# Introduction

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On 8 September 2000, representatives from 191 nations gathered in the United Nations General Assembly to discuss the joint actions that could be taken on a global scale to address some of the world's most pressing problems. The economic conditions seemed to be in place for a major attack on poverty and economic deprivation. As a whole, the world economy was growing at an annual rate of 4.7 per cent, the highest it had seen since the 1970s (IMF, 2008). East Asia was recovering robustly from its 1997 financial crisis, while India and China seemed to be embarking on development processes capable of bringing billions of people into modern economic prosperity. While some signs of trouble were present – most notably a deepening economic crisis in Argentina, a country that had long been seen as one of the most successful implementers of market reforms in the developing world – these appeared to be exceptions to a generalized trend of growing prosperity.

What emerged from this meeting was an unprecedented commitment, embodied in the General Assembly's *Millennium Declaration*, to direct the energies of the international community towards the reduction or elimination of extreme poverty, disease and environmental degradation. What made this document different from the abundant stock of existing resolutions of international organizations was that it set out well-defined and verifiable goals for achievements that could be used to measure progress in its mission. The Millennium Declaration did not just promise to fight against poverty, it set out the goal of halving the proportion of people living on less than a dollar a day. It did not stop at a vague commitment to promote gender equality, sustainable development and improvements in access to education and health, it resolved to reduce maternal mortality by three quarters, to halt and begin to reverse the spread of HIV/AIDS, to halve the number of people without access to drinking water and sanitation and to ensure full access to primary education and gender equality in access to all

levels of education. The full set of commitments, which quickly became known as the Millennium Development Goals (MDGs), is presented below:

1 Eradicate extreme poverty and hunger
2 Achieve universal primary education
3 Promote gender equality and empower women
4 Reduce child mortality
5 Improve maternal health
6 Combat HIV/AIDS, malaria and other diseases
7 Ensure environmental sustainability
8 Develop a global partnership for development

In putting forward this set of ambitious yet concrete goals, the leaders of the world also chose the yardstick by which their actions would be evaluated 15 years hence. From the outset, it was evident to those participating in the discussion that achieving these goals would be impossible without an impressive mobilization of efforts and resources. A first, basic precondition would be the maintenance of a robust rate of economic expansion. There is ample theoretical and empirical evidence that it is extremely difficult, if not impossible, to sustainably reduce poverty without economic growth (Dollar and Kraay, 2002). But there is also considerable variation in the rate at which countries are able to convert economic growth into poverty reduction (Ravaillon and Chen, 1997; Bourguignon, 2005; Rodríguez, 2008a), making it clear that growth alone cannot be counted on to achieve the MDGs. Whether these goals were to be achieved would thus depend not just on economic prosperity, but also on the extent to which the world could direct financial, administrative and political resources towards their achievement.

Evidently, a substantial amount of these resources would have to come from rich countries. This much was recognized less than two years later, when an international conference on financing for development ended in an unprecedented commitment to increase overseas development assistance (ODA) by developed nations to 0.7 per cent of gross domestic product (GDP). Such an increase would more than triple prevailing levels. As Jeffrey Sachs (2005, p290) has pointed out, this transfer of funds would, in itself, be enough to raise all 1.1 billion of the world's extreme poor to the basic needs level of US$1.08 a day.

By now, it is clear that this substantial expansion of foreign aid is unlikely to materialize. The latest estimates of ODA from developed countries puts it at 0.3 per cent of gross national income, slightly higher than the 2002 level of 0.2 per cent, but considerably below the target set in the Monterrey Consensus. Indeed, according to the Organization for Economic Cooperation and Development (OECD, 2007), development aid from OECD countries actually *declined* by 5.1 per cent in 2006. At the same time, there is a vibrant academic debate on the *merits* of increased foreign aid, with many

economists contending that the evidence on the effectiveness of foreign aid in generating economic growth and promoting poverty alleviation is very weak.[1]

This book is concerned with understanding the means by which countries seeking to fulfil the commitments embodied in the MDGs can mobilize domestic resources for the fight against poverty. If the idea that it is neither expected nor desirable for foreign aid to completely cover the shortfall in resources necessary for achieving these goals is taken seriously, then it is necessary to undertake an exhaustive examination of the possibilities that states have for reorienting internal resources towards the objectives of poverty reduction. The search for these resources is, in a nutshell, what is called the search for 'fiscal space'.

## UNDERSTANDING FISCAL SPACE

How should people think about domestic resource mobilization in this context and how is the concept of fiscal space understood? Peter Heller of the International Monetary Fund (IMF) has proposed that fiscal space be defined as 'the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government's financial position' (Heller, 2005, p3). A report to the Development Committee of the joint World Bank-IMF Board defined fiscal space in broadly similar terms as 'the gap between the current level of expenditure and the maximum level of expenditures that a government can undertake without impairing its solvency' (Development Committee, 2006, p14). These definitions embody the basic trade-off that is at the root of the discussion about obtaining resources for reducing poverty. How is it possible to ensure that governments spend enough to meet their poverty alleviation goals without, at the same time, allowing these increased spending levels to produce macroeconomic instability and thus destroy the conditions that are necessary for sustainable growth (which, as has been seen, is a precondition for poverty reduction)?

In this sense, the fiscal space discussion is far from new. The recognition of a conflict between the desire to use the state to lift people out of poverty and the need for prudent economic management to generate a prosperous economy has been present in economic theory since the writings of the classical economists. More recently, it was also at the root of the discussions between advocates of developmental import substitution strategies and orthodox monetarists during the 1960s and 1970s.[2] In some respects, the debate in recent years on how to create fiscal space has the quality of old wine in a new bottle. Finance ministries have always been concerned with how best to mobilize and utilize fiscal resources for desirable public policy purposes. This fact has led some economists to question the insightfulness of the term 'fiscal space'. Perotti (2007, pp16–19), for example, argues that the use of the term is confusing because attempts at a definition are mostly restatements of the policy decisions that govern-

ments have faced all along. It is known that in order to increase some government expenditures, it is necessary to reduce other current or future expenditures, increase current or future revenues, or inflate away the value of the nominal debt. It is also known that if one type of spending has a larger social marginal value than the other, then more should be spent on the more socially beneficial option and less spent on the other option. The concept of fiscal space, it is argued by some, appears to be too loosely defined to add anything to this discussion.

We recognize that some of the issues brought forward in the fiscal space debate are far from new. However, we believe that this discussion is useful and novel because it attempts to develop a framework for studying the interrelatedness of the different components of a government's decision to address its fiscal problems. For example, ODA flows are often related – implicitly or explicitly – to domestic resource mobilization efforts. Governments' abilities to collect taxes and spend effectively are important – albeit not unique – determinants of the aid allocation behaviours of donors. Similarly, expenditure efficiency is likely to play a role in the willingness of citizens to pay taxes, which ultimately influences tax performance. Looking at the different pillars of fiscal space independently would miss the interdependency between different financing instruments.

## THE RELEVANCE OF DEVELOPMENT

We therefore suggest that one should not stop at identifying the restrictions implicit in the inter-temporal budget constraint and the multiple possible combinations of expenditure, revenue and debt policies necessary to address them. Instead, we propose that it is necessary to look at the country's development model and to understand the way in which it addresses the role of fiscal constraints and the need to mobilize resources for economic growth. We believe that the set of fiscal decisions facing a developing country may differ radically, depending on the type of expenditure or revenue generating strategy that the country is prioritizing as part of its development agenda. The study of fiscal space can be seen as the study of the endogenous determination of the components of fiscal policy as a result of alternative development strategies. In this sense the fiscal space debate brings to the table a new object of study, rather than just a new definition.

Our proposal to study the coherence between a nation's development strategy and its fiscal policy is related to, but distinct from, the existing literature on the relationship between fiscal policies and economic growth (see, for example, Barro, 1990; Easterly and Rebelo, 1994; Engen and Skinner, 1996). This literature – which has by and large not found robust effects of fiscal policy on growth – has been framed within the context of the linear cross-country regression framework initiated by the seminal work of Barro (1990).[3] One of the limitations of such an approach is that it is not adequately

designed to capture the underlying nature of growth dynamics when multiple interactions exist between different potential determinants of economic growth (Rodríguez, 2007a, 2007b). This might be the case if, as we suggest here, the effectiveness of particular policies depends crucially on the type of development strategy being pursued by the government.

As an example, a substantial part of the discussion underlying the achievement of the MDGs has centred on understanding whether it is appropriate to conceive of countries as having fallen into a 'poverty trap'.[4] Believers in the poverty trap hypothesis argue that a scaling up of social investments is necessary to move the economy into equilibrium with sustainably high living standards. Conventional fiscal sustainability analysis would tend to view such a scaling up of expenditures as reckless because it appears to violate a society's inter-temporal solvency condition. But this analysis would be altered by the recognition that an economy's stream of future revenues will depend on whether it remains mired in the poverty trap or it jumps to a new equilibrium. Therefore, fiscal plans that appear unsustainable become sustainable once the links between fiscal policy and development are explicitly modelled.

The broader problem with the conventional approach is that, unless the links between fiscal policy and development are considered explicitly (for example, by taking into account the fact that certain types of expenditure may permanently raise an economy's steady-state level of income), an analysis of fiscal sustainability will only be able to capture the fiduciary (as opposed to the developmental) implications of increasing fiscal space in order to achieve a specific set of long-term development objectives. For this reason, existing assessment frameworks tend to underestimate the long-term payback to fiscal sustainability from implementing a transformational development strategy that a sound MDG-based national development strategy should embody.

It is no coincidence that almost every intergovernmental body concerned with public finance issues, from the Development Committee of the joint IMF-World Bank board to the G-24 group of developing countries, has placed fiscal space on the agenda of their annual meetings since 2006. In 2007 the G-20 group of finance ministers also devoted an entire session to this topic and commissioned interventions from current and former staff of the United Nations Development Programme (UNDP), the World Bank and the IMF on the subject. Of course, the present search for fiscal space may arise for several quite different reasons and these differences are important in understanding the fiscal space issues that preoccupy the G-20 countries. For many low-income countries, achieving the MDGs requires an expansion in public investments and, transitively, a significant permanent increase in the ratio of government expenditure to GDP. This requires finding sustainable finance, not at the margin, but in substantial measure. Aid can temporarily serve the purpose – though whether the aid delivered can be absorbed and spent is, in itself, an important macroeconomic issue. In addition, all countries face new challenges that require a fiscal response that is large in magnitude – for instance, in adaptation to, and mitigation of, the effects of climate change.

## Towards a new definition of fiscal space

In order to fully bring these issues into consideration, it is important to go beyond the conceptual frameworks that have, until now, been used to think of fiscal space. Both the Heller (2005) and the Development Committee (2006) definitions cited above are, in effect, restatements of the inter-temporal budget constraint definition in which the interaction between fiscal policy and growth is not addressed. Such definitions, therefore, end up conceptualizing fiscal space in residual terms ('room' or 'gap') and are fully open to the criticism put forward by Perotti (2007). In contrast, Roy and Heuty (2005, p170) define fiscal space as 'concrete policy actions for enhancing domestic resource mobilization, and the reforms necessary to secure the enabling governance, institutional and economic environment for these policy actions to be effective'. The focus on domestic resource mobilization in this definition underscores the fact that, ultimately, the sustainability and solvency of an economy depends on (a) the extent to which domestic financing mechanisms are able to support public expenditures, and (b) the fact that the mobilization of fiscal space in a sustainable manner is a function of the political economy context within which fiscal space is secured. Hence, the emphasis is on the set of feasible policy actions on the one hand and the prevailing political and economic environment on the other. In the same paper, Roy and Heuty provide an important example of this endogeny – 'savings realization failures' – that is, the macroeconomic, social and political factors inhibiting the channelling of savings into private and public investment. These political economy factors – and the argument that, ultimately, domestic resources must pay for public expenditures even if these are, temporarily, financed by grants or foreign concessional finance – are both most relevant in the long term rather than the short term. In other words, while the Heller (2005) and Development Committee (2006) definitions are primarily concerned with the short-term consequences (and mainly the potential adverse effects) of an increase in public expenditure, Roy and Heuty (2005) seek to evaluate how concrete policy actions may support trend-changes in the potential for domestic resource mobilization for pro-poor public investment.

The difference in emphasis thus arises because policy concerns differ. The Development Committee (2006) definition of fiscal space is concerned with raising incremental resources for development. Clearly this is not an adequate basis on which to assess the availability of fiscal space for low- and middle-income countries engaged in major development transformations aimed at securing long-term human development and economic growth. This latter focus is at the heart of the Monterrey Consensus and the MDG financing debate. In this context, giving overriding importance to short-term fiscal stability (measured through annual fiscal balance) and solvency (measured through the ratio of debt to GDP) tends to underestimate the long-term real impact of spending on these development objectives. As Goldsborough (2007) points out, in IMF programmes 'the longer-term supply-side effects of higher

public spending are, with some commendable recent exceptions, largely ignored in many macroeconomic frameworks'. This concern motivated the Development Committee to give the IMF and the World Bank the task of producing a paper on fiscal policy. In their report, they recognized the central role of fiscal policy in financing the provision of the public goods needed to achieve the MDGs within a longer time horizon and declared that their intent was to focus on 'how fiscal policy could be adapted to strengthen its role with respect to growth and the achievement of the MDGs' (Development Committee, 2006, pi). However, the definition they used was, in our opinion, inadequate for the purpose, causing the analysis to fall short of providing a way forward on the financing problem central to the Monterrey Consensus.

## Conceptual approaches

This volume starts out with three conceptual chapters that discuss in detail the concept of fiscal space, its relationship with the MDGs and its relevance for thinking about development strategies. These chapters lay out the context for the discussion in the policy arena, present the key theoretical debates and consider the most important conceptual issues that arise in its application.

Chapter 1, by Rathin Roy and Antoine Heuty, lays out the principal policy discussion that forms the context for the analysis of fiscal space: the commitment by the international community to achieve rapid and concrete improvements in the living standards of the world's most disadvantaged groups, as set out in the Millennium Declaration. Roy and Heuty argue that it is vital to understand how the plan for achieving these goals interacts with changes in the *regime of accumulation* if the process of mobilizing resources for achieving the MDGs is to be understood. For them, this *regime of accumulation* is the mode of distribution and reallocation of economic inputs into socio-economic outputs that is sustainable in light of changes in the production and consumption pattern over long periods. While concessional assistance can complement domestic resources for development, Roy and Heuty argue it can never substitute for them. It should be used to help create an enabling environment for non-concessional domestic mechanisms for supporting human development, and not as a direct financing instrument.

What such a new framework would look like is the subject of Chapter 2, authored by Rathin Roy, Antoine Heuty and Emmanuel Letouzé. The central premise of this chapter is that the sustainability of policies to create fiscal space is a function of *what* the fiscal space is used for. This, in turn, depends on the central economic policy challenges and the attendant interventions that need to be financed to secure these challenges. The balance of emphasis placed on the stabilization, allocation and distribution and growth functions of fiscal policy – as well as the indicators used to assess fiscal solvency and sustainability – would differ according to the timeframe of the analytical framework and

the political economy context within which the interventions are made operational. The indicators used to assess fiscal solvency and sustainability will be very different if the assessment is carried out over a long-term, as opposed to a short-term, analytical context.

At the heart of the framework set out by Roy et al is the idea that there is a fundamental inconsistency between the desire to evaluate a fiscal policy according to its developmental implications and the strict fiduciary approach followed by most international financial institutions (IFIs). This idea is put forward in what the authors call the *fiscal space conjecture* – the proposition that the greater the public good characteristics of public sector investment projects, the lower the precision and the predictability of their fiduciary payback calculations, but the higher the precision and predictability of their development payback calculation. If this conjecture is correct, it establishes an inherent tension between the conventional mode of evaluation of fiscal programmes by IFIs, based on purely fiduciary calculations, and the desire to formulate fiscal policies that are deeply embedded in strategies for long-run development.

The same authors provide a concrete example of how these tensions play out in the formulation of specific public investment strategies in Chapter 3. There is a growing accumulation of evidence that the decline in the ratios of public investment – and particularly of public infrastructure investment – to GDP observed since the 1980s has been due to the inappropriateness of existing evaluation criteria used by IFIs to assess fiscal strategies and, in particular, to the emphasis on meeting strict fiscal targets that made no distinction between current and capital expenditures. The application of these criteria led countries to undertake illusory fiscal adjustments, in which a fiscal target was met by drawing down stocks of existing assets (public infrastructure).

While there exist a number of proposals to treat public investment differently from current expenditures in the setting of fiscal targets – such as the 'golden rule' imposed by UK governments since 1997 – the authors argue that these rules are self-limiting if their argument is based on a purely fiduciary as opposed to a human development calculation. The reason for this can be traced back to the fiscal space conjecture. Unless it is recognized that investments in human development may have an uncertain fiduciary payback, despite having a certain development payback, and a public finance framework that prioritizes long-run development objectives is adopted, then fiscal policy will suffer from a built-in bias against human development.

How much weight should be placed on the fiscal space conjecture? Are there solid reasons why it would be expected to be true? The next two chapters, by Sanjay Reddy and Francisco Rodríguez, respectively, attempt to answer this question theoretically and empirically. Reddy's article (Chapter 4) tackles the theoretical basis for the fiscal space conjecture by determining the exact conditions under which it would hold true. He concludes that, as long as the variance of the financial payback expected from an investment with high public good characteristics is greater than the variance of the financial payback expected from a comparable investment with low public good characteristics,

and the variance of the non-financial payback of an investment with high public good characteristics is lower than the variance of the non-financial payback of a comparable investment with low public good characteristics, then the conjecture will hold. As these intuitively plausible claims are empirically unverified, Reddy notes, it is correct to call it a conjecture. Reddy warns that adopting a superficially rational 'risk-averse' public investment policy may have considerable developmental costs, as it may place too much emphasis on the low predictability of a project's financial payback, when this should be only one part of the overall risk assessment of a public investment project.

In Chapter 5, Francisco Rodríguez tackles this issue by studying the sustainability of fiscal expansions and their relationship with the composition of government spending. Rather than examining whether the assumptions of the fiscal space conjecture hold true, Rodríguez explores whether some of its implications are borne out in reality. Rodríguez's approach centres on understanding whether it is possible to enact large scaling up of public expenditures similar to those that appear to be necessary for achieving the MDGs. Using an econometric framework based on duration analysis, Rodríguez finds that the duration of expansions is positively related to the level of democracy and negatively related to increases in defence spending. This strengthens the evidence that indicates that the type of spending and the nature of the regime of accumulation matter for the sustainability of a fiscal strategy. These findings suggest that, given appropriate social and economic conditions, a scaling up of spending to achieve the MDGs need not generate unsustainable fiscal outcomes.

## GOING TO THE COUNTRY LEVEL

Does the idea of fiscal space make sense at the country level? Can it help in understanding particular country and development experiences? Does it help in the design of coherent fiscal frameworks that will be useful in devising sustainable and human development oriented fiscal plans? These questions are answered by exploring the issues raised by the fiscal space debate in four very distinct economies: Morocco, Senegal, Thailand and Venezuela.

The country studies section of the book opens with an overview of the commonalities and differences between the four country cases written by Indira Rajaraman (Chapter 6). These countries differ in their progress towards meeting the MDGs. While Thailand has surpassed its MDG target for poverty and Morocco has made substantial progress, Venezuela and Senegal do not show major improvements.[5] As the author shows, there are also striking differences between the incremental capital output ratios (ICOR) displayed by countries. High ICORs in some countries suggest that the efficiency of investment, rather than the level of investment, might be the binding constraint. The study goes on to carry out a detailed comparative analysis of the performances of the four countries under review on the fiscal space dimensions of own

revenue, public borrowing and external financing. Rajaraman highlights the need to evaluate the MDG targets in the context of an analysis of the efficiency of incremental capital formation and the need to develop multidimensional indicators of MDG progress. She also highlights three more needs: to emphasize own tax and non-tax revenues in the fiscal strategy, to understand the critical role of real growth, and to look for new sources of external financing, such as remittances.

The Moroccan case study, written by Jean-François Brun, Gerard Chambas and Fouzi Mourji, provides an interesting example. Cross-country regression analysis shows that Morocco has pretty much the level of domestic revenues that would be expected given its level of development, trade integration and structural characteristics. Thus there are no obvious inefficiencies in its revenue generating process – or, at least, no more inefficiencies than can be found in other countries of similar characteristics. However, through a detailed analysis of the different sources of government finance, the authors argue that it is possible to find additional 'room to manoeuvre' in external savings, virtuous seignorage and the expected effects of tax transition.

Senegal, as noted in Chapter 8 by Adama Diaw, Samuel Guérineau and Sylviane Guillaumont Jeanneney, is in an altogether different situation, as it requires a significant increase either in its growth rate or in the effectiveness of that growth in translating into poverty reduction so as to be able to achieve the MDGs. Having recently carried out a comprehensive national tax reform in 2004, there is probably little additional gain in this dimension – except perhaps in the area of local tax administration. Given Senegal's membership in the West African Economic and Monetary Union, seignorage cannot play a major role in increasing the level of resources available to the state. There is a dimension for enhanced fiscal space in regional market borrowing coming from Senegal's good handling of its public finances and the liquidity in the Senegalese economy or, more generally, in the Union.

The other two countries in the study are useful not just in themselves but because of the contrast that they provide. Thailand is a country that has already achieved the poverty MDG. Thus the vital question that a study of this country can help answer, as argued by Karel Jansen and Choedchai Khannabha in Chapter 9, is how it did it. Thailand was first of all a very rapidly growing economy during the past 50 years, so that the Thai experience serves to buttress the argument that economic growth plays a vital role in generating not only poverty reduction through its direct effect on revenues, but also in increasing the availability of resources to direct in the fight against poverty. At first blush, Thailand's fiscal policy seems to make the case for a relative laissez-faire approach. Its emphasis on macroeconomic stability, its repression of labour organizations to keep wages low, and its relatively small size of overall government appear to support the hypothesis that it was the lack of government intervention that helped Thailand grow. However, deeper analysis shows that even though the overall size of government is small, spending on crucial items, such as infrastructure and social services, was actually quite high. Most importantly, Thailand's fiscal policy formed a part of a coherent – if

conservative – development strategy that was based on a vision of a small yet powerful state that would support the private capitalist class in the process of accumulation.

Venezuela, by contrast, is a country with an embarrassment of riches at its disposal. According to the study by Francisco Rodríguez and María Antonia Moreno (Chapter 10), there are a set of concrete policy measures and institutional reforms that would allow Venezuela to increase fiscal revenues by ten percentage points of GDP. What is striking about Venezuela, however, is that it has decided to ignore this opportunity. While other Latin American economies achieve a much higher effective tax rate (as compared to Venezuela's non-oil taxation), Venezuela appears to have decided to use the additional resources derived from oil to provide its citizens with lower taxes, even if that means relatively high poverty rates for its level of development. This may be a reflection of the fact that Venezuela's rentier state political economy leads it to display a relatively low level of efficiency in its public expenditures, as illustrated by the poor results found in evaluations of the recent increase in social spending carried out by the Chávez administration.

## THE WAY FORWARD

The basic idea behind this book is that fiscal strategies that complement social and economic policies to secure a development transformation require a departure from conventional approaches to fiscal planning. Economic theory and empirical evidence suggest that consideration should not only be given to how much the government spends and whether there are enough resources to pay for those expenditures. Rather, one must also consider what the government is spending resources on and how the composition and quality of spending, as well as the broader institutional context in which it occurs, can affect long-term fiscal viability.

The ideas that are put forward should not be interpreted as an endorsement of an 'anything goes' approach to fiscal policy. Prudent macroeconomic policymaking is believed to be a vital component of any strategy with the potential to achieve sustainable poverty reduction. We do believe, however, that the markers used to measure prudent action have to be re-evaluated in the context of a broader development discussion. Some investments might have extremely high social rates of return, even if they have an unpredictable effect on public finances. Whether a society is able to finance a fiscal expansion or not will depend on structural and institutional factors, including the capacity of its political system to distribute costs in ways that are perceived to be acceptable by different groups. Our proposal is that this fuller framework be incorporated in thinking about the financing of poverty reduction.

Meeting the MDGs is unlikely to be easy. Significant progress in poverty reduction has already been achieved: the proportion of people living on less than a dollar a day declined from nearly one-third to less than one-fifth of the world's population between

1990 and 2004. However, the recent increases in food prices, as well as the possibility of a worldwide recession, require serious thought about the prospects for continuing the fight against worldwide poverty in the midst of less favourable global conditions. The capacity that countries can use to mobilize domestic resources to continue their efforts to reduce poverty, as well as to protect the gains that have been made to this point, will be a crucial determinant of whether the historic commitment assumed at the turn of the millennium will be remembered as a turning point in the history of humankind, rather than as one more addition to a long list of unfulfilled promises.

## Notes

1 For two opposing views of this debate, see Rajan and Subramanian (2005) and Reddy and Minoiu (2006).
2 See, for example, the debates on the causes of inflation in Latin America captured in Baer and Kerstenetsky (1964).
3 Economic growth in a cross section of countries.
4 See Sachs et al (2004). For a critical evaluation of this hypothesis, see Easterly (2006).
5 More recent data, not available when the Venezuela country study was written, suggest a rapid decline in poverty during 2006 and 2007. However, preliminary data also suggest that Venezuela may have entered into a recession in the first quarter of 2008, a possibility that is likely to undo recent progress (Rodríguez, 2008b).

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