World Institute for Development Economics Research

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WIDER Conference
Advancing Health Equity

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WIDER recently launched its research on health with an international conference entitled Advancing Health Equity, held on 29–30 September 2006. Health is increasingly recognized as an important indicator of a country's standard of living as well as a measure of the wellbeing of its citizens. Substantial and widespread improvement in health outcomes has taken place during the past century, yet this progress has been highly uneven both within and across countries. This has resulted in health outcomes in many countries falling far short of commonly accepted levels. For instance, in sub-Saharan Africa significant numbers of children now face more risk of dying than those ten years ago. Though these are important issues very little has been done to understand the root causes of the widening gap in health outcomes and even less has been done to address them through appropriate policies.

The conference, attended by over 100 experts, focused on issues of health inequality and deprivation, specifically in the context of developing countries. Papers presented at the conference examined the causes and consequences of this inequality, analyzed the patterns and trends in the outcomes, and evaluated policies with a particular focus on public health programmes.

Papers presented at the conference and other details: www.wider.unu.edu

2006 WIDER Annual Lecture
Global Patterns of Income and Health

by Angus Deaton

Inequalities in income and inequalities in health

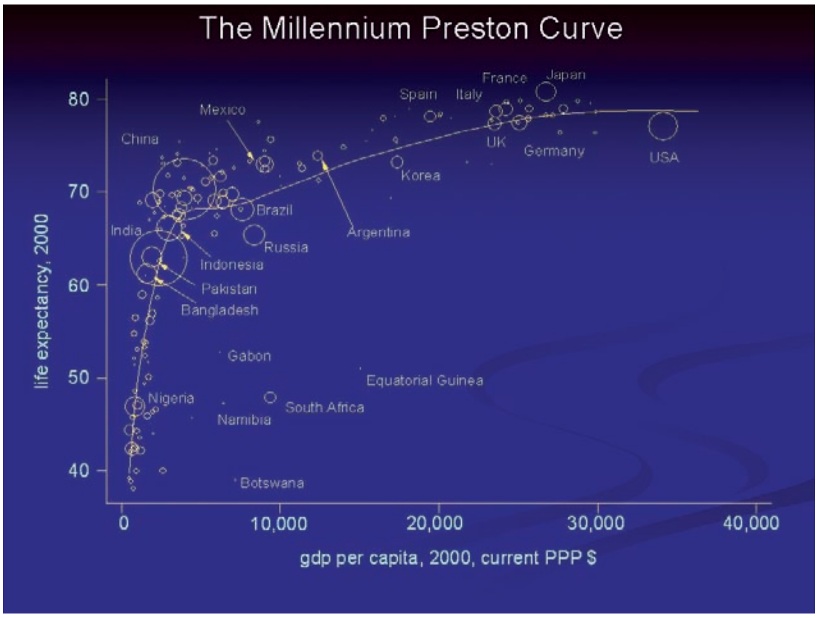
Global inequality takes many dimensions. Not only is there great inequality across the peoples of the world in material standards of living, but there are also dramatic inequalities in health. The inhabitants of poor countries not only have lower real incomes, but they are also more often sick, and they live shorter lives. These international correlations between income and health should affect the way that we think about the level and distribution of global wellbeing. They also need to be understood if we are to be effective in reducing global poverty, in incomes, or in health. Wellbeing should never be thought of only in terms of income, or only in terms of health. Health scientists and economists need to come together if we are to fully understand global poverty and inequality and if we are to design policies that will be effective in making the world a better place, particularly for its most deprived inhabitants.

Income, life expectancy, and global wellbeing

In a justly celebrated paper, Samuel Preston drew a graph of life expectancy against national income, showing that, in the poorest countries, small changes in average income were associated with large improvements in life-expectancy, while among the rich countries, the protective effects of income, although still present, were less pronounced. Figure 1 shows the relationship for the year 2000. Life expectancy is on the vertical axis, and per capita national income in purchasing power parity dollars is on the horizontal axis; the diameter of each circle is proportional to the population of each country. The point at which the slope flattens out, at an income per capita of around $5,000 in 2000, is the 'epidemiological transition', where deaths from the 'diseases of the bowels and lungs of children' are replaced by deaths from 'diseases of the arteries of the elderly'. Preston also showed that income is not the only factor at work. Even countries with stagnant incomes typically have increases in life expectancy, which he attributed to the adoption of new methods of public health, or more precisely in most cases, to the new adoption of old methods of public health.

If we were to make an adjustment to income to take into account life chances, scaling down for those with poor health, and scaling up for those with good health, the world distribution of this compound of income and health would be much more unequal than the world distribution of either health or income taken separately. The case for humanitarian action to improve the lot of the world poorest is stronger once we recognize that the poor are doubly deprived, not only in material living standards, but also in lower chances of living a long and healthy life.

The joint distribution of global health and income has undergone remarkable changes over time. Before the industrial revolution, there was relatively little inequality between countries in either health or income, although there was a great deal of inequality within countries. As the material living standards of the countries of northwest Europe, particularly Britain, began to pull away from the rest of the world, so did their life expectancy rates. This growth in cross-country inequality of incomes that began in the eighteenth century shows no sign of reversal to this day, but the same is not true of health. The sanitary and preventive measures associated with an understanding of the germ theory of disease spread to the countries of southern and eastern Europe in the early years of the twentieth century



and, after the Second World War, were rapidly brought to the rest of the world. As a result of this diffusion of health knowledge, cross national inequality in life expectancies fell quite sharply in the years after 1950. If, for example, we take a simple compound measure of income and health by multiplying income by life-expectancy, then inequality over countries declined for most of the post-war period, driven not by any reduction in income inequality between countries, but by the convergence of life-expectancy.

Things fell apart after 1990. HIV/AIDS in sub-Saharan Africa undid almost all of the increases in life-expectancy of the previous 40 years and there was a significant, although smaller, reduction in life expectancy in the countries of the former Soviet Union. Huge gaps in life expectancy opened up again between many African countries and the rich, healthy countries of the world, and health (and total) inequality increased once again. If, as we might hope, the AIDS pandemic is a historical anomaly, international health convergence will resume.

The cross-country convergence in health is arguably overstated by focusing on life expectancy. The lives that are being saved in poor countries are mostly the lives of babies, and these reductions in infant mortality have a dramatic effect on increasing life expectancy. Indeed, in the years immediately after the Second World War, in the heyday of malaria eradication and child vaccination, some countries increased their life expectancies by several years each year. By contrast, the current increase in life expectancy in rich countries is largely driven by reductions in the mortality rates of the middle-aged and elderly, partly through reductions in smoking, partly through improvements in medical prevention and treatment, particularly for cardiovascular disease, and partly from improvements in the health and nutritional standards of children 50 years ago. It is far from clear how we should compare the value of mortality reductions at different ages. Focusing on the effects on life expectancy is one way of comparing the two, but this essentially arbitrary 'solution' gives much higher weight to reductions in infant and child mortality, and requires a better justification than habit and the convenient availability of information on life expectancy.

One important consideration is that fertility falls with infant mortality, albeit with a lag. If parents adjust their fertility so that the number of surviving children is the same after the reduction in infant mortality as it was before, the new age structure of the population will eventually settle down to the previous one, except for the absence of those young children who were previously destined to die. In the new demographic equilibrium, the babies who used to cease to exist very soon after they were born, because of lack of vaccinations or clean water, are now not born at all or, to use parallel language, now cease to exist immediately before they are born. Before the health improvement, these now unborn children would have been born, and most would have led lives beyond infancy. These possibly good lives are lost. While not everyone accepts the legitimacy of including the potential lives of unborn children in welfare calculations, the example should at least make clear the illegitimacy of assuming that mortality reductions at different ages are of the same value if they have the same effects on life expectancy. In any case, the calculus of life expectancy takes no account of the benefits to mothers' lives of not having to bear so many children and of having to watch so many of them die.

Growth as a means to better health?

The correlation between health and income opens up the possibility that economic growth is one route to improving global health. If this is true, then economic growth would be twice blessed, because it would simultaneously reduce both income and health poverty.

That low incomes are a primary cause of ill-health is plausible enough. The vast majority of deaths in poor countries are from diseases from which almost no one dies in rich countries. In the countries that the World Bank classifies as 'low income', nearly one-third of all deaths are among children who have not reached their fifth birthday. In the 'high income' countries, less than 1 per cent of deaths are deaths of children. Worldwide, there are around four million deaths a year from acute respiratory infections, nearly two million from diarrheal disease, and more than a million from diseases that are preventable by childhood immunization. How to prevent or cure these diseases is well-known, and often long known, so that these deaths come not from lack of knowledge, but because of some other factor, among which poverty is clearly a leading suspect. In further support of the poverty hypothesis, it has long been known that countries whose economies have grown faster have had the largest (proportionate) reductions in infant and child mortality. (What happens to adult mortality is not something that we know with any certainty, given the dearth of vital registration systems in the poorest countries of the world.)

But the correlation between growth and child mortality is not all that it seems. Perhaps surprisingly, there is no correlation at all between the absolute rate of mortality reduction and economic growth, even over the 40 year period from 1960 to 2000. Countries that grow faster have lower levels of infant mortality so that, even though their reductions in infant mortality are on average no higher, the proportional declines are larger. This correlation between economic growth and the level of infant mortality cannot come from a causal link from poverty to mortality, which would lead to a relationship of changes with changes, and almost certainly reflects omitted third factors that influence both. Indeed, the literature on economic growth presents a number of immediately appealing candidates, such as the quality of governance, which not only creates the environment for economic growth, but also helps states provide an effective system of public health and healthcare delivery. Even more important is the level of education, particularly women's education which is more important for child mortality and health than is either economic growth or poverty reduction. Better educated women are better caregivers to their children, as well as more effective users of and lobbyists for better health services.

Economic growth is much to be desired because it relieves the grinding material poverty of much of the world's population. But economic growth, by itself, will not be enough to improve population health, at least in any acceptable time. Instead, governments must tackle the often difficult task of increasing education, and of providing better public health and health services, particularly in the poorest and least served areas. As far as health is concerned, the market, by itself, is not a substitute for collective action.

Susanna Kekkonen

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The Global Distribution of Household Wealth

by James Davies, Susanna Sandström, Anthony Shorrocks, and Edward N. Wolff

While the richest 10% of adults in the world own 85% of global household wealth, the bottom half collectively owns barely 1%. Even more strikingly, the average person in the top 10% owns nearly 3,000 times the wealth of the average person in the bottom 10%. These are some of the results that emerge from a study of the distribution of household wealth undertaken for the UNU-WIDER project on *Personal Assets from a Global Perspective*.

We estimate the level and distribution of wealth across all countries in the world using a comprehensive concept of household wealth. In everyday conversation the term 'wealth' often signifies little more than 'money income'. On other occasions economists interpret the term broadly and define wealth to be the value of all household resources, both human and non-human. Our study assigns wealth its long-established meaning of net worth: the value of physical and financial assets less debts. In this respect, wealth represents the ownership of capital. Although capital is only one part of personal resources, it is widely believed to have a disproportionate impact on household wellbeing and economic success, and more broadly on economic development and growth.

Our estimates of wealth levels are based on household balance sheets and wealth survey data which are available for 38 countries. Fortunately, these include many of the rich OECD countries as well as the three most populous developing countries, China, India and Indonesia; so the data cover 56% of the world's population and 80% of household wealth. Careful analysis of the determinants of wealth levels in these countries allows imputations to be made for countries without data.

Our estimates of wealth distribution are based on household asset distribution data for 20 countries. For countries without this type of direct information, the degree of wealth concentration was estimated from income distribution data (where available), using the relationship observed between income and wealth inequality in countries with both kinds of data. The remaining countries, covering only a few percent of world population, were assigned the average wealth distribution pattern for their region and income class.

No use was made of lists of the world's billionaires, or of the wealthiest individuals and families

Figure 1. World Wealth Levels in Year 2000

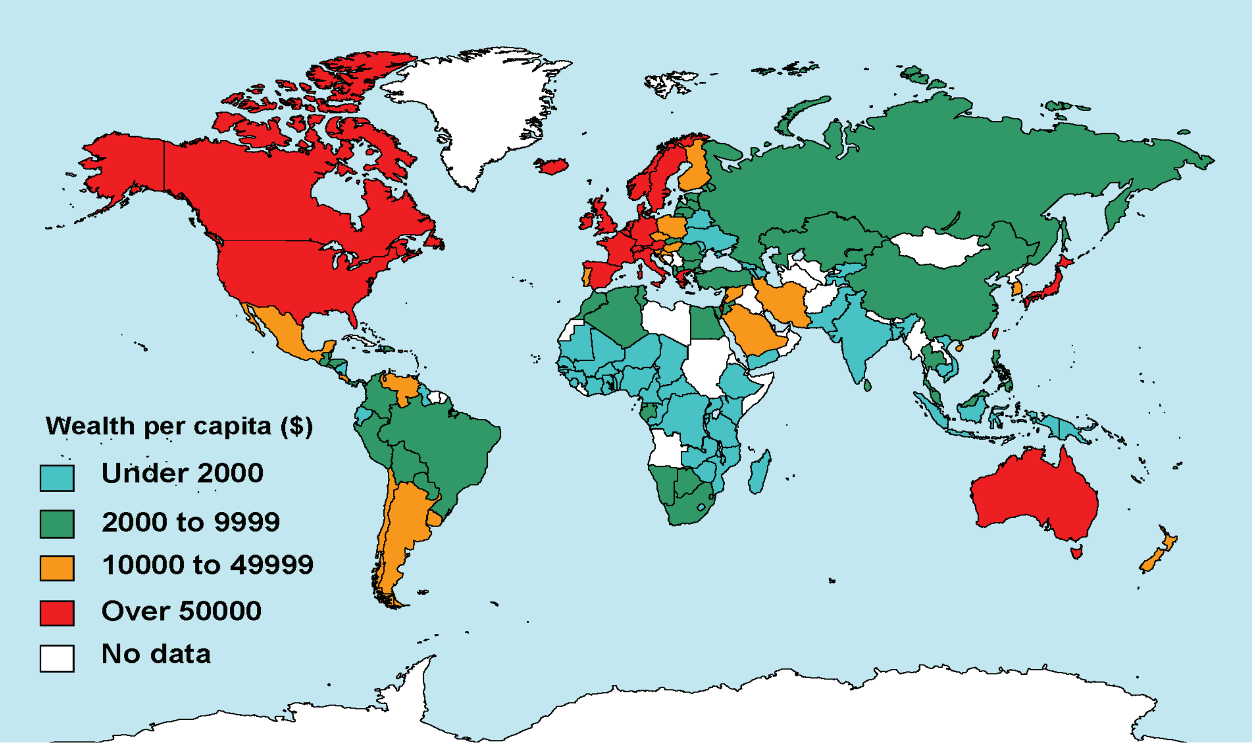
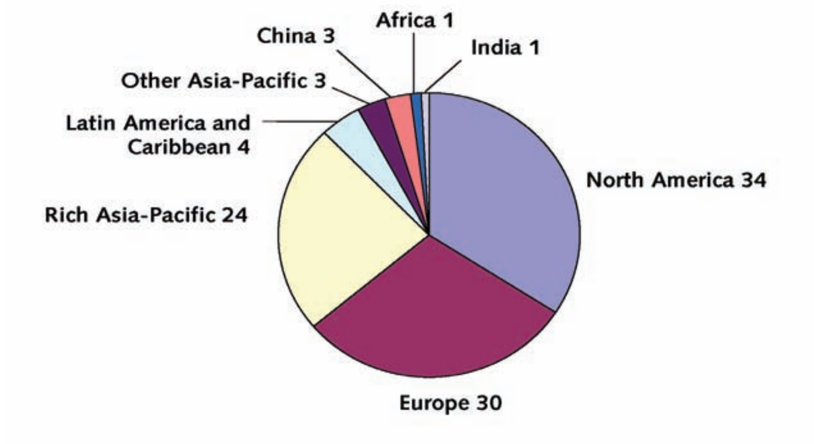


Figure 2. Regional Wealth Shares (%)



within various countries, provided by *Forbes* magazine and other journalistic sources. Incorporating such evidence would boost estimated global wealth inequality somewhat —increasing the share of world wealth held by the top 1% by a couple of percentage points, for example — but would otherwise alter our story little.

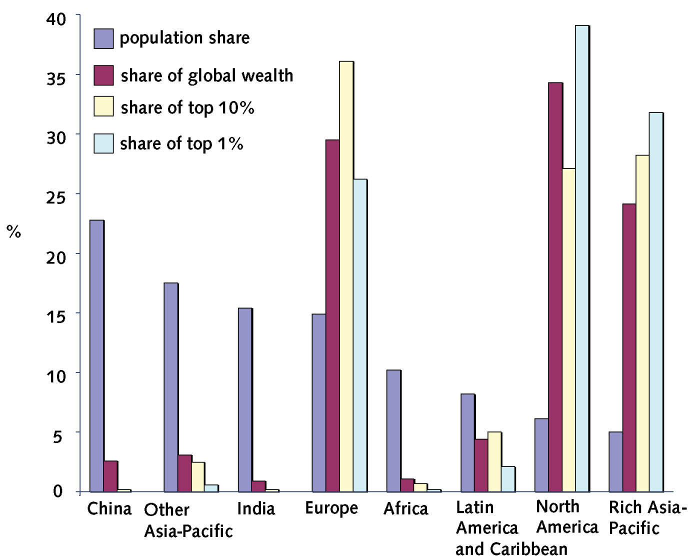
Globally, household wealth is more concentrated, both in size distribution and geographically, when official exchange rates are employed rather than PPP valuations. Thus a somewhat different perspective emerges depending on whether one is interested in the power that wealth conveys in terms of local consumption options or the power to have influence on the world financial stage. Since a large share of global wealth is owned by people who can readily travel and invest internationally, it is more appropriate to use official exchange rates when studying the global distribution of wealth than when looking at the global distribution of income or poverty.

Wealth levels across countries

Using official exchange rates, global household wealth in the year 2000 amounted to $125 trillion, equivalent to roughly three times global GDP or to $20,500 per citizen of the world. In terms of purchasing power parity dollars, the corresponding world value was PPP$26,000 per capita, roughly the same as the average level in Poland or Turkey.

As illustrated in the world map (Figure 1), wealth levels vary widely across nations. Among the richest countries, mean wealth was $144,000 per person in the USA and $181,000 in Japan. Lower down among countries with wealth data are India, with per capita assets of $1,100, and Indonesia with $1,400 per capita. Even within the group of high-income OECD nations the range includes $37,000 for New Zealand, $70,000 for Denmark and $127,000 for the UK.

Figure 3. Population and Wealth Shares by Region

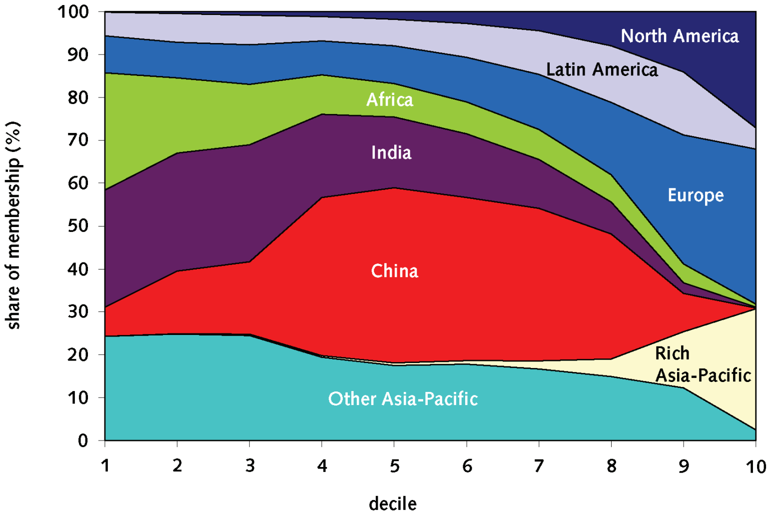


The regional pattern of asset holdings shows wealth to be heavily concentrated in North America, Europe, and high income Asia-Pacific countries which together account for almost 90% of global wealth (Figure 2). Although North America has only 6% of the world adult population, it accounts for 34% of household assets. Europe and high income Asia-Pacific countries also own disproportionate amounts of wealth. In contrast, the overall share of wealth owned by people in Africa, China, India, and other lower income countries in Asia is considerably less than their population share, sometimes by a factor of more than ten (Figure 3).

Comparing per capita wealth and per capita GDP across countries shows that wealth is distributed even more unequally than income. High income countries tend have a higher share of world wealth than of world GDP because their wealth to income ratios are above the world average. The reverse is true of middle and low income nations.

Wealth to income ratios are especially high in the UK, Italy, and rich Asian nations. Lower than expected values are recorded for eastern European countries like

Figure 4. Regional Composition of Global Wealth Distribution



Our results show that the top wealth decile owned 85% of global wealth in the year 2000. The richest 2% of adults in the world held more than half global wealth, and the richest 1% of adults alone accounted for 40% of all household assets. In contrast, the bottom half of the world adult population owned barely 1% of global wealth. The Gini value for global wealth is estimated to be 89%; the same Gini value would be obtained if $100 shared amongst 100 people in such a way that one person receives $90 and the remaining 99 get 10 cents each.

the Czech Republic and Poland, along with the Nordic countries and South Africa. Eastern European countries are a heterogeneous group with many different features. In this region, private wealth is on the rise, but has still not reached very high levels. Assets like private pensions and life insurance are held by relatively few households. In the Nordic countries, the social security system provides generous public pensions that may depress wealth accumulation. South Africa is rich in resources and has well-developed financial institutions; but the fact that the country has a large low-income population and exhibits some of the characteristics of less-developed countries, may account for the low wealth-income ratio.

Global wealth inequality

Estimation of the world distribution of wealth requires information to be combined on wealth differences between countries and within countries. The concentration of wealth within countries varies significantly, but is generally high. The share of the top decile ranges from around 40% in China to 70% and beyond in the United States and certain other countries. Typical Gini coefficients for wealth lie in the range 0.65-0.75, and some are above 0.8. In contrast, the mid-range of income Ginis is 0.35 to 0.45. Interestingly, two high wealth economies, Japan and the USA, exhibit very different patterns of wealth distribution, with Japan recording a wealth Gini of 0.55 while that of the USA is around 0.80.

Wealth inequality for the world as a whole is higher still. Expressed in terms of the adult population of the world, we estimate that net assets of $2,160 per adult in the year 2000 was sufficient to place a household in the top half of the world wealth distribution. At least $61,000 per adult was needed to belong to the richest 10% of households, while membership of the top 1% required a little over $500,000 per adult. The latter figure indicates that a family need only be moderately wealthy in Western terms to be among the top percentile of world wealth-holders.

North America, Europe, and rich Asia-Pacific monopolize the top wealth decile

Given the high concentration of wealth in North America, Europe, and rich Asia-Pacific countries, it is not surprising to discover that almost all of the world's richest individuals live in these countries. The breakdown of the global wealth distribution in Figure 4 shows that each of the regional groupings contribute about one third of the members of the world's wealthiest decile. China occupies much of the the middle third of the global wealth distribution while India, Africa and low-income Asian countries dominate the bottom third. As shown in Figure 3, for all developing regions of the world, the share of population exceeds the share of global wealth, which in turn exceeds the share of members of the wealthiest groups.

Figure 5. Percentage Membership of Wealthiest 10%

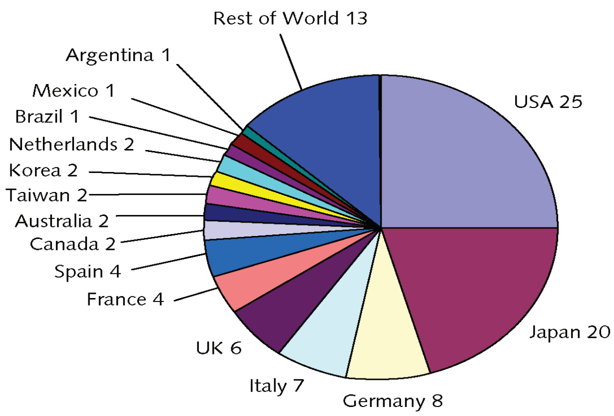
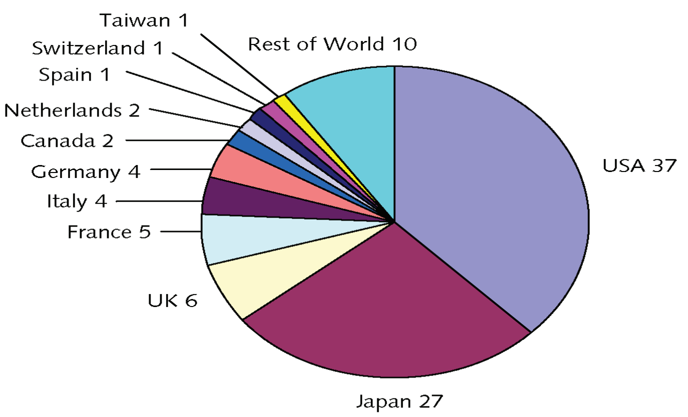


Figure 6. Percentage Membership of Wealthiest 1%



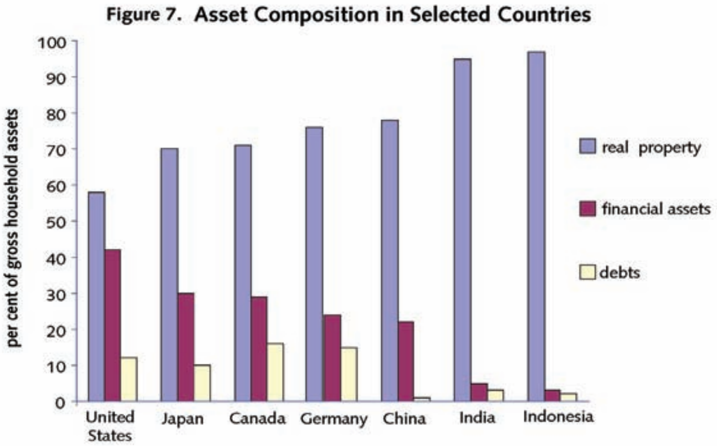
The representation of any given nation in the world's richest 10% depends on three factors: the size of the population, average wealth, and wealth inequality within the country. Countries that account for more than 1% of the top wealth decile comprise a rather exclusive group. Figures 5 and 6 show that the USA is in first place with 25% of the members of the global top decile and 37% of the top percentile. Japan features strongly in second place with 20% of the top decile and 27% of the top percentile.

Differences in wealth composition

Major differences are observed across countries in the composition of asset holdings, a result of different influences on household behaviour, such as market structure, regulation and culture. As indicated in Figure 7, real assets, particularly land and farm assets, are more important in less developed countries. This reflects not only the greater importance of agriculture, but also immature financial institutions.

The types of financial assets that are owned also show striking differences across countries. A breakdown between savings accounts, shares and equities, and other financial assets, shows that savings accounts feature strongly in transition economies and in some rich Asian countries, while share-holdings and other types of financial assets are more evident in rich countries in the West. Part of the explanation is poorly developed financial markets in transition countries, while savings accounts are favoured in Asian countries because there appears to be a strong preference for liquidity and a lack of confidence in financial markets.

Figure 7. Asset Composition in Selected Countries



Other types of financial assets are more prominent in countries like the UK and USA which have well developed financial sectors and which rely heavily on private pensions.

Finally, and perhaps surprisingly, household debt is relatively unimportant in poor countries. While many poor people in poor countries are in debt, their debts are relatively small in total. This is mainly due to the absence of financial institutions that allow households to incur large mortgage and consumer debts, as is increasingly the situation in rich countries. Many people in high-income countries have negative net worth and—somewhat paradoxically—are among the poorest people in the world in terms of household wealth.

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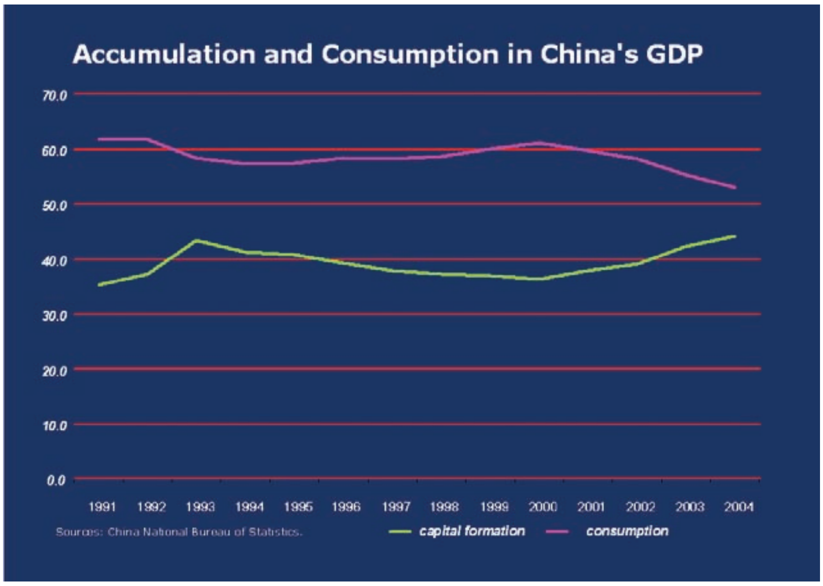
The Risk of Imbalanced Economic Growth in China

by Zhang Jun

If there were one sentence that can be used to describe China's growth, it must be: 'China's growth hinges on the rest of the world'. The remarkable growth of China in recent decades has substantially changed the picture of the global production chain, and is now challenging the global trading system; though the world—the US for short—isn't ready for China's ascension in the global economic system. Assuming China continues to maintain its growth momentum over the next two decades, at the rate it is currently developing, the global economic system faces a lot of big challenges. But the fundamental question worth raising is not whether we can avoid a global imbalance as such, but how serious the imbalance would develop to be.

Much of the growing concern in the past few years over the US imbalanced current account and fiscal budget focused on the dollar peg of Chinese currency, and the US exerted considerable pressure on Beijing to make its currency float. China sees a stable exchange regime favorable to its current source of growth, and may definitely not want to make a big leap forward even after the decision of a 2.1 per cent revaluation which was finally came on 21 July 2006. China also sees the transition to a flexible regime contingent on its alleviation of structural problems for which it is extremely difficult to set a timetable.

The past decade has seen a slow-down of structural adjustments for China's inner sectors, mainly due to political constraints. The banking system is still unhealthy and fragile, capital markets are dying. The growth of a dynamic private sector is largely hindered by its inability to invest in what the government still monopolizes. Increasing regional disparity as well as an urban–rural divide stagnate the consumption boom. This increases the existing dependence of economic growth on exports promotion and encourages foreign direct investment-related infusion.



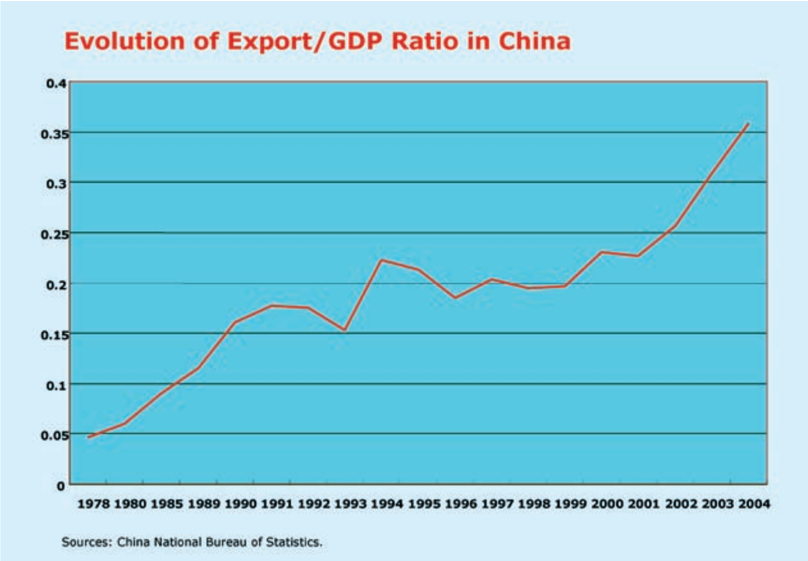
An article in a recent special issue edition of *Business Week* on China and India believes that the Chinese need to

… get ready for the next industrial leap. For years, China has been the cheap assembly shop for the world's shoes, clothing, and microwave ovens. Now, it is laying the groundwork to become a global power in much more sophisticated, technology-intensive industries that also demand tons of capital. Billions of dollars are flowing into auto, steel, chemical, and high-tech electronics plants. Driving this massive spending push is voracious domestic demand for all manner of goods as well as a big shift by multinationals to manufacture in China. As a result, China is rapidly becoming more self-sufficient in key materials and components, and setting the stage to be a major exporter of high-end products [*Business Week*, 22-29 August 2005, pp. 88-89].

Well, it is fascinating to the Chinese indeed. This conjecture seemingly and implicitly suggests a need for the global trading system to make more room for a rising China (if not including India or others). But at the same time we must bear in mind that China has enormous inner structural issues to overcome before making such export-led growth really sustainable.

The rapid investment-driven growth in the past decade has produced the stockpile of excessive capacity, as evidenced by soaring non-performance loans in the banking sector and the zero growth of CPIs [consumer price index]. Excessive capacity is both due to and a benefit of the structural problem. Excessive capacity of production leads to price wars, squeezes the profitability for manufacturers, and activates the asset sector, real estate.

Delaying structural reforms will eventually slow down the economy.



The Japanese experience in both the 1980s and 1990s suggests a key lesson: the existence of a structural problem contains growth in the long run. China has similar problems. The investment–growth nexus in the short run has helped create the monetary overhaul and threatened macro stability, as manifested by recent overheating in the year 2003–04. In this regard, China faces tremendous challenges in managing its macroeconomic stability under the export-led growth regime. Given the size and rising share of China's purchasing power in the global market, macro instability in China exacerbates the fluctuation of global equilibrium prices of basic commodities and raw materials.

But given the nature of this issue and political reality China, however, faces a dilemma between structural reforms and rapid growth in the short run. Structural reforms call for fiscal consolidation and abrupt closure or restructuring of inefficient banking and state enterprises, which create short term downturn pressure on growth, and of course destabilize society.

This may explain why there has been an increasing necessity for Chinese enterprises to 'go global' in recent years. It is apparent that going global is increasingly seen as an alternative to domestic structural complexity and becoming a rebalancing tactic for the Chinese in the next decade to participate in the global economy. But this strategy will cost, as it did in Japan twenty years ago. Embarking on an aggressive overseas buying spree upsets established international balances of interests, creates much more friction with the rest of the world, and hides the seriousness of structural problems.

So a strong argument could perhaps be made for a focus on the structural issues. First, this would allay some of the fears of the rest of the world about China's rise; second, this would win much applause from the international business community who will smell the profit to be made in biding on contracts to improve the structural issues. Thus, rather than scaring these corporations and their respective states, China will retain a strong outside lobbying force and financing for its continued development. And, third, China must effectively solve the structural obstacles before it can carry out its rapid growth into another decade or two. Truly secure and sustainable economic development in China has to build a large consumer driven base if it is ever to have some degree of independent operation in the world economy.

Undoubtedly, with China's rise, global imbalance as such can take longer to change and to adjust collectively, simply because the US welcomes the economic rise of China and sees its growth in its own interest. China needs and can continue its rapid growth with a careful manipulation of its domestic-based policies. The timely shifting of China's focus upon, and the effective working with its serious structural problems within, satisfy both Chinese and global long term interests.

See also the following WIDER Research Papers related to this topic:

RP2006/146 'Gender Wage Differentials in China's Urban Labour Market', by Meiyan Wang and Fang Cai

RP2006/136 'Gender Earnings Differentials and Regional Economic Development in Urban China, 1988-97', by Ying Chu Ng

RP2006/129 'Development Strategies and Regional Income Disparities in China', by Justin Yifu Lin and Peilin Liu

RP2006/90 'Financial Development, Growth, and Regional Disparity in Post-Reform China', by Zhicheng Liang

RP2006/65 'Development of Financial Intermediation and the Dynamics of Rural-Urban Inequality: China, 1978-98', by Yiu Por Chen, Mingxing Liu, and Qi Zhang

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Corruption, Poverty Traps, and Credit Market Imperfection

by Indranil Dutta and Ajit Mishra

In many developing countries corruption is pervasive and is often cited in policy discussions as a major stumbling block for development. The local media in these countries frequently report serious cases of corruption, typically involving siphoning of money from government projects. For instance, roads built this year may be washed out by the next, village wells may only be built on drawing boards, and schools may only provide midday meals in official documents. This type of corruption has broad macroeconomic effects through poor infrastructure and reduced investment, leading to lower economic growth.

Corruption also affects day to day life in the developing world. Whether it is obtaining a driving license or receiving subsidized credit, there is a certain amount of corruption to contend with. Yet, to an extent, the effect of corruption is not classless; the rich are able to get away with more compared to the poor. An industrialist may be able to benefit from not adhering to the anti-pollution laws through bribing an inspector. A government contractor may supply shoddy goods at the full price by paying a consideration to officials. Through bribery and collusion the rich can clearly benefit from corruption.

When it comes to the poor, however, the story is different. The World Bank study 'Voices of the Poor' proclaims that 'Poor people engaged in the study reported hundreds of incidents of corruption as they attempt to seek healthcare, educate their children, claim social assistance, get paid, attempt to access justice or police protection, and seek to enter the marketplace'. The poor are often harassed by public authorities and are seldom the beneficiaries of development projects. In a telling revelation in the same World Bank study, Vares from Bosnia-Herzegovina states that, '[previously] everyone could get healthcare, but now everyone just prays to God that they don't get sick because everywhere they just ask for money'. The implications of this are quite clear. When the poor cannot get medical care, when they are excluded from potential jobs, when they are not paid their due social assistance, simply because being poor they cannot afford to pay the bribes then they would remain poor. In other words, corruption becomes a crucial factor in reinforcing the poverty trap. By keeping the poor in their place and providing the rich with greater benefits, corruption can and does, in effect, exacerbate inequality.

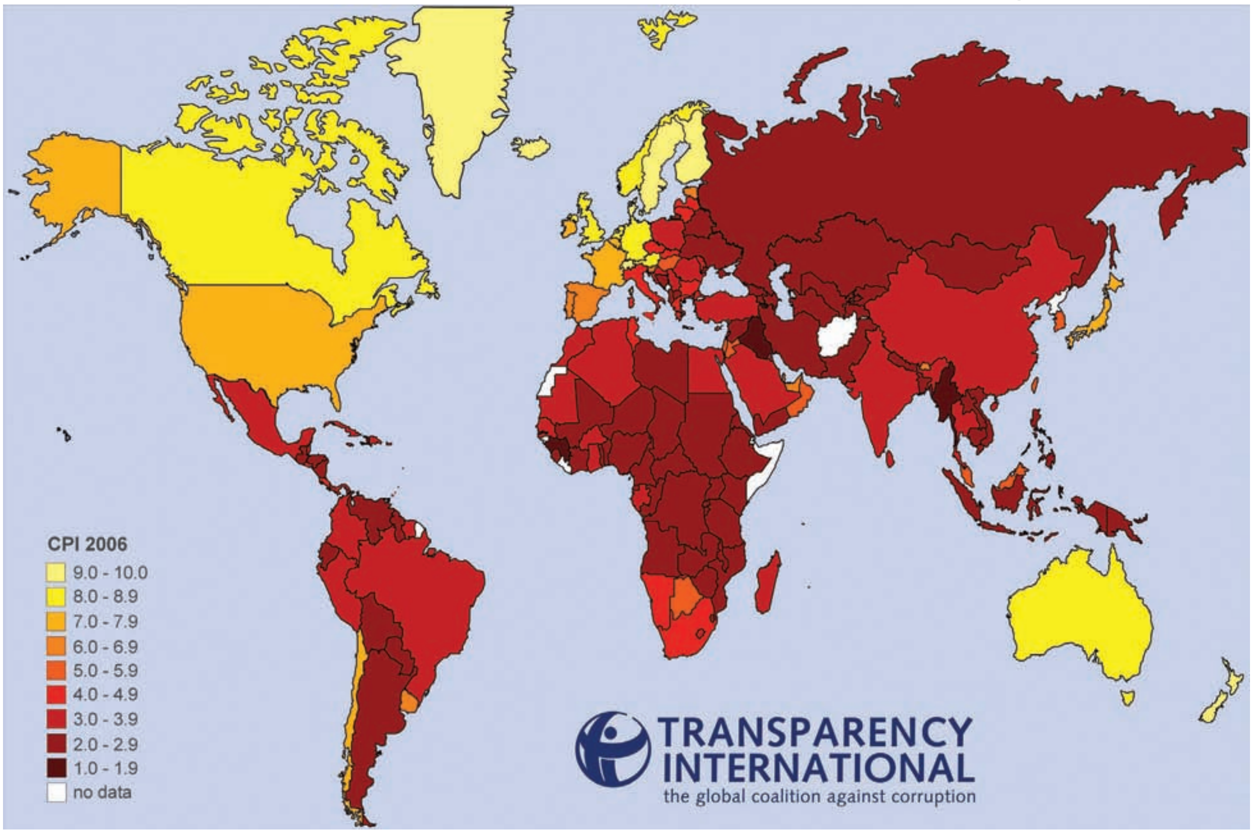
There are various questions one can raise about exactly how corruption is able to exclude the poor. First, why don't corrupt officials actually reduce their cut and charge the poor the maximum possible bribe that they can pay? Although there may be several reasons why officials do not reduce their bribes, one obvious reason among them is that when officials engage in corruption there is certain probability (however small or large) that they would get caught and be punished. It is this expected punishment that acts as a cost for engaging in corrupt activities, thus prompting officials to charge some positive amount of bribe. Other reasons could include that the corrupt officials may not be able to distinguish between those who can pay the bribes and those who cannot, thus asking the same bribe from all. Further, it may also be the case that there is more than enough demand by people who can afford to pay a higher bribe for the limited number of say, jobs or other resources, that the official can dispense.

Note that because of moral hazard problems bribes must be paid upfront. Hence it is usually not the case that the poor receives the benefit and then pays the bribe. Had such been the case, corruption would not give rise to poverty traps. To illustrate this point consider a poor person with health problems who cannot obtain medical care because they cannot afford the bribes. This implies that the person continues to suffer from ill health and is unable to earn a higher income, thus remaining poor. On the other hand, if the poor person could get medical care on a promise of paying the bribe later, and then fund the requisite amount from the extra income made after getting well, they would not be trapped in poverty. The issue, however, is that once the person gets well, what is there to stop them from reneging on their promise to pay the bribe since, given its illegal nature, they cannot be enforced in a court of law. Thus the upfront payment of the bribe is crucial in maintaining the poverty traps.

The other important question one can raise is why don't the poor borrow the required amount of bribes from the credit market and thus avoid the poverty trap? The obvious explanation is that banks would not lend to the poor; but why? It is assumed that since the poor do not have collateral, banks would not risk a loan because in the event of reneging they do not have many options to recover the loans. The reason, therefore, is that given the lender's inability to monitor the loan once it has been issued, the lender does not want to take the risk of lending the money. The underlying assumption here is that poor people would cheat in such circumstance simply because they could get away with it.

This assumption, however, may not reflect reality satisfactorily. Many of the poor are hardworking and honest people, who would fulfil

Corruption Perceptions Index 2006, www.transparency.org



their commitments like others. If, suppose, the banks were to receive a guarantee that the poor would not renege, would they then lend to the poor? The answer to this is not apparent. There can still be a case where the poor are excluded from the credit market. If the borrowers have heterogeneous abilities in terms of their performance with the loans and the lenders cannot differentiate between the borrowers, then situations may arise where some of the high ability poor borrowers are pushed out of the market because they cannot be distinguished from the low ability borrowers, thus increasing their cost of borrowing and making it unsustainable for them to remain in business. The high ability rich borrowers, however, can be easily differentiated from the rest because being rich they can afford to put up collateral, and in turn enjoy a lower rate of interest.

An argument along similar lines has been explored in our paper ('Inequality, Corruption and Competition in the Presence of Market Imperfections', WIDER Research Paper 2005/46), which discusses the interlinkages between corruption and inequality in the presence of incomplete information in the credit market. In fact we demonstrate that corruption, by allowing low ability agents to collude with government inspectors, plays an intrinsic role in the exit of the high ability poor borrowers. The tragedy of the situation is that the more hardworking and better able of the poor are excluded from the market and thus are unable to move out of the poverty trap. This is quite contrary to our expectations where we hope that through hard work and ability one can build a better life for themselves, free from poverty. Thus in the presence of corruption and credit market imperfection, even if the poor do not renege on their repayment, they still may be excluded from the credit market.

What we have tried to highlight is the role of corruption in reinforcing poverty traps. Hence, if we aim to reduce poverty, fighting corruption should be an important priority. Typically this is achieved by focusing on stricter laws, better monitoring, and greater enforcement; the idea being that it will deter officials from engaging in corrupt activities. But given the vast scale of corruption in many countries, it becomes clear that monitoring and enforcement may be extremely costly. As such, a better route of reducing poverty may then be to focus on credit market imperfections. In this way at least the poor would not be cash constrained to pay the bribes. But as we show, it is possible that a better functioning credit market may also help in reducing corruption.

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Ajit Mishra is a Senior Lecturer with the Department of Economic Studies, University of Dundee, UK.

WIDER Special Events and Book Launch

Susanna Kekkonen

Eddy van Doorslaer and Tony Barnett speakers of the first plenary session of the WIDER Conference on **Advancing Health Equity** organized in Helsinki on 29-30 September 2006. Approximately 100 experts participated in this conference.

The WIDER Annual Lecture on **Global Patterns of Income and Health** by Angus Deaton was held on Friday 29 September 2006. The webcast of the lecture, conference papers, and other materials are available online at: www.wider.unu.edu.

WIDER organized a seminar on **International migration and development: patterns, problems, and policy directions** at the UN headquarters, New York, Tuesday 12 September 2006. The speakers were the directors of the WIDER projects on migration, from left: Jeff Crisp, Tony Shorrocks, (Chairperson), George Borjas, and Andrés Solimano. Some 200 participants attended the seminar at the Dag Hammarskjöld Library Auditorium.

This event coincided with the UN High Level Dialogue on Migration at the UN Headquarters in New York, 14-15 September 2006.

A launch of the WIDER study on **Income Inequality and Poverty in Transition China** co-directed by Cai Fang and Guanghua Wan was held in Beijing on 25 October 2006.

The panelists from left: Cai Fang, Chen Jiagui, Justin Lin, Guanghua Wan, and Xie Shuguang.

The event attracted considerable attention from the Chinese media and government agencies. A central government website stated that the WIDER study will be valuable for policy making related to poverty and inequality.

Launch of WIDER study on World Distribution of Household Wealth

Kyosuke Kurita

Susanna Sandström and Anthony Shorrocks presentation in Helsinki

Dana Wright/FPA

Anthony Shorrocks presentation in London at the FPA

United Nations

Edward Wolff and James Davies presentation at the UN in New York

The co-authors of the WIDER study on the **World Distribution of Household Wealth**, James Davies, Susanna Sandström, Anthony Shorrocks, and Edward Wolff presented the research outcome on Tuesday 5 December 2006 to the media at the United Nations headquarters in New York and at the Foreign Press Association (FPA) in London. A pre-launch was held at WIDER in Helsinki on Friday 1 December 2006.

This study, which shows that the richest 2% of adults in the world own more than half of global household wealth, attracted considerable attention in the world media. This included news agencies, newspapers, radio, TV, and internet reports, such as AFP, Associated Press, Canadian Press, Kyodo News, Reuters, ABC News, BBC World, CNN, Finnish Broadcasting (YLE), Fox News, Phoenix Chinese News, National Public Radio, *Daily Graphic*, *Globe and Mail*, *Helsingin Sanomat*, *Hufvuvstadsbladet*, *Le Monde*, *Le Soire*, *Süddeutsche Zeitung*, *The Australian*, *The Economist*, *The Financial Times*, *The Guardian*, *The New York Times*, *The Observer*, *The Times*, *The Washington Post*, Bloomberg, BusinessWeek, Earthtimes.org, Forbes, Yahoo! News, etc.

The report, figures, tables and other related material from the **World Distribution of Household Wealth** are available at: www.wider.unu.edu

See the article on pages 4-7 *The Global Distribution of Household Wealth*, summarizing the study.

WIDER Publications

Policy Brief

Mobilizing Talent for Global Development
Andrés Solimano
UNU Policy Brief No. 7, 2006

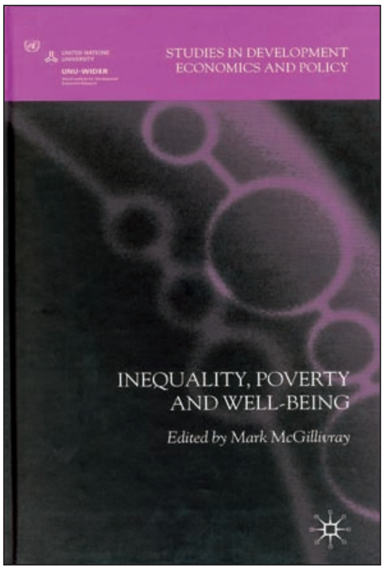
Journal

World Development
Volume 34, Issue 8 (August 2006)
WIDER Special Issue
The Impact of Globalization on the World's Poor
Edited by Machiko Nissanke and Erik Thorbecke

Books

Inequality, Poverty and Well-being
Edited by Mark McGillivray
(hardback 1403987521)
August 2006
Studies in Development Economics and Policy
Palgrave Macmillan

This book examines inequality, poverty and well-being concepts and corresponding empirical measures. Attempting to push future research in new and important directions, the book has a strong analytical orientation, consisting of a mix of conceptual and empirical analyses that constitute new and innovative contributions to the research literature.



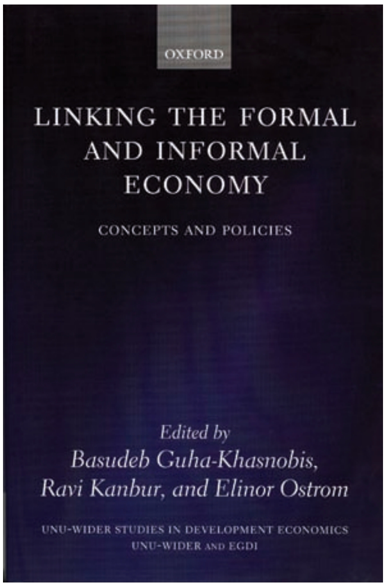
Income Inequality and Poverty in Transition China (in Chinese)
Edited by Fang Cai and Guanghua Wan
(paperback 7802302943)
September 2006
Social Sciences Academic Press, China

The New Economy in Development: ICT Opportunities and Challenges
Edited by Anthony D'Costa
(hardback 0230001467)
September 2006
Technology, Globalization and Development Studies
Palgrave Macmillan

An elegant, insightful and extremely helpful book in understanding intriguing connections between ICT and economic growth. Because of its analytical and yet readable style, the book is an essential reading for professional economists, policy makers and well-informed readers.

—Lakhwinder Singh, Department of Economics, Punjabi University

Linking the Formal and Informal Economy: Concepts and Policies
Edited by Basudeb Guha-Khasnobis, Ravi Kanbur and Elinor Ostrom
(hardback 0-19-920476-4)
September 2006
UNU-WIDER Studies in Development Economics
Oxford University Press



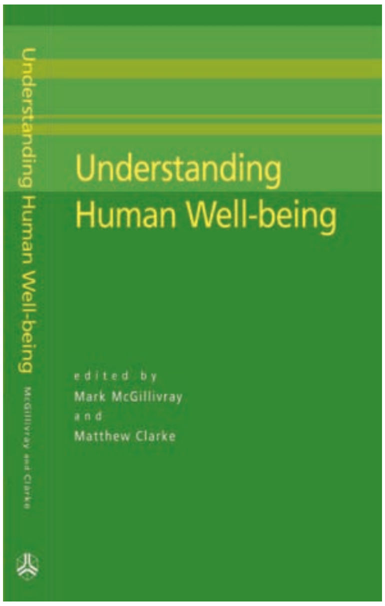
[This volume] is an excellent synthesis of past debates and contemporary policy analysis. It embraces economic development, governance, and social justice issues and it provides innovative case studies from a wide variety of contexts.

—Ray Bromley, State University of New York at Albany

No matter how you divide up the developing world—'formal–informal', 'legal–extralegal' (my preference)—one thing is not debatable: most people are poor, on the outside of the system looking in, and getting angrier every day. The message of this book is it's time to stop talking and start designing reforms—based on the informal practices and organizations that poor entrepreneurs already use. I second that motion. If you rebuild the system from the bottom-up, they will come—with their enterprise, creativity, and piles of potential capital.

—Hernando de Soto, President, Institute for Liberty and Democracy, Peru

Understanding Human Well-being
Edited by Mark McGillivray and Matthew Clarke
(paperback 92-808-1130-4)
November 2006
United Nations Uniersity Press



Examining advances in underlying well-being, poverty, and inequality concepts and corresponding empirical applications and case studies the authors examine traditional monetary concepts and measurements, and non-monetary factors including educational achievement, longevity, health, and subjective well-being.

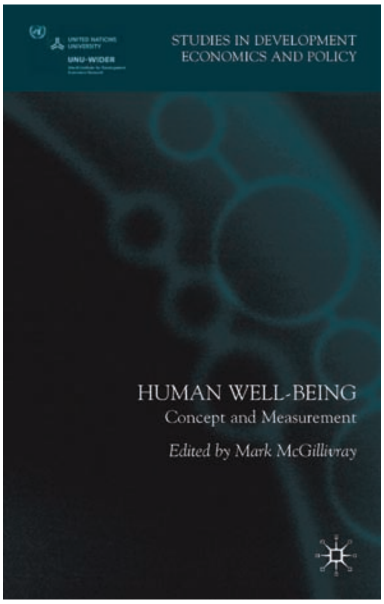
—Sakiko Fukuda-Parr, Visiting Professor, The New School, New York, and Director and Lead Author, UNDP *Human Development Reports* 1996-2004

This volume extends WIDER's outstanding tradition of publishing cutting edge work on the quality of life. Mark McGillivray has done a fine job of bringing together new work by leading figures in the field. Anyone interested in research in this area should consult and learn from this book.

—Mozzafer Qizilbash, Professor of Politics, Economics and Philosophy, University of York

Human Well-being: Concept and Measurement
Edited by Mark McGillivray
(hardback 0230004989)
December 2006
Studies in Development Economics and Policy
Palgrave Macmillan

It has become widely acknowledged that the purpose of development is to improve human well being. But how do we define well being? How do we measure it? This volume is a much needed publication that brings together leading research on addressing these questions. This is an important book for all development professionals.



The authors of this much-needed book critically consolidate current literature on well-being measurement, propose new dimensions and measures, and articulate the need for more and better international data. The project of shaping indicators and processes to reflect wider horizons of human aspiration is of pivotal importance in development, and the book provides a tremendously solid yet creative contribution to it.

—Sabina Alkire, Director, Oxford Poverty and Human Development Initiative, Department of International Development, University of Oxford

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January 2007
Studies in Development Economics and Policy
Palgrave Macmillan

Advancing Development: Core Themes in Global Development
Edited by George Mavrotas and Anthony Shorrocks
(hardback 0230019021) (paperback 0230019048)
January 2007
Studies in Development Economics and Policy
Palgrave Macmillan

The impressively broad range of issues in global economics that are covered in this volume bring out not only the diversity of problems that are all quite important for development in the contemporary world, but also the fact, in which there is reason to take some pride, that WIDER … has been able to contribute substantially to such a variety of fields, informed by a good understanding of the need for coverage as well as quality.
—From the Foreword by Amartya Sen

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Editorial contents, design and layout by Ara Kazandjian (e-mail: ara@wider.unu.edu), and Basudeb Guha-Khasnobis (e-mail: basudeb@wider.unu.edu).

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