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2008 : July 2008 - Fast Moving Fronts : David Dollar

FAST MOVING FRONTS - 2008

July 2008



David Dollar talks with *ScienceWatch.com* and answers a few questions about this month's Fast Moving Front in the field of Economics & Business.

**Article: Growth is good for the poor**

Authors: Dollar, D;Kraay, A

Journal: J ECON GROWTH, 7 (3): 195-225 SEP 2002

Addresses: World Bank, Dev Res Grp, 1818 H St NW, Washington, DC 20433 USA.

World Bank, Dev Res Grp, Washington, DC 20433 USA.

SW: Why do you think your paper is highly cited?

I think the paper is widely cited because it addresses an important contemporary issue, what's happening to inequality all over the world and is there anything we can do about it? The paper draws on a large number of household data sets and hence its results are quite robust.

SW: Does it describe a new discovery, methodology, or synthesis of knowledge?

The paper extends an earlier literature on the effect of growth on poverty reduction and on the determinants of inequality. I think its main contribution is that it took a new methodological approach that is intuitively appealing and brought the maximum amount of data to bear on the issue.

SW: Would you summarize the significance of your paper in layman's terms?

As a general proposition, income of the poor rises proportionally to overall country income, so that sustained economic growth will typically lead to poverty reduction. Of course there is variation around this general relationship, based on changes in income distribution. So, the paper also tries to explain changes in income distribution. We find that there are very few robust generalizations about changes in income distribution. That finding, while on the surface a negative one, debunks many common myths. For example, it is not true those countries that engage more in international trade or have more open trade policies experience rising inequality. In some cases, yes, in other cases, no.

Since there is quite a bit of evidence that globalization accelerates growth of developing countries, our contribution enables us to go one step further and conclude that in general globalization is reducing poverty in the developing world.

SW: How did you become involved in this research, and were there any particular problems encountered along the way?

"The solid growth of the world economy in the past 25 years has led to unprecedented poverty reduction..."

We were stimulated to undertake this research because in the late 1990s it was common for pundits to claim that growing international trade and investment were leading to higher inequality in countries and to growing poverty. We were not aware of any evidence to support this, so we decided to collect as much data as possible to examine these ideas with an open mind. I remember saying to my co-author, Aart Kraay, that whatever we find will be relevant and interesting.

SW: Where do you see your research leading in the future?

The fact that it is hard to find general patterns in distributional changes does not mean that country policies are irrelevant. I myself am based in China now and have been interested to look more specifically within China at what factors are leading to changes in income distribution and reductions in poverty. I think that the kind of cross-country analysis that Aart and I did is usefully complemented by country case studies.

SW: Do you foresee any social or political implications for your research?

Our paper has clear policy implications: it is very much in the world's interest to maintain and extend an open trading system and other fundamental institutions and policies that promote economic growth. The solid growth of the world economy in the past 25 years has led to unprecedented poverty reduction, roughly cutting the global poverty rate in half. That said, it is also smart for individual countries to look at how their overall policy stance is affecting the distribution of income and to be aware that because of technological change and shocks in the world economy—such as recent food and energy price hikes—there will always be relative winners and relative losers within countries. Smart policy recognizes these risks and tries to help people with intelligently designed safety nets.

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Keywords: growth, overall country income, sustained economic growth, poverty reduction, inequality, income distribution, international trade, globalization, global poverty rate.



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