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Book Review

The Impact of Economic Policies on Poverty and Income Distribution

Edited by Francois Bourguignon and Luiz A. Pereira da Silva.
Oxford University Press and the World Bank, 2003. 418 pp. US$45. ISBN 0-8213-5491-4

Economic development is all about things like alleviating poverty, reducing inequality, getting the prices right, and making sure that institutions function efficiently. The World Bank and other international organizations have, for quite some time now, been offering advice to national and sub-national governments about the course that development should take and disbursing funds for projects designed to, inter alia, mitigate the ill effects of endemic poverty. Given this state of affairs, it is now useful to ask how we quantitatively determine which poverty alleviation projects work and which ones do not. Looking at it another way, how do we go about designing and implementing poverty reduction projects that have a high probability of accomplishing their objective? To answer this and some related questions, in contemporary times, a number of tools have been developed by academic researchers and by researchers working at international institutions like the World Bank. The aim of this book is to “make these tools for evaluating the effect of policies on poverty available to practitioners, decision-makers, and scholars in the field of development” (p. xiv). The book’s fifteen chapters are divided into two broad parts; chapters 1 through 9 focus on microeconomic techniques while chapters 10 through 15 focus on macroeconomic techniques. In the rest of this review, I shall sample selectively from the contents of each of these two parts. This should give the reader a good flavor for the intellectual and the practical contributions of this book.

The appeal of the idea of decentralization in many developing countries has meant that the central government has increasingly been permitting regional and even local governments to make apposite policy decisions by themselves. Now, to make such policy decisions meaningfully, the pertinent regional or local government must have access to reliable and relevant information about poverty and living standards. Unfortunately, this kind of information is frequently unavailable. What does one do in these situations? Chapter 4 provides an answer. This chapter first develops the idea of a poverty mapping and then discusses the application of this idea in the context of Madagascar. This application shows that “not only is there substantial variation in well-being among small areas, but ... that the microeconomic-level welfare impact of macroeconomic-level policies can exhibit a considerable degree of geographic heterogeneity” (p. 97). The prose in this chapter is lucid and the chapter itself contains a useful discussion of some of the limitations of poverty mapping methods.

It is well known that most quantitative policy analysis tools are basically *ex* *post* in nature. To rectify this situation, chapter 6 first presents and then discusses a technique for *ex ante* analysis. This technique consists of a so-called tax benefit model with labor supply response. This chapter provides a detailed five-step account of how labor supply responses to alterations in taxes can be studied using the above mentioned technique. Next, with an example from South Africa, the chapter points out that even questions like the response of household labor supply to lump-sum pension payments can be gainfully analyzed using the tax benefit model. It should be noted that this chapter's advocated technique assumes that "income effects over time for a given agent ... coincide with the effect of cross-sectional income differences" (p. 139). Unfortunately, this assumption is very difficult to test. This point is not discussed in sufficient detail and, as such, this chapter would have profited from a more expansive treatment of this salient point.

Virtually all microeconomic techniques for policy analysis rely on household level data. Further, most household surveys are single-topic or one sector surveys. As a result, researchers and policymakers frequently do not have a comprehensive understanding of "how households behave and the interaction of households with government social and economic policy" (p. 161). Given this state of affairs, chapter 7 contains a thoughtful argument for making household surveys multi-topic. What are the principal advantages of multi-topic surveys? According to this chapter, there are two. First, they help significantly in the task of long term capacity building. Second, they are the best data source for actually implementing the various microeconomic techniques discussed in this book. This notwithstanding, it is important to point out that multi-topic surveys typically tend to have small sample sizes. Therefore, they are of very limited use in evaluating the impact of policies that affect either a small geographic area or a small group of people. Given this feature, it is not clear whether it makes sense for poor countries to use their own resources to collect costly multi-topic survey data.

Can one link household surveys and standard microeconomic policy analysis tools such as tax incidence analysis to aggregate macroeconomic models? Chapter 11 first tells us that the answer to this question is yes and then it goes on to document the manner in which this linkage may be accomplished. The basic idea here is to use a three layered technique called the poverty analysis macroeconomic simulator or PAMS in six steps. The chapter applies PAMS to Burkina Faso and nicely shows that such an application can produce some interesting findings. For instance, it is shown that "if sectoral growth and income distribution follows the current projected baseline scenario, income poverty ... will decline—although not enough to meet the 2015 target—at the expense of a significant increase in inequality" (p. 254). Although this is certainly a notable finding, it should not go unsaid that using PAMS necessarily means subscribing to some rather simplified assumptions. Naturally, these assumptions will make more sense in some settings but less in others.

In the quantitative policy analysis literature, social accounting matrices or SAMs have frequently been used to study the impacts of macroeconomic policies on poverty and distribution. What is a SAM? Chapter 14 tells us that a SAM is "a particular representation of the macroeconomic and mesoeconomic accounts of a socioeconomic system, which capture the transactions and transfers between all economic agents in the system" (p. 301). Further, we are rightly told that SAMs assist researchers in two ways. First, speaking in general, SAMs shed light on questions involving the multiplier effects of an income injection in one part of an economic system. Second, and more specifically, SAMs inform us about the income of socioeconomic groups of households. This well written and informative chapter might give readers a lot of useful information about SAMs and techniques that are based on SAMs. In addition, the chapter transparently discusses the shortcomings of SAMs and SAM based analyses.

In conclusion, let me say that although I could quibble with specific aspects of this book, I would be remiss in my duties if I did not point out that, in general, this is a very informative and useful book. The editors have done a good job of selecting competent researchers to write instructive chapters on microeconomic and macroeconomic techniques of quantitative policy analysis. Therefore, I would recommend this book to all readers who wish to learn more about how economic and other policies with a focus on poverty alleviation are evaluated quantitatively.

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