Introduction

Poverty poses a dilemma for liberal economic governance. Of course, poverty and inequality have always been a part of free market economies. In *Savage Economics*, David Blaney and Naeem Inayatullah describe this dark side of capitalism as ‘the wound of wealth’—a wound that continues to haunt economic theory and practice. Poverty remains a troubling reality that does not fit comfortably within liberal economics, which assumes that the rising tide of growth will lift all boats. Where conservatives have tended to see poverty as an unfortunate reality and radical critics have viewed it as evidence for the need for revolutionary transformation, liberals are left with the difficult tasks of explaining, justifying and seeking to remedy it.

Such tasks have become a veritable industry—particularly on the global level, where measuring, assessing and addressing poverty have become a central focus of development efforts. The problem of global poverty as an object of liberal governance is, as Arturo Escobar notes, a particular modern construction. Once statistics on annual income per capita began to be collected in the early 1940s, two-thirds of the world’s population was suddenly deemed poor. This problem of poverty needed to be managed—an undertaking that requires an array of new forms of expertise, techniques and resources. The dilemma of poverty has thus been a productive one for liberal economics, particularly in international development.

Efforts to manage global poverty have, however, remained consistent with what Michel Foucault describes as the central dilemma of liberal governmental reason: ‘how not to govern too much’. It is political economy, Foucault suggests, that has provided a solution to this dilemma since the eighteenth century, by defining ways of managing a population’s prosperity without excessive governmental intervention. While efforts to manage global poverty since the 1940s have been constrained by this liberal anxiety, the form of those governance efforts and of the expertise that underpins it has not remained static. The persistence of poverty remains an irritant to expert assertions that things will get better soon. The wound never seems to heal, despite continued attempts to treat it. And so it has become necessary to develop new theories about the causes of poverty and new strategies for reducing it. Even among development experts, the problem of poverty—how to define, measure, and manage it—has been the subject of considerable debate over the years.
Those debates have been particularly heated over the past two decades. Major shocks such as the Asian financial crisis and the AIDS crisis in Africa reversed progress in reducing poverty levels, making it clear that poverty was a more fluid phenomenon than had been imagined. A growing number of mainstream economic studies also began to question the liberal economic assumption of a causal link between growth and poverty reduction, after finding cases in which poverty persisted or even grew despite robust economic growth.6

It is in the context of these debates that new definitions of poverty have begun to emerge, as well as new strategies for governing it. Chief among them is the idea of viewing poverty through the lens of social risk and vulnerability, a strategy championed by the World Bank, and later adopted by the Organisation for Economic Cooperation and Development (OECD) and some donors as part of a strategy of ‘pro-poor growth’.7 This new approach focuses on the vulnerability of individuals and communities to shocks and other risks that might force them into further poverty—by selling off their livestock, pulling children out of school, or otherwise reducing their ‘assets.’ Because poverty is seen as more fluid and contingent, the techniques used to manage it must also be more flexible and proactive. World Bank staff, for example, have adopted a new, more proactive strategy for social protection which seeks, in their words, to transform ‘safety-nets into springboards’—to make what had become a peripheral matter of protecting the poorest into a central force in economic development.8

This article tackles three questions related to this recent shift in the governance of global poverty. In order to understand the particularities of this shift, I examine how the World Bank has historically sought to contend with the wound of wealth. I then consider how this new conception of poverty as risk and vulnerability came to be institutionalized at the Bank. Finally, I ask what the implications of this shift are for how poverty is governed.

If we look at the evolution of the World Bank’s efforts to address poverty, we find that institutional actors have historically relied on three different strategies: treating poverty as derivative, marginal or integral to achieving growth and development. During the structural adjustment era, poverty was treated as derivative of the real business of development—a problem that would be automatically resolved with economic growth. By the late 1980s, there was some recognition of the need for limited safety nets for the marginal unfortunates who were hardest hit by the effects of adjustment. The more recent social risk framework, in contrast, treats poverty as integral to development. By drawing on new institutionalist economics, economists have begun to see poor people’s vulnerability as examples of market failure—not a peripheral issue but a signal that markets were not working as they should. Solving those failures could therefore be seen as essential to the broader goal of achieving sustained economic growth: the problem of poverty became integrated—domesticated—into the dominant economic rationality.

How was the social risk and vulnerability framework institutionalized at the World Bank? To answer that question, I suggest, we need to consider the role of three interrelated processes: key events that reopened the wound of wealth, expert debates about how to respond, bureaucratic politics within the institution. Although the shift to redefine poverty as social risk and vulnerability is significant, the process through which this change emerged was contingent, dependent as much on compromises and
bureaucratic struggles as on grand shifts in ideas. In contrast with some of the more
epochal accounts of the transformation of modern governance, this study therefore seeks
to provide a more ‘topological’, finely grained account of the ways in which forms of
governing are developed, put into practice and resisted.9

What are the implications of this shift in the conception and governance of poverty?
Although the process through which the social risk and vulnerability framework was
institutionalized was contingent, it has had some profound implications for the ways in
which poverty is conceptualized. Whereas poverty was conceived before as relatively
static, vulnerability, risk and resilience are concepts that redefine poverty as something
dynamic. This reconceptualization of poverty as dynamic has a corollary impact on the
kinds of development techniques deemed appropriate, requiring a more proactive and
pre-emptive set of practices that seek to constitute more active, self-governing poor
people. While this more active intervention does require a more engaged state apparatus
than was evident in the structural adjustment era, its role remains constrained by the
liberal preoccupation with limiting governmental power. Thus, this more proactive form
of governance involves increasingly indirect forms of power, reconstituting patterns of
inclusion and exclusion in increasingly obscure forms.

The remainder of this paper proceeds in five parts: I begin with a brief history of the
management of poverty at the World Bank, focusing in particular on the structural
adjustment era, and then trace the recent shift in developing thinking and practice about
poverty, focusing on the role of key events, expert debates and bureaucratic dynamics. I
then examine the emergence of the new strategy for governing poverty through the
concepts of social risk and vulnerability. I go on to analyze how this new strategy
works in practice, and conclude by considering the implications of this way of governing
poverty.

Earlier conceptions of poverty

Global poverty may have been an object of liberal governance since the post-war era,
but the way it has been defined and managed has changed significantly over time. In fact,
we can find three different logics at work in the relationship between poverty and liberal
economic development: approaches that treat the reduction of poverty as derivative of
growth, those that treat it as a marginal (but costly) problem, and those that see it as
central issue that can be integrated into broader efforts to achieve growth. At the same
time, all three of these strategies are consistent with the basic parameters of liberal
economic governance: they seek to respond to the problem of poverty while avoiding
excessive government.

The early post-war years were marked by optimism about the possibility of
eradicating global poverty through modernization and growth. While there were different
theories of how ‘backwards’ economies could be modernized—including the big push,
takeoff, and two gap approaches—economists shared a common belief that growth would
reduce poverty, as its benefits ‘trickled down’ to the poorest.10 This ‘trickle down’
approach saw no need to treat poverty directly, as its solution was assumed to be largely
derivative of efforts to achieve growth.
It was this ‘article of faith’ that Robert McNamara challenged when he arrived at the World Bank in 1968, insisting that poverty needed to be directly targeted if it was to be reduced. McNamara also had to find a way of making poverty-reduction consistent with the Bank’s technocratic culture—and with his own love of numbers. His solution was ‘redistribution with growth,’ an approach that treated poverty-reduction and growth as compatible, while focusing on absolute rather than relative poverty (or inequality).

McNamara’s approach sought to treat poverty as a separate, rather than a derivative, problem. Redistribution with growth was a strategy for integrating poverty reduction into mainstream economic goals, while simultaneously avoiding more radical proposals that placed more emphasis on inequality and relied more heavily on government intervention. Yet the policy remained contested within the Bank, as some staff argued for more interventionist state actions to meet the population’s ‘basic needs,’ while another (larger) group continued to push in the opposite direction, arguing that policies aimed at alleviating poverty would cause growth rates to suffer.

These more orthodox economists within the World Bank ultimately had their way in the 1980s. Under the leadership of A. W. Clausen as President and Anne Krueger as Chief Economist, many of the critical researchers were replaced with neoclassical economists. The Bank’s focus shifted towards growth, which it sought to achieve through liberalization, privatization and structural adjustment—a triumvirate of policy prescriptions that came to be known as the Washington Consensus. Poverty dropped largely from the agenda. Where it did appear, the assumption was that growth would resolve it: the trickle down thesis had made a comeback.

Although the specific policies of the structural adjustment era were very different from those of the 1950s and 60s, the conception of poverty was remarkably similar: poverty was once again seen as a derivative problem. Key figures within the Bank argued that adjustment was good for the poor, but that the effects were not visible. Moreover, it was believed that the more severe aspects of structural adjustment would be temporary, making it unnecessary to directly address short-term costs.

By the late 1980s, however, under Barber Conable’s leadership, Bank staff began to refocus on poverty reduction, recognizing that additional measures needed to be taken to protect the poor from some of the dislocations caused by adjustment. In 1987, UNICEF published a critical report, Adjustment with a Human Face, detailing the social costs of structural adjustment (UNICEF 1987); the report sparked a broad debate on the Bank’s policies. It was in this context that the 1990-91 World Development Report, Poverty, was prepared, outlining the Bank’s emerging strategy for tackling poverty. This report provides a useful snapshot of some of the Bank’s staff members’ thinking about poverty during the structural adjustment era. A caveat is necessary here, however: although its critics tend to represent the World Bank as a monolithic actor, those who study the organization (like those who have worked for it) know that it is in fact a frustratingly complex institution. The tidy picture that the annual World Development Reports (WDR) present is therefore more than a little misleading. Yet, these reports do serve a useful purpose is outlining major thinking at the Bank at a given moment—particularly the decade-defining reports, which are more central to the Bank’s self-definition.
In spite of its nod to some of the costs of adjustment for the poor, the 1990-91 WDR remains a product of the structural adjustment era. The report proposes a two-pronged strategy for reducing poverty: enabling the poor to use their principal ‘asset’, labour, more effectively and increasing the productivity of that asset, through education, primary health care, family planning and nutrition. As the report goes on to point out, these poverty reduction strategies are in fact consistent with the objectives of structural adjustment, as they both seek to use labour more efficiently. Much of the report reads like an apology for the pro-poor benefits of unrefined neoliberalism: it turns out that reducing taxation on agriculture, reducing such ‘biases’ against labour as excessive regulations, social security taxes and minimum wages, creating a ‘neutral’ (liberal) trading regime and only lightly regulating the informal sector will all free up poor people’s labour, and thus reduce poverty. The report includes a chapter on transfers and safety nets, but treats them as a peripheral part of the poverty-reduction strategy designed for those too ill, old or remote to participate in growth.

The 1990-91 WDR thus treats the resolution of poverty as both derivative of growth and as an additional, but marginal, cost. In this report, the overwhelming goal of development remains the pursuit of growth through orthodox neoliberal policies. Yet its authors also recognized that some individuals at the margins would suffer from structural adjustment; hence some safety-nets become necessary, even if they are unproductive and thus a net cost.

Debating poverty

The structural adjustment-friendly approach to poverty articulated in the 1990-91 WDR was eventually contested and replaced by an approach that has once again sought to integrate poverty into mainstream development. In understanding how this shift occurred, three key factors are worth examining: the role of certain problems in highlighting the insufficiencies of existing approaches to poverty and thus re-opening the wound of wealth; the debates among development ‘experts’ about how to define and respond to this wound; and the effects of institutional politics in influencing the kinds of policy responses that emerged.

Catalyzing events

By the mid-1990s, scholars and practitioners alike had began to raise a number of doubts about past development strategies. Part of the reason for this change of heart was a series of events that were seen as evidence of development failures, forcing the development and finance communities to re-examine the problem of poverty. Increased poverty in Sub-Saharan Africa in the 1980s—dubbed the ‘lost decade’—raised questions about the effectiveness of Bank structural adjustment policies. Moreover, financial crises in Mexico in 1994 and then in Asia in 1997-98, as well as the failure of the IMF’s response to the Asian crisis, ultimately lead to some rethinking of development finance.

The persistence of poverty in regions including Sub-Saharan Africa, in some cases despite GDP growth, challenged Bank economists’ assumptions about the straightforward link between growth and poverty-reduction. The effects of the Asian crisis, including the sudden emiseration of huge swaths of the population that had achieved a reasonable
standard of living, revealed the fragility of income security. The devastating impact of AIDS in Africa as well as the proliferation of civil conflicts made it clear that poverty was in part a product of community-level or even nation-wide shocks. Both of these events forced World Bank staff to recognize the potential for unexpected events to disrupt development plans. If shocks played a significant role in people’s lives, then Bank staff needed to pay more attention to the vulnerability of poor people and take a closer look at ways of addressing it—through proactive and reactive measures.28

**Expert debates**

These events did not automatically translate into new poverty reduction strategies, but instead sparked a series of debates among development practitioners and economists. These were the kinds of debates that might be called ‘hot’ debates, following Michel Callon,29 as it was not only the question of how to reduce poverty that was up for grabs, but also far more fundamental questions about what counts as poverty, how to measure it, and the nature of the relationship between poverty and growth. Two debates in particular played a crucial role in redefining poverty at the Bank and in the wider development community: one on the relationship between poverty and growth, and another on the social policies needed in response.

By the late 1990s, a growing number of economists, at the Bank and elsewhere, were challenging assumptions about the benefits of growth-oriented policies for the poor: they included Dani Rodrik, who called the growth versus poverty reduction controversy a ‘hollow debate,’ as well as François Bourgignon, Ravi Kanbur, lead author of the 2000-01 WDR, and Joseph Stiglitz, then Chief Economist at the Bank.30 They pointed to the inconsistent relationship between growth and poverty reduction, suggesting that, in Bourgignon’s terms, the extent to which poverty could be reduced through growth was highly elastic, depending on domestic factors such as inequality.31

Yet they faced an uphill battle. Ranged against them was a group of economists committed to the belief that, as the title of one controversial article put it, ‘Growth is Good for the Poor.’32 Although Dollar and Kraay, the authors of this article, have since argued that they did not intend their paper to be seen as a manifesto for growth alone, they did set out to make a case for the virtues of neoliberal growth. In this view, they were supported by other Bank economists, a large number of IMF-based economists, as well as leading figures in the US Treasury.33 Over time, a partial compromise was achieved around the idea of “pro-poor growth,” which focused on the conditions in which growth produced important reductions in poverty.34

A second, less publicized, debate was also underway at roughly the same time among economists interested in social protection. Thinking in this area had begun to shift in the 1980s and early 1990s, following Amartya Sen’s work on famines, which showed that they are often the result of failures of social entitlements to food, rather than in the supply of food.35 Sen’s work influenced the growing literature on hazards and disasters, which focused on individuals’ vulnerability to their effects—a literature that also began to influence social policy thinking.36 A later Sen article, co-authored with Jean Dreze, also pointed to the large role of the informal economy in many developing countries and argued that, even in the absence of shocks, formal welfare policies are often ineffective in such contexts.37 These studies among others lead to social policy experts beginning to
shift from social welfare to social protection as their organizing framework. In the process, they redefined the goals of social protection as not only to protect individuals from poverty—and the shocks that often led to poverty—but also to prevent their falling into poverty and to promote their capacity to respond to risks. Underlying both pro-poor growth and social protection policies are several concepts linked to new institutionalist economics—chiefly those of market failure and the centrality of institutions in resolving it. While this branch of economics dates back to the early and mid-twentieth century with the work of Ronald Coase, it gained wider attention with the contributions of Douglass North and has become particularly influential in development circles over the past decade. Although institutionalist economists remain within the neoclassical tradition that dominated thinking at the Bank and the Fund from the late 1980s until the mid-1990s, rather than assuming that market-based solutions are the most efficient, they emphasize the centrality of institutions in reducing transactions costs and making markets work better.

Both advocates of pro-poor growth and of the new approaches to social protection see poverty as a sign of market failure: the fact that poor people do not have access to the benefits of the market, such as credit and jobs, and that they cannot withstand shocks, are indications that the market is not working as it should. Even with increased growth, such distortions in the market may persist, making it unlikely that growth alone will reduce poverty. Viewing poverty in terms of market failure legitimizes poverty-reduction efforts as central to broader economic development: making markets work better for poor people also ensures that markets work. The problem of poverty—and thus the wound of wealth—is brought back into the fold as a central rather than derivative or marginal issue, in which poverty-reduction efforts and ‘serious’ economic activities are mutually consistent. New institutionalist insights allow development experts to dig deeper into the causes of poverty without challenging the underlying assumption that the market is the ultimate solution.

Institutional dynamics

The third major factor influencing the evolution of the social risk framework at the World Bank was the influence of internal institutional politics. The efforts of the social protection team to increase its influence within the Bank, country stakeholders’ ambivalence about social protection, tensions between different units, and conflicts over the 2000-01 WDR all influenced the policy’s ultimate form. In the context of these various pressures, social risk became a means of moving the social protection agenda ahead without provoking much opposition from conservative elements within the Bank, and without straying from a market-oriented approach to development.

The Social Protection and Labor unit was the key advocate for redefining poverty as social risk within the World Bank. Created in 1996, this unit is one of the newest at the Bank. The unit brought together various policy areas that had previously been treated separately: pensions, labour market policy and safety nets. Robert Holzmann was hired as Director of this new unit to lead the process of developing a strategy for the sector and became a powerful driving force behind the idea of defining poverty as social risk. The concept of social risk allowed its advocates to redefine social transfers and safety nets as productive investments, thus increasing the importance of social protection within the
institution. Although these efforts did meet with resistance, they did nonetheless achieve some success. As a later report on the effects of the social protection strategy notes:

Social protection (SP) is moving up on the development agenda. Dismissed as ineffective, expensive or even detrimental to development in developing countries, it is now increasingly understood that assisting individuals, households and communities in dealing with diverse risks is needed for accelerated poverty reduction and sustained economic and human development.\(^4\)

The focus on social risk and vulnerability was also a way of countering certain stakeholders’ ambivalence about social protection. Many Executive Board members, including those from East Asia, saw pensions and safety nets as expensive luxuries. The focus on social risk and vulnerability, particularly in the aftermath of the Asian crisis, which revealed the potential costs of those risks, reframed these expenses as investments.\(^4\) As Holzmann noted:

Social protection strategies were usually a headache to have to bring to the Board: everybody has an opinion and it tends to be an uphill battle (for every two countries, there are five opinions). We used risk management as an organizing framework to appeal to those not always supportive of social protection—those who focus more on efficiency. On the other hand, those who supported redistribution were okay with this approach.\(^5\)

The Social Protection team also chose not to emphasize the issue of inequality in their new strategy, as they thought they would get ‘more ownership going within the Bank’ by avoiding the divisive issue.\(^6\)

In many ways, emphasizing social risk and vulnerability was a strategy designed to address the problem of poverty without provoking too much opposition. Yet, despite these efforts, its advocates encountered resistance from within the Bank’s bureaucracy. Social protection was, after all, a new unit in the Bank; moreover, those economists with the most intellectual capital in the organization were those working for the Research Department and the Poverty Reduction and Economic Management (PREM) Network, few of whom had any background in social protection.\(^7\) It is therefore not surprising that many economists in the Bank’s Research Department could not see the value-added of this new framework. Holzmann notes that when he first explained the idea of social risk to Martin Ravallion, now the Director of Research at the Bank, he responded ‘Robert, this is rubbish’.\(^8\) Other staff saw the effort to redefine poverty as vulnerability and social risk as an attempt to take over other units’ territory—for example, those in PREM tasked with measuring poverty using other methodologies.\(^9\) Although the social risk framework ultimately gained influence through its inclusion in the social protection strategy and the 2000-01 WDR, it faced opposition within the institution.

The increased influence of the social risk framework, both within the Bank and the broader development community, can also be traced the fact that it became one of the key pillars of the 2000-01 WDR, *Attacking Poverty*. Tensions underpinning this WDR were widely reported at the time and have been well-documented since then.\(^5\) The Bank’s Chief Economist, Joseph Stiglitz, was fired in the lead up to the report for his criticisms of the IMF’s handling of the Asian financial crisis among other things. The lead author of the WDR, Ravi Kanbur, resigned because of the revisions that had been forced on the
writing team. At the heart of these conflicts was the debate about the relationship between poverty and growth discussed above: some economists wanted the report to emphasize the potential costs of liberalization and the need for more activist policies to reduce poverty. Those on the other side of the debate, which included not just key economists but also, as Robert Wade points out, key figures in the US Treasury, wanted to focus on the virtues of growth and freer markets for poverty-reduction and downplay safety nets and other government policies.51

The 2000-01 WDR was organized into three pillars: opportunity, empowerment and security. While the first was the most growth-oriented, and the second received the most criticism by mainstream economists, the third, security, was primarily about social risk and vulnerability. Although staff from the Social Protection unit were not directly involved in working on the report, defining poverty as social risk was picked up by the WDR team as a useful way of addressing the growing awareness of poor people’s vulnerability. Although earlier drafts of this third section were criticized for excessive emphasis on safety nets,52 the focus on reducing social risk and vulnerability was less controversial, as it was essentially a more market-friendly way of addressing social protection.53 As one former Bank staff member noted, ‘You couldn’t have sold the security pillar with a big government approach that was based on major redistribution’. The social risk approach, in contrast, ‘was skeptical of governments doing everything’, making it ‘more intellectually attractive’ to a wider range of economists who were either more market-oriented or dubious about the capacity of most developing country governments.54

Redefining poverty

What form did this new conception of poverty as risk and vulnerability take? How different was it from earlier efforts to mend the wound of wealth? Although the fullest statement of the social risk and vulnerability approach is articulated in the Social Protection Strategy (SPS), it is useful to examine it together with the 2000-01 WDR, because it allows us to compare it with the 1990-91 WDR discussed earlier.

In contrast to the unabashedly neoliberal tone of the 1990-91 WDR, the 2000-01 report is a much subtler and more sophisticated document. As I mentioned above, the three main elements of the report’s strategy are opportunity, empowerment and security. ‘Opportunity’ bears the most resemblance to the preoccupations of the earlier report, as it is focused on the problem of ‘making markets work better for poor people’.55 Yet much of the analysis in the more recent report, as well as in the SPS, is structured around a discussion of the ways that markets can fail poor people if they are not managed effectively, highlighting the need to correct market failures.56

One way of resolving such market failures is by focusing on increasing poor people’s ‘security,’ which the 2000-01 WDR authors define as reducing their vulnerability and increasing their abilities to cope with risks and shocks. The concepts of security, risk and vulnerability are closely related:

In the dimensions of income and health, vulnerability is the risk that a household or individual will experience an episode of income or health poverty over time.
But vulnerability also means the probability of being exposed to a number of other risks (violence, crime, national disasters, being pulled out of school).  

The report spends a significant amount of time elaborating the risks that poor people face. It maps out the different sources of risk—economic, political, environmental, health—as well as the various levels of society that they affect—household, regional or national. In both the WDR and the SPS, Bank staff identify two kinds of risk: idiosyncratic risks that affect individuals or small groups, such as job loss or illness, and covariant risks that affect a larger group simultaneously, such as environmental and political crises.

Of course, poor people do have their own coping mechanisms. In fact, the second pillar of the 2000-01 WDR, ‘empowerment,’ examines ways of engaging poor people more actively in the management of their economic situation. The report and the SPS also discuss the different strategies for responding to risk, both informally through individual efforts to build up assets and through community networks, and formally through market and public provision of safety nets. Whereas in industrialized societies, most of the population is able to rely primarily on more formal mechanisms (life and health insurance, pension plans, welfare), poor people rely on informal mechanisms.

Where the 1990-91 WDR did discuss the problem of shocks, it emphasized the importance of informal and market-based mitigation strategies for all but the most vulnerable. While there are a few references to risks, shocks and vulnerability in the report, they play a minor part in a strategy that is overwhelmingly oriented towards freeing up labour in order to help the poor attain a minimum standard of living. The 2000-01 report, in contrast, raises doubts about that strategy: large crises tend to undermine informal efforts, since everyone is affected simultaneously. Moreover, markets are often locally based and therefore not always able to insure against widespread risks.

The reconceptualization of poverty as social risk and vulnerability has had a concrete effect on World Bank practices: over time, policy in each of the three areas covered by social protection—labour, pensions and safety nets—has been re-framed to take the new focus on risk and vulnerability into account. In the labour market sector, for example, thinking at the Bank has shifted away from the belief that macro-economic stabilization and liberalization alone are sufficient to ensure labour-market access by the poor. Bank staff now argue that the various informal and private mechanisms that poorer people use to respond to shocks, including taking children out of school to work, can lead them to under-invest in their human capital: ‘Thus, public intervention is needed’. Another new social protection policy initiative with clear affinities with the social risk approach is the conditional cash transfer (CCT) strategy. Although CCTs were not invented by the Bank, they have become a favorite policy and are seen as one useful way of responding to social risk. CCTs are funds provided to poor households on the basis of certain conditions—usually that they keep their children in school and send them for regular health checkups. The cash transfers thus provide two ways of managing risk: in the short-term, they provide funds to help cope with shocks, while in the longer-term they attempt to foster a population that is healthier and better educated, and thus better able to manage risks.

In each of these policy areas, government is seen as playing a more important role than in the past because of market failures; yet the public is seen primarily as a means to
‘supplement’ existing private and individual risk management strategies rather than to replace them. As is clear in a later report by Holzmann, the reengagement with the public sector is premised on a desire to compensate for the limits of the market without displacing it as the central force:

    In an ideal world with perfectly symmetrical information and complete markets, all risk management arrangements can and should be market-based (except for the instruments protecting the incapacitated). However, in the real world, all risk management arrangements will play important roles that are likely to change over time.

Bank staff thus defined the solutions to the market’s failures in ways that ensured that the state did not take too large a role, respecting the liberal anxiety about an excess of government.

### Changing how global governance works

By redefining poverty as social risk and vulnerability, Bank staff have sought to reintegrate the problem of poverty into the core of development efforts. Poverty, they suggest, is not simply a short-term side-effect of structural adjustment, or a cost caused by the most marginal members of society, but a sign that markets are failing a significant segment of the population. Market failures mean that poor people do not have access to resources like credit, insurance and employment that might allow them to cope with risk. Re-integrating them into the market economy, moreover, by reducing their vulnerability, will help make markets work better and thus contribute to economic growth and stability. While this integrationist approach to poverty bears some similarities to McNamara’s war on poverty in the 1970s, there are also some important novelties in this most recent attempt to mend the wound of wealth: the concepts of risk and vulnerability not only reabsorb poverty into the economic mainstream, but they also reconceptualize it. This new strategy for governing poverty involves a more dynamic ontology and a more proactive and pre-emptive set of governance techniques. Reflecting the liberal concern with excessive government, moreover, the social risk approach operates through a loose configuration of public and private actors and relies on increasingly obscure and indirect forms of power to achieve its ends.

### A more dynamic ontology

A passage from the 2000-01 WDR is especially illustrative of the new dynamic conception of poverty:

    As traditionally defined and measured, poverty is a static concept—a snapshot in time. But insecurity and vulnerability are dynamic—they describe the response to changes over time.

Reconceptualizing poverty as dynamic happened in part because of some rather mundane technical developments: as researchers began to categorize the poor into two groups—the ‘always poor’ and the ‘sometimes poor’—they rapidly realized that the second group was in fact quite large. Rather than assuming that the poor and the non-poor were relatively static categories, it therefore made sense to begin to try to measure the movement of
people into and out of poverty, as well as to try to understand what was driving that movement.

Conceptualizing the poor as mobile transforms poverty from a state of being into a process. This is a new ontology of poverty: it radically transforms the object of development analysis and policy (to borrow a metaphor from physics, this is like changing our image of the electron from a particle into a wave). This dynamic conception of poverty also involves a different idea of time. An individual or a community’s vulnerability is something that develops over a long period of time; efforts to reduce it must also take a long view. Coping with risk is a short-term challenge; mitigating and even preventing risks requires longer term planning. In some ways, this extension of the time-horizon merely deepens an already-existing tendency in development thinking towards focusing on human capital in the form of education and health. Yet the emphasis on risk and vulnerability adds a further dimension to the reconceptualization of time, in its emphasis on the profound unpredictability of the future, as it becomes an uncertain territory filled with shocks and risks.

Proactive and pre-emptive techniques

Reconceptualizing poverty as a process in time also enables (indeed requires) a new set of proactive governance techniques. It becomes necessary to not only identify those most vulnerable, but also to discover the greatest risks that they face, and develop strategies to deal with shocks long before they have occurred. Thus, those seeking to redefine the Bank’s social protection strategy in the late 1990s discovered

that a new conceptual framework was needed which moves SP [social protection] from a definition by instruments (such as social insurance) to a definition by objectives (that is assisting in risk management); from a traditional focus on ex-post poverty to ex-ante vulnerability reduction; from seeing SP in our client countries largely as safety nets to conceptualizing them as spring boards.70

Social protection, which was once viewed as largely about transfers of funds is now seen as an active investment in the development process. Risk and vulnerability assessments are designed to deliver a comprehensive picture of the complex relationships among various kinds of potential shocks, government, market and community actors and their various risk management strategies. In theory at least, this four-dimensional map (time is also a necessary factor) can be used to develop more nuanced, targeted interventions to alter the movement of people into and out of poverty.

The examples of social protection policies discussed above all seek to engage more proactively with the target populations, to promote the right kind of practices and to pre-empt undesired outcomes. Hence labour-market policy is no longer only focused on reducing barriers to labour market flexibility (the classic neoliberal strategy), but is also focused on fostering a better trained, more work-ready population.71 CCTs work to change individuals’ behaviour to make them more resilient to future risks: the Bank’s key study of CCTs also notes that while it may appear that the conditions placed on individuals are paternalistic, there is an effort to treat them as ‘co-responsibilities’ that ‘treat the recipient more as an adult capable of agency to resolve his or her own problems’.72 This new way of conceptualizing the poor, together with the whole wealth
of new strategies designed to make this measurement, representation, and management possible, provide an excellent example of what Ian Hacking calls ‘making up people,’ or creating new categories of identity which make possible new ways of being.\(^73\)

**Engaging but limiting government**

These more proactive techniques of poverty-management pose particular challenges for liberal economic governance: how to ensure that there is more active management of poverty while avoiding excessive state intrusion? The solution provided by the social risk framework is to rely on a network of public and private actors and formal and informal institutions rather than simply bringing the state back in. New institutionalist economics provides a useful lens for conceptualizing these more fluid public-private relations: the institutions needed to resolve market failures can be public or private, formal or informal.

The social risk framework seeks to manage poverty by reconnecting public and private actors in different ways—linking them up, getting them to act as checks on each other, infusing one with aspects of another—in order to create new networks, linkages, assemblages.\(^74\) As one passage from the WDR 2000-01 notes, ‘This is not an issue of the state versus the market, but of the use of different agents and mechanisms depending on the type of activity’.\(^75\) The rearticulation of these relationships is conceptualized using different market-based metaphors, such as competition, supply and demand:

Social protection should contribute to a better match between the supply and the demand of risk management instruments. There are many suppliers of social risk management instruments, such as individuals, households, communities, non-governmental organizations, financial markets, governments at different levels, bilateral donors, and international organizations.\(^76\)

These heterogeneous kinds of social actors are thus represented in very similar terms: they become parts in a larger more social kind of market mechanism, in which individuals, NGOs, communities, IOs and others can act as a source of demand for risk management as well as supply it.\(^77\) While the market thus gets hedged around by institutions designed to make it work right, those institutions and actors in turn come to be defined through their instrumental relationship with the market.

**Indirect forms of power**

The kind of governance techniques required for reducing poverty by managing risk and vulnerability relies what Michael Barnett and Raymond Duvall, drawing on Michel Foucault, call ‘productive power’.\(^78\) This is a kind of power that does not simply seek to constrain but to actively constitute practices and subjectivities. Thus, the goal of this kind of policy is not just to reduce poverty, but to constitute a new kind of low-income individual better capable of managing risk and thus able to attain a better quality of life.\(^79\) Bank staff are themselves very keen on the productive and proactive aspects of this new poverty-reduction framework.\(^80\) In their 2009 review of social protection, staff note, ‘The productive, as opposed to the redistributive, role of safety nets is becoming more recognized’.\(^81\) Moreover, the concept note and the consultations for the new 2012-2022 Social Protection Strategy emphasizes the importance of promoting more resilient communities and individuals.\(^82\)
Risk is a category rather than a thing—it is a way that we make the world calculable in particular kinds of ways. Risks are beyond our control and yet also very much subject to our understanding: a risk by definition is something that can be understood through a logic of probability (as opposed to uncertainty, ambiguity and other kinds of indeterminacy). As such, risk-based policies are particularly suited to this kind of productive application of power. This is particularly the case in the context of a market economy, in which risk is never viewed as an entirely bad thing. According to the Bank, risk is an essential tool for understanding poverty not only because shocks can wreak havoc with efforts to raise incomes (risk as a bad thing), but also because as poor people find themselves with fewer tools for managing risks, they are less likely to undertake riskier activities, and thus forgo the potential gains that they might make (risk as a good thing). Risk is thus understood as a double-edged problem: it is not universally bad, but instead needs to be both mitigated and exploited through particular kinds of interventions.

The more productive forms of power deployed today are also less direct than the more coercive techniques deployed by the Bank and other IFIs in the past. There is less emphasis on formal conditionality and more focus on constituting the right kinds of risk-bearing individuals and creating the conditions necessary for them to take on governance tasks themselves. Yet the fact that these forms of power are productive does not make them any less exclusionary. As a number of social policy analysts have pointed out, even as the social risk framework seeks to engage a wider range of poor people more actively in the process of managing risks, it also tends to neglect those less capable of such active forms of self-governance. The framework’s emphasis on the dynamic character of poverty leads it to downplay the problems of the chronically poor. Its advocates’ emphasis on shocks leads them to de-emphasize subtler sources of vulnerability, such as those associated with gender, class, ethnicity or other structural fault-lines. More fundamentally, the tendency of advocates of the social risk framework to define poverty in absolute rather than relative terms, and to emphasize poverty reduction as a ‘win-win’ policy means that more difficult, structural solutions to poverty tend to get short-shrift.

Conclusion

The structural adjustment era treatment of poverty as a residual or marginal problem has given way to a more active conception of poverty-reduction as integral to economic management. I have suggested that in order to understand these changes—what drove them and what they mean—we need to pay attention to both the broad macro-principles of liberal governance and to the specific dynamics of expert debates and institutional negotiations. Two key liberal principles can be seen to shape efforts to manage poverty throughout the World Bank’s history: the need to address the wound of wealth, but to do so in such a way that the scope of state action is always kept in check. Within these broad parameters, the form that poverty-reduction policies take has historically varied through some combination of three treatments of the relationship between poverty and growth—as a residual, marginal or integral part of broader development efforts. Each of these approaches has its advantages and disadvantages as governance strategies. Yet successive efforts to find a liberal solution to global poverty have all proven insufficient, as poverty persists, like dirt in the wound.
In the 1990s, a series of financial, health and development crises forced the wound of wealth back into the consciousness of development practitioners and helped to unsettle assumptions about the character and solution to poverty, emphasizing the contingent and risk-prone character of poverty-reduction efforts. In the context of the expert debates that ensued, new institutionalist economics played an important, if subtle, role in redefining poverty as market failure, and thus treating its reduction as integral to broader development efforts. At the World Bank, internal institutional dynamics, driven by intellectual debates about the relationship between poverty and growth, bureaucratic rivalries and the need to placate those skeptical of social protection all played a role in influencing the form of the social risk framework.

Like previous World Bank approaches to poverty, the emphasis on risk and vulnerability is both consistent with the principles of liberal governance and yet subject to significant tensions. In many ways, the efforts by advocates of social risk and pro-poor growth to integrate poverty into mainstream development is consistent with the principles of liberal governance: because poverty is defined through market failure, efforts to manage it can be seen as an attempt to re-establish a more perfect market system. Moreover, by treating poor people as potential participants in their own economic rehabilitation capable of managing risk effectively if given the right tools, the social risk strategy fulfills liberal government’s commitment to governing through the freedom of its subjects.

Yet tensions remain. As McNamara found in his earlier effort to bring poverty reduction into the fold of economic development, many economists are resistant to such efforts. The idea that poverty is merely a residual problem—resolvable by the pursuit of growth and stability—is seductive to liberal economists. They view the integrationist move involved in McNamara’s redistribution with growth or the current social risk framework with considerable skepticism—not least because of their tendency to demand a more active form of governance, which always runs the risk of governing too much. The form taken by the current social risk and vulnerability framework can be understood in part as a particularly clever response to these concerns, relying as it does on a network of actors and practices, and on increasingly productive but indirect forms of power to achieve its ends.

In the aftermath of the recent financial crisis, the concepts of vulnerability and risk have gained even more momentum within the World Bank and more generally among development organizations. And while bureaucratic resistance remains, the idea of social risk has become mainstream. In its most recent draft strategy, the Social Protection unit has placed even more emphasis on the importance of the proactive promotion of poor people’s capacity to manage risk. Yet the future of the social risk approach to poverty—like those of previous liberal poverty-reduction strategies—remains far from certain. Constrained by its fear of too much government intervention, the social risk approach cannot acknowledge the problems posed by narrowly market-based solutions. Blinded by a desire to make poverty fit within the mainstream of economics, its advocates cannot recognize the profound challenge the poverty poses to liberal economics. Thus it seems very likely that the wound of wealth will continue to fester, a continual irritation to the promises of liberal governance and a provocation to the institutions that seek to manage the problem of global poverty.
Notes

1 This article is part of a large book project on the transformation of global economic governance, entitled The Rise of Provisional Governance? The Politics of Failure and the Transformation of Global Development Finance, forthcoming with Cambridge University Press in 2013. An earlier version of this article was presented at the workshop on Public/Private Interaction and the Transformation of Global Governance, held at the University of Ottawa in May 2009. I would like to thank the participants in that workshop for their feedback on that earlier draft, particularly Alexandra Gheciu. I also benefited from some excellent research assistance from Marie Langevin and Kailey Cannon in writing this article. This article was researched and written with the financial support of the Social Sciences and Humanities Research Council of Canada.


5 Foucault, Naissance de la Biopolitique, p 13; I provide a fuller examination of the peculiar role of political economy in creating exceptions to the exercise of sovereign power in J Best, ‘Why the Economy is Often an Exception to Politics as Usual’, Theory, Culture and Society, 24(4), 2007, pp 83-105.


8 World Bank, Social Protection Sector.


Moving funds out the door is the single most important objective at the World Bank, one that can easily distort other goals.


Structural adjustment policies typically sought to open countries up to international trade and investment, liberalize financial flows, reduce inflation, make labour markets more flexible, reduce the size of the public sector, privatize government-owned companies, and remove government subsidies.


Phone interview with former senior World Bank staff member, February 2012.


Vetterlein, ‘Economic Growth’.


Although, as James Ferguson and Timothy Mitchell have convincingly argued, the ‘success’ of liberal economic theory can often coexist quite happily with what appear to be abject failures in practice, there are also cases in which these problems become defined as a particular kind of failure—thus precipitating new debates on theory and


31 Bourguignon, *Growth Elasticity*. It is worth noting that while Bourguignon was well respected within the Bank well before his term as head of the Research Department, his emphasis on equality only came to be widely accepted in the mid- to late 2000s.


34 Ravillion, *Pro-Poor Growth*.


The term ‘stakeholder’ refers to the countries who are members in the World Bank and who influence its policies through their Directors (who meet twice a year) and, more importantly, Executive Directors (a much smaller group of representatives who meet throughout the year to decide on Bank affairs). Not surprisingly, some stakeholders, particularly the US and the Europeans, are more influential than others.


Interviews with senior World Bank staff, June 2010, May 2011 and February 2012.


Interview with Holzmann, June 15 2010, and interview with former senior World Bank staff member, February 2012. As Holzmann himself noted, the attitude to inequality has shifted since then, and ‘now you can openly talk about equity’ at the Bank.

Phone interview with former senior World Bank staff member, February 2012.


The PREM and Research Departments tended to support one another in their skepticism about the social risk framework, in opposition to the Social Protection unit. Interviews with senior World Bank staff members, June 2010 and May 2011.


Wade, ‘Showdown’, p 133-134.

Wade, ‘Showdown’, p 132.

Interview with Holzmann and phone interview with former senior World Bank staff member, February 2012.

Interview with Gordon Betcherman, former Lead Economist in the Social Protection Unit, World Bank, February 2012.

World Bank, *World Development Report 1000/01: Attacking Poverty*, Washington, DC, 2001, Chap 4. This section was moved to the beginning in later drafts of the report after
pressure from conservative economists within the Bank as well as from the US Treasury. See: Wade, ‘Showdown’.

56 World Bank, Social Protection Sector.
57 World Bank, Attacking Poverty, p 19.
58 World Bank, Attacking Poverty, pp 136-41, 12, 23.
59 World Bank, Social Protection Sector, Chap 2; World Bank, Attacking Poverty, pp 141-159.
60 World Bank, Poverty, pp 34-35.
63 World Bank, Social Protection and Labor, pp 45-46.
64 World Bank, Social Protection and Labor, pp 46.
66 World Bank, Attacking Poverty, p 142.
68 World Bank, Attacking Poverty, p 139.
69 A special issue of the Journal of Development Studies on ‘Economic Mobility and Poverty Dynamics in Developing Countries’ that has been particularly influential in shaping the thinking of those at the World Bank working on social risk and vulnerability outlines the main reasons for this shift in measuring poverty. See B Baulch & J Hoddinott, ‘Economic Mobility and Poverty Dynamics in Developing Countries’, Journal of Development Studies, 36(6), 2000, pp 1-24; Holzmann, Sherburne-Benz & Tesliuc, Social Risk Management.
70 Holzmann, Sherburne-Benz & Tesliuc, Social Risk Management, p 4.
72 Fiszbein & Schady, Conditional Cash Transfers, p 10.
74 For a very interesting discussion of this kind of rearticulation of public and private, state and international, in the context of security and development, see: R Abrahamsen & M

75 World Bank, *Attacking Poverty*, p 86.


80 Interviews with senior World Bank staff, June 10 and June 15, 2010 and May 17, 2011.


85 This is of course a particular financial conception of risk and reward, in which greater risks can be accurately measured, priced and rewarded with greater returns. This kind of conception of risk was at the heart of the current financial crisis. See also: J Best, ‘The Limits of Financial Risk Management: Or, What We Didn’t Learn from the Asian Financial Crisis’, *New Political Economy*, 15(1), 2010, pp 29-49.
I have provided a much more comprehensive discussion of the complex relationship between productive or bio-power and exclusionary or exceptionalist power in: Best, ‘Why the Economy’.


Phone interview with former senior World Bank staff member, February 2012.

(Bank 2011b) Also discussion at a World Bank consultation session on the concept note for the Social Protection and Labor Strategy, Ottawa, June 1, 2011.