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SPICKER, P.

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Why poor countries stay poor

[Chapter 14 of P Spicker, *The idea of poverty*, 2007]

Although the kinds of explanation in the previous chapter can be fairly generally applied, they are implicitly focussed on poverty in developed economies. The main issue they address is why some poor people are poor when others are not. The same arguments are found in developing countries - about whether poor people are to blame for their own condition, about resources, about social inequality and the structure of power. But it is difficult to understand poverty in developing countries within the same frame of reference. Poverty is global. Even by the very conservative standards of the World Bank, it affects nearly half the population of the world. We need to explain why the conditions of poverty in some parts of the world are so widespread, so general, and so persistent.

There are differences between the circumstances of different countries. The term 'developing countries' covers countries in a wide range of situations - various classifications are used by international organisations, including for example low income countries ('LICs'), heavily indebted poor countries ('HIPCs'), and least developed countries ('LDCs'). Some economies are undergoing rapid development; some are in a process of transition. Some have only a marginal economic status, and some are not developing at all, but going backwards. Some countries are much poorer than others. The argument that a country can be poor depends, of course, on the same kind of argument as that made in chapter 5 - that poverty can apply to people collectively, not just individually. Some economists refer to the idea that one country is poorer than another by the odd-sounding term of 'poverty dominance'[1]; dominance measures are based on relative rankings. The point of using them is to show that, even if the terms on which measurements are made differ, one country might still emerge consistently as more disadvantaged than another.[2] Focussing on the poorest countries helps to identify the processes through which global poverty persists.

Internal problems

Some countries, it can be argued, are poor because there is something in their circumstances which prevents them from developing economically. The suggestion that poor countries are poor because of their own circumstances may seem to parallel views based on pathological views of poverty. It happens, as it does in pathological arguments, that there is a suggestion of moral disapproval in some commentaries. This is not necessary to the explanation, however. Several factors might have this kind of effect.

The failure to develop. One possible explanation for poverty is, simply enough, that nothing happens to stop it. The characteristic patterns of traditional society - particularly dependence on subsistence agriculture - are stable and long-lasting. Few societies have not felt the influence of the changing world outside, but that is not enough to lead to development. In *The Stages of Economic Growth*, Rostow suggests that growth is a process which some countries go through while others do not.[3] There is nothing inevitable about growth. For economic development to be possible, countries need a degree of development to have happened already. They need an infrastructure of communications, transport, and education. They need the structure and practices of a working market - systems of exchange, of finance, banking and property law. (Developing these systems has become a major focus on intervention by international organizations.) For Rostow, successful growth depended on the national economy achieving a critical mass, or 'takeoff'. Rostow's argument might seem persuasive if we focus on the countries which have gone through rapid economic growth - the 'little tigers' of south east Asia, or the Chinese economy. But it works less well as a description of many economies in transition, like Turkey or India; middle-income countries which have made more gradual progress, like Uruguay or Mexico; or countries which seem to be declining economically, like Sierra Leone and the Democratic Republic of the Congo.[4] Because there are so many routes to development, it is difficult to see what route the least developed countries, like those in sub-Saharan Africa, ought to follow.

Geographical limitations. A second view is that some countries have natural disadvantages. It cannot be coincidence, Todaro and Smith comment, that the world's developing countries are nearly all in tropical or sub-tropical climate zones.[5] This has immediate implications for water supply, agriculture and public health.

Vulnerability to natural disasters may affect economic development. Poorer countries, like richer countries, suffer a range of disasters, such as earthquake, flood and eruption. The same can be said of some richer countries, but the poorer countries may not have the resources or the capacity to recover afterwards. The impact of global warming offers a potential example - potential, because it is about what might happen, rather than what has happened. Climate change implies a change in economic and social change, and change tends to be disruptive. Where conditions are changing, the people who are most likely to be affected adversely are those whose circumstances are less adaptable. Those people are usually the poorest. *New Scientist* mentions five delta areas in particular, where millions of people are at risk: they are the Bengal delta in Bangladesh, the Mekong delta in Vietnam, the Yangtze in China, the Nile in Egypt and Godavari in India.[6] If sea levels rise, the Netherlands will be able to take the steps to protect its citizens; Bangladesh will not. Conversely, if Greenland becomes habitable, the people who will gain will be those who are able to move to Greenland, and they are probably not going to be the people who are displaced from central Africa because of drought. Most of the strategies relating to global warming, like the Kyoto agreement, are concerned with preventing the perceived causes of climate change, not with protecting people from its effects. That may reduce risk, but it does not reduce vulnerability, and a marginal reduction in risk does little to compensate for the potentially devastating consequences of changing circumstances. From the perspective of helping the world's poor, most current policies on climate change are misconceived.

Natural resources clearly make a difference. Whereas some countries have abundant resources, such as oil, others have none. (It is possible, however, for a country to be rich in natural resources, and yet remain poor; the Congo is the most obvious example.) Thirty developing countries have no sea borders - examples are Nepal, Chad, Afghanistan or Bolivia. Many are inaccessible and remote in other ways. This is hardly an adequate explanation for poverty; the same problems might be said to apply to Switzerland. But these countries are dependent on their neighbours for infrastructure and access to world markets, and those neighbours also have limited development. They are also likely to be affected by the politics, administrative practices and the stability of neighbouring countries.[7] Geography does matter, but the political geography is at least as important as the physical geography.

Ill health. Ill-health is a consequence of poverty, but it is also a cause of it. It causes poverty directly, by impairing people's ability to function, and indirectly, because conditions in which children die push people to have larger families. Because many diseases are communicable, the ill health of some people affects others. One of the concepts used in relation to public health is ‘herd immunity’; there comes a point when, because most of the population is resistant to disease, that others who are not resistant will not get it, because it is not likely to be passed on. The opposite is not quite true, but it comes close. If too many people in a population are vulnerable, and physical resistance is lowered by poor nutrition, the risk of diseases spreading are maximised. This presents problems for health care, with excessive demand and limited resources. An illustration of the cumulative effects is infant mortality. The problems of infant mortality are complex, but the primary immediate causes are respiratory ailments and diarrhoeal disease and problems relating to the birth process. Taken together, these account for about three-quarters of all infant mortality.[8] The combination of vulnerability, communicable disease and limited health care can be devastating. Box 14 reviews some of the key health problems.

Box 14: Ill health

Many of the recent concerns about ill health have focussed on the AIDS pandemic in southern Africa. But AIDS is only one of many endemic disorders which are so widespread that they constitute an obstacle to development. The World Health Organization has calculated Disability-Adjusted Life Years attributable to diseases: table 14.1 is based on their figures. [9]

Table 14.1: Disability Adjusted Life Years lost through ill health			
	DALYs lost - World	**% of all DALYs lost**	**% of DALYs lost - Africa**
Infectious and parasitic diseases	350333	23.5	51.9%
including TB	34, 736	2.3	2.6
HIV/AIDS	84, 458	5.7	17.7%
Diarrhoeal disease	61966	4.2	6.4
Malaria	46486	3.1	11.3
Respiratory infections	94, 604	6.3	9.8%
Nutritional deficiencies	34, 417	2.3	2.6%
Malignant neoplasms (Cancers)	75,545	5.1	0.8%
Sense organ disorders	69381	4.7	2.5%
Cardiovascular diseases	148190	9.9	3.0%
Respiratory diseases	55153	3.7	1.5%
Injuries	181991	12.2	8.5%
including road traffic accidents	38676	2.6	2.0%
violence	21 429	1.4	1.5%
war	6328	0.4	0.9%

The figures are not reliable - they are rough estimates - and there has to be the suspicion that some of the ailments in the developed world may be better recorded than equivalent problems in developing countries. The table gives some useful pointers to problems. The problems of developed economies are often associated with ageing, which is why cardio- vascular disorder, cancers and sensory disorders are less prominent in Africa. The problems of Africa are much more likely to be associated with infective and parasitic disorders: AIDS and malaria are particularly prominent, and they account for just over half the recorded problems in those categories. That still leaves many more to account for. The World Health Organization has expressed concern that too much emphasis on communicable diseases in anti-poverty strategies leaves major gaps in health improvement strategies - such as dealing with the damage caused by smoking.[10] A comprehensive strategy for health has to go much wider.

Human development. Societies where human development is limited are also likely to suffer limited economic development. Human development is closely linked with economic development, but it is not directly equivalent. Some economic activity, in the context of developing countries, has little direct connection with the economic activity of the population: for example, in some countries, oil production benefits only an elite, while in others, Todaro suggests, trade is often between richer countries and foreign residents.[11] Some countries with relatively limited GDPs have achieved levels of life expectancy and education that are disproportionate to their income: examples are Cuba, Madagascar, Ecuador and some of the republics of the former Soviet Union. Others, with much more favourable economic resources, have relatively low human development: examples are the oil-rich countries of Iran and Saudi Arabia.[12]

There are clearly strong links between economic and human development. The richest countries are also those with the most generous social provisions. But it does not follow that economic development is required before social provision is possible. Mohammed ul Haq suggests: ‘We were taught to take care of our GNP as this will take care of poverty. Let us reverse this and take care of poverty as this will take care of the GNP.’[13] The argument rests on three main propositions. The first is that where resources are more evenly spread, it creates a greater spur to economic activity than when they are concentrated. Second, poverty lowers economic productivity, and action to relieve poverty consequently increases it. Third, participation in society acts as an incentive for greater economic activity. [14]

Governance. Government affects people’s lives in many ways. The central problem is to create a structure which makes economic and social development possible. The system of law is basic: the establishment of a system of property rights is one of the crucial elements in being able to participate in a formal economy; an example referred to in the course of this book has been the problem of women's rights. (Dollar and Kraay claim a direct statistical association between the structure of property rights and economic development.[15] This may be, as the authors claim, because property rights are a fundamental precondition of development, but might also be that the development of a formal economy is marked by the development of property rights.)

Equally, there have to be the mechanisms and institutions to make governance possible. The governments of developing countries, whatever their intentions, often have limited capacity to implement decisions. The Poverty Reduction Strategy Papers prepared for the World Bank and the IMF put a considerable emphasis on the development of such structures.[16] PRSPs may seem strange documents, because on the face of the matter they seem to contain a lot of material that is not directly concerned with poverty reduction. The central focus of many falls on governance. Sometimes the focus falls on structures of government and law, but 'governance' is much wider than either. Often the structure through which economic and political development can be governed depends on a partnership of government, voluntary, commercial and international organizations. The PRSPs have actively promoted participation, partnership and the development of economic, legal and political systems.

The world's poorest countries are often badly governed. In part, this reflects a limited capacity - where government has limited powers, it is often more difficult to protect the vulnerable. Bad government is not, however, just a matter of what is not done. One of the features that comes strongly out of research on poverty is the extent to which government is part of the problem, rather than the solution. Some governments act deliberately to make people's lives worse. In some cases, government represents dominant racial or tribal factions. Many governments are despotic, and would sooner respond to dissent by removing the dissidents than by responding to the criticism. Police and government institutions often harass people who are poor. Chapter 10 pointed to the importance of democratic procedures, and the rule of law. Although these issues can sometimes seem tangential to the issues of poverty, they are intimately connected.

Economic management. It is not possible to review every approach to economic management, but some models have been particularly influential in developing countries. Fifty years ago, the two dominant models were Keynesian and *dirigiste*. The dominant models nowadays are liberal and corporatist.

> The *Keynesian* model was based on a managed, mixed economy. Keynesianism used fiscal controls, such as tax and interest rates, and public spending, to regulate the overall production in an

economy. Keynesianism played a major part in the regeneration of Europe and America after the depression, by using public spending to regenerate depressed economies. Its application in Brazil in the early late 1950s, in a much less developed economy, generated a demand that the economy was unable to satisfy; it led to massive inflation, a major financial crisis and military takeover.

Dirigisme refers to a government-run economy. The idea was promoted, in different ways, through Stalinism, Maoism and a range of approaches in Africa and Southern Asia, such as the attempts of Julius Nyerere in Tanzania to promote a combination of collectivist socialism along with traditional African solidarity. The essential elements were central state control, the direction of production and labour by government command, and a push for rapid development. The deficiencies of this approach are taken for granted nowadays. Its appeal to developing countries should not be underestimated, however; it seemed to offer a radical means to mobilise resources to create industrial production.

The *liberal* model has argued for free markets, the free movement of capital, engagement in global trade and the development of production and infrastructure through the private market. Neo-classical economists argued that the core problem of the least developed economies had been the restrictions imposed by national governments.[17] In the 1980s, the International Monetary Fund and the World Bank promoted 'structural adjustment', a particular model of economic reform for developing countries - creating opportunities for international business, imposing strict financial discipline, increasing inequality and cutting the public sector. Even when this worked, it generally increased the vulnerability of the poor[18]. When it did not, it could have very detrimental effects, because it weakened investment in human capital and cut away the main social protections that poorer people might have had.[19].

The *corporatist* model depends on cooperation and coordination between a range of partners; the role of the state is to engage, plan and negotiate. This model is favoured in many of the Poverty Reduction Strategy Papers. While still reflecting an emphasis of private commercial activity, it also reflects the desire to develop government through partnership and to build a capacity for corporate strategic planning.

The management, and mismanagement, of national economies is heavily emphasised in many commentaries on the progress of individual countries.[20]

This emphasis is understandable, partly because the issues relate to the factors which governments can control, and partly because the world is full of economists with knives and forks who are looking for something to cut. It is easy, however, to exaggerate the scope for action. Typically the tools available to manage an economy include fiscal policy, taxation, monetary policy, exchange controls and trade. Whatever governments in developing countries might like to do, they do not necessarily have the structures in place to do it.[21] Taxing people's personal income, for example, depends on an extensive system of reporting and monitoring, generally with the cooperation of employers; taxing expenditure depends on the integration of commerce into the formal economy; and controlling the money supply depends on cooperation with the banking system. ('Money' is what people are willing to accept; some transitional economies have multiple, competing currencies.) There is sometimes a naive assumption that models which are used in developed Western economies should be applied in developing countries. An example is the literature on 'targeting'. There are many possible ways of identifying target groups, and most of them have been tried in developing countries[22]. Measures which depend on sophisticated individual assessment, like means-testing, are often hopelessly impractical. It can be difficult to monitor the financial status of a household, where, for example, people living in settlements are not just not part of the formal economy, but have no postal address. The emphasis on development in practice tends to depend not so much on central planning and control as on incremental improvements in economic activity, based on a process of regulation, negotiation and compromise.

Corruption. The problem of corruption goes beyond government. It manifests itself typically in problems of developing infrastructure, when constructors cannot be relied onto use the materials which are being paid for; in administration, where costs and time scales become unpredictable; and in the development of services, because in a society where no-one can be trusted to manage a fund, it is difficult to establish systems of mutual support needed for social protection or health care. Savedoff and Huffman argue that corruption is likely to occur when opportunities exist. The transparency of procedures, the existence of alternatives for consumers and the institutional structures all play a part in fostering or limiting the scope for corruption.[23]

Corruption is not confined to developing countries, but one has to ask why it is so prevalent in those countries.[24] The first, obvious problem is about relative income. If it is difficult to bribe officials in the west, it may simply be because few bribes are large enough to tempt someone who stands to lose a secure monthly salary and a pension. A second problem is the underdevelopment of market procedures: sometimes people demand illegal payments for things (like providing medical treatment when it is supposed to be free) which in other societies they would be able to charge for legitimately. A third issue concerns systems of financial monitoring. It goes without saying that information management is better developed in more developed economic systems, but this is not why procedures against fraud are more effective in those countries. Many of the procedures used in developed countries to protect against fraud were built up in the course of the nineteenth and early twentieth century. Examples include accounting practice, the division of financial authority and audit. In most public services in developed countries, financial decisions are not made by individuals, but are cross-checked by a series of people at different stages of the process. The new information technology has unstitched part of these procedures, and some of the traditional methods of monitoring have been replaced, but the principles still hold good. Fourth, and not least, there is the role of the institutions which are engaged in corrupt practice - including multinational corporations and independent private companies from the developed world.[25] The lack of enforcement, monitoring and penalties for firms involved in corrupt practice gives little reason for it to stop.

Armed conflict. Although there have been times when military expenditure has been associated with expanding public services[26], the general growth in military expenditure in the course of the last thirty years has had a detrimental effect on economic growth and human development.[27] Beyond that, many poor countries have inter-ethnic conflict, insurrections or territorial disputes. Although war seems, by comparison with disease, to have a much more limited effect on death and disability (Box 14), it has widespread ill-effects. Armed conflict disrupts communications, displaces populations, prevents trade and obstructs development. Famines may occur, for example - as in Eritrea or Sudan - because armed conflict has prevented the movement of goods. Equally, poverty makes countries vulnerable to armed conflict; there is an association between low development and the risk of civil war.[28]

Relationships with other countries

International trade. In theory, all countries gain from specialisation and exchange. Wherever countries have a different potential to produce goods, they should be able to maximise output by specialising in the goods where they have a comparative advantage, and exchanging the production. This has been widely accepted as an argument for free trade. Protecting national industries, which might suffer in open competition, is generally frowned on. There are other arguments for protection - for example, preserving a capacity in areas which are essential to national defence, or protecting infant industries which otherwise will not be able to establish themselves in an uneven competition - but even these are strongly resisted.

In practice, however, the rules are rigged. Developing countries are not allowed access to markets in developed economies, or are allowed access only on unequal terms.[29] The UNDP comments that 'the world's highest trade barriers are erected against some of its poorest countries: on average the trade barriers faced by developing countries exporting to rich countries are three to four times higher than those faced by rich countries when they trade with each other.'[30] Infant industries in developing countries are suppressed by a range of restrictive practices, such as 'dumping', where firms charge high prices in their own domestic market but sell cheaply abroad. The European Union restricts the importation of agricultural produce, primarily to protect its own farmers at the expense of its consumers. The US subsidises and protects a wide range of products The most successful transitional economies have not relied on free trade; they have used a judicious mixture of protection, managed exchange rates and export promotion to overcome the barriers.[31]

Migration. Developing countries export labour to developed economies. Often this means that the most skilled and educated people work outside the country. 'Remittances', or the money they send home, are a major source of income to the countries. This poses a dilemma. On one hand, access to developed economies is a way of educating workers, gaining income and developing opportunities - though most of that depends on migrant workers eventually returning. On the other, the exportation of labour, expertise and entrepreneurs, a process which parallels the formation of richer and poorer areas at local level, almost certainly handicaps some aspects of domestic development.

Debt. Many of the poorest countries are heavily indebted. A joint paper from NGOs makes the telling point that 'the poorest countries in the world routinely spend more on debt repayments than they do on health'. [32] The sources of the debt are complex, and not simply related to government borrowing; the core of the problem rests in the net inflow or outflow of foreign exchange. Todaro and Smith identify a series of contributory factors: they include

1. the effects on national income of reduced economic activity or reducing commodity prices
2. deficits in the balance of payments
3. capital outflows when residents move money abroad, and
4. the cost of servicing the debt itself.[33]

Current initiatives to reduce the debts of the Heavily Indebted Poor Countries (HIPCs) have had limited effects.

The issue of debt has tended to dominate debates about relationships with developing countries. This is partly a moral judgment. Countries may feel they have no responsibility for the citizens of other countries, and they do not necessarily accept an argument to say that they should compensate for historic injustices. The issue of debt, by contrast, is immediate, both in terms of timing and in terms of current responsibility. Another reason is the nature of the debts. The foundation of some parts of the debts is questionable; some countries are being held accountable for lending to illegitimate, despotic regimes which have subsequently been displaced. The debate has also been driven by a strategic view, that where arguments the issue of debt is winnable, in a way that issues about the relief of poverty are not. Poverty is a vast, intractable series of problems. The issue of debt is closely defined, and the emphasis on the injustice of debt has been persuasive to many governments; relief has now been granted to a limited number of the mosst heavily indebted poor countries. Gordon Brown, the UK Chancellor of the Exchequer, has stated:

> 'I see debt relief as both an economic and moral issue - an economic issue, because a mountain of inherited and hitherto immovable debt stands in the way of economic development in Africa and elsewhere and their full inclusion in world society. A moral issue, because unsustainable debt is a burden imposed from the past on the present, which is depriving millions of their chance of a future, preventing them breaking out of the vicious cycle of poverty, illiteracy and disease, preventing the investment in what is really necessary - the healing of the sick, the teaching of the children, and the advancement of economic opportunity for those denied it.'[34]

Agency explanations. In the same way as the internal problems of countries parallel pathological views about poverty, the external factors which lead countries to remain poor can be seen as in terms of agency and structural explanations, sometimes referred to as 'poverty production'.[35] The actions of other countries have shaped the conditions of poor countries through colonialism, cultural dominance, armed conflict and economic influence; Colonialism is an archetypal example; the colonial powers mainly acquired their colonies through physical force, and used the assets, including labour and natural resources, for their own purposes. Many critics of western policy in the developing world see it in terms of 'neo-colonialism', the maintenance of quasi-colonial relationships through economic and political means.

Currently much of the influence of developed countries on the least developed countries is expressed through three routes. One is the private sector, in the form of trans-national companies. Trans-national companies, and their national subsidiary companies, exercise their influence largely because of the economic benefits they bring - as employers, as purchasers and as the route to engaging people in the formal economy. Investment by foreign companies is welcome, because it introduces capital, enables the exploitation of resources, and generates revenue. At the same time, it can lead to a withdrawal of resources, reduce foreign exchange earnings, and, because of the kinds of arrangement which tend to be made, it can act to stifle local competition and markets. Trans-national companies have also been criticised for exploitative conditions - including conditions like child labour that would not be acceptable in their home countries - and engagement in corruption; the alternative would not be for such companies to withdraw, but for them to clean up their act.

The second route is through international aid. Aid tends to be restricted, and it is often linked to economic activity. About a third is 'tied', which means that it is conditional on expenditure in the donating country. Third, there is the role of the international organisations, which are the principal mechanisms through which governments exert their influence. As a condition of financial support, including debt relief, the International Monetary Fund and the World Bank are increasingly using 'conditionality' - terms which countries have to comply with. For example, eligibility for the relief to HIPCs has depended on submission of PRSPs. The role of international organizations is deeply ambiguous. At one and the same time, organizations like the IMF can be seen as beneficial structures, designed to help countries in difficulty, and as a means of imposing the will of dominant countries (and particularly of the US) on others. The United Nations has been designed simultaneously both to promote universal standards, and to prevent the intervention of countries in each others' affairs. International organizations do not speak with a single voice; they represent a range of factions, and different influences are dominant at different times.

Structural factors. The idea of 'structural dependency' has been used to explain the continuing disadvantage of developing countries. Some countries are locked into dependent relationships with richer countries, which on one hand facilitate basic patterns of economic development, but on the other take out the benefits, like labour and natural resources. Much of Latin America can be seen as structurally dependent on the USA. André Gunder Frank argues that the pattern of dominance and dependency is replicated within regions and industrial sectors.[36] Lal argues, against this interpretation, that attempts to break away from relationships of dependency have been disastrous. If governments think that a relationship is exploitative, and limit or break off trade, it loses the benefits of economic development and of trade.[37] The attempt to break away in an attempt to develop independently is 'dangerous arrogance' - the worst case is probably Kampuchea, where the determination to break away from world capitalism led to some of the greatest horrors of the 20th century.[38]

Even if the relationship between nations is not described in terms of 'dependency', there is still a case to think of the relationship as 'structural'.

The relationship of Mexico to the US, or of North Africa to Europe, is conditioned by geographical proximity, history, culture and lines of communication. Patterns of trade and the development of economic specialisation are conditioned by that kind of link.

Developing policy

One of the clichés of work with poverty is the idea that to deal with it, we have to address the causes. This is a fallacy. The way into a problem is not the way out of it. If you fall into deep water, your understanding of gravity and fluid mechanics is not going to help very much; what matters is whether you know how to swim. The issues that matter here for the reduction of poverty are not the analyses of causal processes; they are the issues which help to identify issues and assess the character of the problems. It is important to know that a lack of infrastructure, the limited capacity of government and problems in getting access to markets are impeding development. It is not particularly helpful, for practical purposes, to know that the situation relates to a history of colonial exploitation, structural dependency or economic mismanagement. In the next part, I plan to move on to the kinds of response which are available to deal with the problems.

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