would be more reliable than the poor-country data:

"...we are not convinced that at present it is possible to use secondary data-sets safely without some knowledge of the underlying sources; and ***we caution strongly against mechanical use of such data-sets****."*
http://economics.ouls.ox.ac.uk/12713/1/tema_379_00.pdf

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United Nations Development Programme
Human Development Report Office Occasional Paper
Openness and Growth: An Empirical Investigation
Samman, Emma
2005.
"In a recent and influential study, Trade, growth and poverty, Dollar and Kraay (2001) advance the argument that trade liberalization improves the growth prospects of poor countries.....This paper finds several ***errors in the conceptual logic and methodology*** *underlying the DK study. First, it argues that the authors employ* ***selective evidence*** *in support of their view while overlooking their data that is open to alternative interpretations. Next, it argues that their reliance on the share of trade in GDP as an indicator of trade liberalization is* ***highly misleading****. Third, the failure to carefully consider* ***selection bias*** *in the descriptive analysis further distorts the results. Finally, the regression analysis contains several* ***problems relating to the data used and specification.****"*

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UNCTAD
Discussion Paper 207

July 2012
TRADE, INCOME DISTRIBUTION AND POVERTY IN DEVELOPING COUNTRIES: A SURVEY
"....E. Trade and poverty
Trade liberalization also could lead to faster growth in average incomes, and that growth increases the incomes of the poor "proportionately", thus leading to decreased absolute poverty (Dollar and Kraay, 2004). The paper suggests that one of the surest tactics for developing countries to alleviate poverty is to pursue policies of trade liberalization. However, ***the arguments and evidence presented are challenged by the record of the effects of trade on growth and poverty in some countries, particularly LDCs, where the evidence appears to be considerably more mixed than claimed by Dollar and Kraay."***
"Dollar and Kraay (2002) ["Growth is good for the poor"] *consider a number of factors that might have direct impacts on incomes of the poor through their effect on income distribution. Openness to international trade, amongst a host of pro-poor macroeconomic policies, is found to raise average incomes with marginal systematic effect on income distribution. But,* ***the finding might be biased by the empirical specification and the set of countries****."*

Development Policy Review, 2009, 27 (4): 355-371
The MDG Conundrum: Meeting the Targets
Without Missing the Point
Jan Vandemoortele*
*"Former UN staff member with the ILO, UNDP and UNICEF, and finally UN representative to Pakistan 2005-8. In 2001, he was one of the architects of the MDGs."
.
"The World Bank, for instance, published a working paper entitled 'Growth is Good for the Poor' (Dollar and Kraay, 2000). It received considerable attention at the time, ***more for its political value than for its analytical strength.*** *Two UNICEF staff members showed that the paper's* ***methodology was flawed****. They used randomly generated numbers and applied them to the same analysis, only to obtain the same result (Vandemoortele and Delamonica, 2000). Thus, the paper's finding that the average income of the poor rose at the same rate as the national average income – i.e. a reported elasticity of one –* ***failed to reveal a behavioural relationship with any policy relevance.*** *Nevertheless, in spite of being* ***methodologically flawed****, the paper gained wide currency because it helped redefine poverty reduction in terms of economic growth. In that way, the conventional view could continue to place growth at the centre of the development strategy, despite an increased concern about widening inequities. 7"*

"7. The morale is that nobody should be gullible to econometric results, since something that is statistically valid is not necessarily true."

....

Trade Liberalization and Poverty:
The Evidence So Far
L. Alan Winters, Neil McCulloch, and Andrew McKay
Journal of Economic Literature
Vol. XLII (March 2004) pp. 72–115

"Most controversial has been the study by David Dollar and Aart Kraay (2002), which examines the relationship between growth and poverty both in levels across countries and in changes through time (national growth rates). Dollar and Kraay relate the mean income of the poor (bottom 20 percent of the income distribution) to overall mean income plus some additional variables. They never reject the hypotheses that the mean income of the poor moves proportionally with mean income and, with the exception of inflation, that a variety of other variables (including measures of openness) affect it only via mean income...."

"Several concerns have been raised about the robustness of these studies of growth, openness, and poverty (in addition to those raised above in relation to cross-country regressions). The ***data on the incomes of the poor are clearly subject to error.*** *[Footnote 9 reads, "So too, of course, are those on mean income, but probably less so."]* ***Reporting errors and sample biases are likely to be serious at the bottom of the distribution****, and* ***in many cases Dollar and Kraay had to infer the share of the lowest quintile*** *from a broader measure of income distribution. The* ***World Bank's sample*** *of income and expenditure Gini coefficients (e.g. Klaus Deininger and Lyn Squire 1996 and later extensions) has been* ***criticized for severe implausibility****— e.g. by Tony Atkinson and Andrea Brandolini (2001). Stephen Knowles (2001) shows that the relationship between inequality and growth can change once one distinguishes between data based on income measures of inequality and those based on consumption data.*

"There is also an increasing body of evidence that income distribution (and by association, poverty) determines growth rates (and hence mean incomes)—see Philippe Aghion, Eve Caroli, and Cecilia Garcia- Peñalosa (1999)—implying a ***potential endogeneity problem****. Alternatively, the share of the poor and mean incomes* ***could be jointly determined by some third factor.*** *Finally, the average income of the poorest quintile is a* ***very crude indicator of poverty****—especially absolute poverty."*

....

Pro-Poor Growth:
Concepts And Measurement
Nanak Kakwani
Shahid Khandker
Hyun H. Son

International Poverty Centre
United Nations Development Programme
August, 2004

" Dollar and Kraay (2002)'s paper has attracted much attention. This study, based on cross-country regressions, has been ***criticized for depicting only an average picture*** *of the relation between growth and poverty. When large differences across countries are averaged out,* ***the results are potentially deceptive*** *because* ***country-specific experiences can differ widely****. Under the surface of aggregate outcomes there are often individual countries that experience an increase in poverty during spells of positive economic growth, at least in the short run (Ravallion, 2001)."*

....

Pro-Poor Growth: A Primer
Martin Ravallion
Document undated
World Bank

"the empirical finding that growth is roughly distribution neutral on average is ***consistent with the fact that it increases roughly half the time during spells of growth*** *(Ravallion, 2001)."*

"Is growth typically pro-poor?
A common empirical finding in the recent literature is that changes in inequality at the country level have virtually zero correlation with rates of economic growth; see, for example, Ravallion and Chen (1997), Ravallion (2001), Dollar and Kraay (2002). Amongst growing economies, inequality tends to fall about as often as it rises, i.e., growth tends to be distribution neutral on average. For example, across 117 spells between successive household surveys for 47 developing countries I find a correlation coefficient of only 0.06 between annualized changes in the Gini index and annualized rates of growth in mean household income or consumption as estimated from the same surveys (Ravallion, 2003b). Thus ***economic growth is not typically "pro-poor" by Definition 1.***

One must be careful in interpreting such evidence from at least four points of view.

*Firstly, **there is likely to be considerable measurement error** in the changes in inequality over time — weakening the power of such tests for detecting the true relationship. Secondly, an inequality index such as the Gini index may not reflect well how changes in distribution have impacted on poverty — that depends on precisely how the distributional changes occur. In theory it is possible for the Gini index to increase while the percentage of people living below the poverty line remains the same; this appears to be rare in practice however. Thirdly, finding that there is no change in overall inequality can be co**nsistent with considerable "churning" under the surface, with gainers and losers at all levels of living.** Fourthly, an unchanging Gini index with growth can mean large increases in absolute income disparities. On the same data set, Ravallion (2003b) finds a strong positive correlation coefficient of 0.64 between annualized changes in the absolute Gini index (in which absolute differences in incomes are not scaled by the current mean) and rates of growth in mean household consumption. **Growth in average income tends to come with higher absolute disparities in incomes between the "rich" and the "poor." Arguably, it is the absolute changes that are more obvious to people living in a growing developing economy than the proportionate changes. So it may well be the case that much of the debate about what is happening to inequality in the world is actually a debate about the meaning of "inequality"** (Ravallion, 2003b)."*

....

The Economist has featured more than once the work of Andy Sumner. He co-wrote a paper in 2007 which referred to the Dollar and Kraay paper "Growth is good for the poor". The paper was:

Doing Cross-Disciplinary Development Research: What, How, When?
Discussion Paper for DSA Conference Panel on 'Is Trans-Disciplinarity Feasible In Development Research?'
DSA Annual Conference, September 2007
Andy Sumner and Michael Tribe

Sumner and Tribe wrote:

*"**The paper has faced sustained methodological criticism** (see for details Amann et al., 2006; Nye et al., 2002; Rodrik, 2000)."*

The papers are:

Amann A., Aslanidis, N., Nixson, F. and Walters, B. 2006. Economic growth and poverty alleviation: A reconsideration of Dollar and Kraay. European Journal of Development Research. 18(1):22-44.

Nye, H., Reddy, S. and Watkins, K.. 2002. Dollar and Kraay on ‘Trade, growth and poverty: A critique’. Mimeograph, Columbia University.

Rodrik, D. 2000. Comments on “Trade, Growth, and Poverty,” by D. Dollar and A. Kraay. http://ksghome.harvard.edu/~drodrik

The Amann et al. paper's abstract states:

" Dollar and Kraay's paper 'Growth is Good for the Poor' has proved to be remarkably influential.... The implications are that in general the ***policy prescriptions*** *associated with the Dollar and Kraay regressions* ***cannot be sustained****. In addition, the* ***weakness of the variable chosen to measure poverty*** *and the* ***differing support provided in different specifications*** *for the other regressors* ***fully justifies the initial scepticism****...."*

The Nye et al. paper states:

"Because ***the majority of countries*** *in the Dollar and Kraay sample* ***did see deviations from ‘one-for-one’*** *movements between aggregate income and the income of the bottom quintile, if anything it can be expected that a given country would experience a change in household income inequality that could be quite substantial."*

It is not immediately clear why Sumner and Tribe refer to the Rodrik paper as critical of the paper "Growth is Good for the Poor". Rodrik was criticising a different paper by the same authors, and his remarks relate to the effects of trade. Perhaps Rodrik's criticisms, including this quotation, may be relevant to the approach a journalist might take to these authors' other work:

"The analysis in this [Trade, Growth and Poverty by Dollar and Kraay] paper of the post-1980 "globalizers" is ***extremely misleading****."*

ii

http://www.economist.com/node/8520574/print?story_id=8520574

The 2007 article concerned the evaluation team invited by the World Bank to review its research in 1998-2005, and the team's damning conclusions on some of the World Bank's most heavily-promoted conclusions. Those included work referred to by this Economist article of 2013.
The Economist did not explain why it now considered the discredited research of 2000 to be competent or trustworthy to the point where the newspaper was not misleading readers, or why the article did not similarly mislead readers about the research of 2013 based on similar methods.

The 2007 Economist article stated:

"[the World Bank]has invited a group of top academic economists, chaired by Angus Deaton of Princeton University, to inspect its intellectual books in full. The inspectors liked a lot of what they found. But ***they said the Knowledge Bank was too often guilty of breaching prudential limits.*** *Its leaders have staked out* ***bold positions*** *on some of the biggest questions in development* ***without enough intellectual capital to back them up****."*

"...if they were withering about this "long tail" of inconsequential work, they were much ruder about the way more striking research findings were used by the bank's top brass. They accuse the leadership of taking ***"new and untested results as hard evidence that its preferred policies work"****; and of then using this research to "proselytise on behalf of bank policy". This has a cost, the inspectors point out. "Placing* ***fragile selected new research results on a pedestal*** *invites later recrimination that* ***undermines the credibility and usefulness of all bank research."***

In the main, the academics levelled this charge at the bank's big-think studies of globalisation. ***Comparing scores of countries in one statistical sweep, these studies concluded that the poor do not get left behind by growth****; that poverty falls when tariffs are cut....* ***the results tend to fall off their pedestals when prodded or poked a little."***

iii

As Lübker, Smith and Weeks wrote in 2000, *"That the basic Dollar-Kraay statistical outcome is very close to what one would deduce from manipulating the definition of average per capita income highlights a second fundamental problem of their estimating equation:* ***there is no obvious causal mechanism by which average income would transmit its increase to one of its components.*** *On the contrary, since averages are by definition made up of their components, numerical determination should run the other way."*

Growth And The Poor: A Comment On Dollar And Kraay
Malte Lübker
Graham Smith
John Weeks
October 2000
Centre for Development Policy and Research
& The Department of Economics
School of Oriental & African Studies
University of London

iv

It is not difficult to see that **spending or income per capita cannot in itself show the degree of benefit to people**, for several reasons including:

they omit life length and other things being equal if people in the majority under the mean live longer, the per capita statistics fall;

they take no account of changing need for expenditure, but assume spending or receiving more means people are richer;

they take no account of whether people's spending is funded by prosperity or whether it is illusory prosperity financed by debt, as spectacularly demonstrated by the consequences of debt-funded spending in the financial crisis since 2008. It is obvious that "growth", "spending" and "income" were not indicators of underlying prosperity.

v

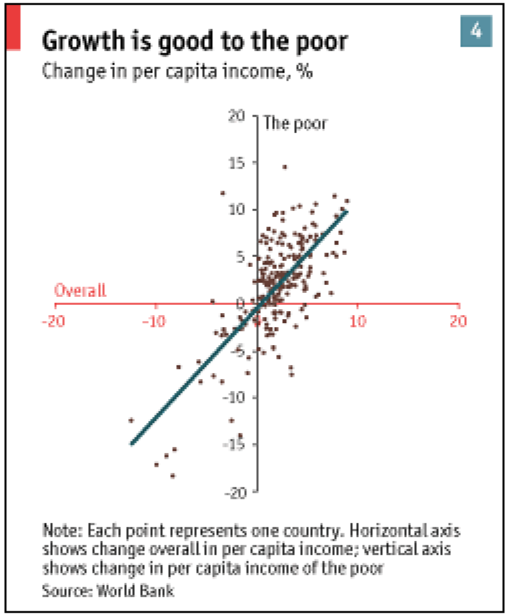
The Economist reported this as a new paper in the edition of 27 May 2000. The introduction to the 2013 paper states that it updates the work of 2002, which refers to the journal version. Working paper versions/drafts were published on the internet in 2000-2.

vi

It was not the fact that it was "published" in a journal that made it famous; the Economist would have been more accurate in its implied meaning by stating that the World Bank publicised it heavily. Perhaps the Economist staff are unaware that Dr Dollar briefed the UK Secretary of State in summer 2000, that the World Bank mentioned the paper on its home page for an extended period, and that the World Bank included its claim in training materials for people in poor countries; or that at least one press conference the then Chief Economist, Nicholas Stern, presented results from it.

vii

The scatter around the line can clearly be seen from the paper's Figure 4, reproduced in an Economist article of September 27 2001, http://www.economist.com/node/796037 , as below. The vertical axis is squashed in this presentation relative to the horizontal.



viii

Martin Ravallion, the World Bank's research director until 2012, was still writing in a paper published in 2013:

"Understandably, there are ***continuing concerns about the comparability of the surveys over time and across countries.****"*

http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2013/01/22/000158349_20130122091052/Rendered/PDF/wps6325.pdf ix

The 2013 Dollar-Kraay-Kleineberg paper states , " in roughly half of the surveys in our dataset, the relevant welfare measure is consumption expenditure, while in the
other half it is income. However, for terminological convenience we will refer only to income." Chen and Ravallion, who have monitored for MDG indicator 1 for most of the time since its being agreed, usually refer to two-thirds being on "consumption" (which means spending and/or imputed values of own produce consumed).

The 2013 paper is at:

http://elibrary.worldbank.org/content/workingpaper/10.1596/1813-9450-6568

or

http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2013/08/13/000158349_20130813100137/Rendered/PDF/WPS6568.pdf

or

http://www.lisdatacenter.org/wps/liswps/596.pdf .

x

The "average rise" is a different statistic from the "rise in the average".

The statistics are not on average rises for people: the researchers did not use data on outcomes for actual people or state any reason for inferring average, longitudinal changes among real people.

The statistics, like macroeconomic data in general, are on changes in population averages and in averages for segments of populations as abstract units. These cross-sectional statistics may be influenced by births, deaths and migration as well as changes for individuals.

In populations with unknown differential mortality rates, including in comparisons between segments and whole populations, the notion of an "average rise" is strictly speaking incoherent.

xi

First, someone's *spending* does not tell either that they received

a) the same income or

b) equivalent goods and services in return for that spending.

Second, the idea that "absolute" levels of income or spending measure poverty at different levels of GDP per capita is rejected by governments and people generally, which is why national "poverty lines" tend to rise with GDP per capita.   This study looked at four decades.

Third, even if there were a clear link between the spending data and income, it is not clear why a rise in income should imply an equally proportional rise in profit. Income is a measure of flow, not accumulation: it would show, if statistics were perfect, the flow of money round the system.

The inferring of income gains or "benefit", which is here undefined, would be more reasonable if the authors or the Economist had stated that they had looked at other factors relevant to economic welfare.   These could include

prices faced by the poor themselves,
needs,

assets,
debts,
government services, or
shared and environmental resources.

It is not clear why the Economist seems to be saying that income can measure "benefit" to people without considering necessary expenditure due to specific inflation faced by those people, or needs for transport, food, fuel, medicine, water and so on, changes in assets and debt levels, or other factors such as environmental changes.

A reader might be justified in assuming from the Economist's words that the researchers had incorporated some analysis of such factors and excluded them, because otherwise the statements about benefits would not be realistic.

xii

The Economist's previous claim of this kind was criticised by Martin Ravallion of the World Bank. The article "Growth is Good" of 25 May 2000, mentioned in the supplementary report to the Press Complaints Commission of 29 August, stated,

"a new paper...puts matters straight. Its findings could hardly be clearer"...."in fact, ["growth"] *raises their incomes* [ie of people in the poorest quintile] *by about as much as it raises the incomes of everybody else."*

The Economist's statement was criticised by Dr Ravallion in “Growth, Inequality, and Poverty: Looking Beyond the Averages”, presented at the WIDER (United Nations world income database project) conference on Growth and Poverty, Helsinki, May 25-26, 2001 and published in World Development, 29 (11): 1803-15.

The Ravallion paper was cited by Nye et al.:

"As Ravallion (2001) points out, this would not mean that growth in average income raises the income of the bottom quintile “by about as much as it raises

the incomes of everybody else." This is because a "one-for-one" relation between average income and the bottom quintile as described by Dollar and Kraay implies that the income of the bottom quintile will increase by the same proportion as does aggregate income. Since the incomes of the poor are less than average incomes, the absolute income gain to the bottom quintile will be smaller than that to other income groups. In particular, the rich will capture a larger share of any given increment to national income than will the poor. As Ravallion (2001) notes:

"For example, the income gain to the richest decile in India will be about four times higher than the gain to the poorest quintile; it will be 19 times higher in Brazil. The fact that, on average, the rich will tend to capture a much larger share of the increment to national income from growth than the poor is directly implied by the empirical results in the literature, including Dollar and Kraay." "

xiii

I here omit the other source of data - imputed values of own produce consumed - for the sake of intelligibility; in the present document any reference to one of these three sources is in relevant instances meant to imply the others.