In their 2012 book *Poor Economics*, Abhijit V. Banerjee and Esther Duflo describe how they witnessed poor schoolchildren in the Indian Himalayas taking a test in which they were asked questions about a story with pictures. The researchers witnessed how one child refused to take the test. The mother of this seven-year-old boy tried to persuade him to participate, though she herself did not seem optimistic that he would change his mind or perform well if he did. A local farmer who talked about the incident with the researchers started out by saying, “Children from homes like ours...” (Banerjee and Duflo 2012, 91), suggesting that not much should be expected from children from impoverished homes like those in his community.

Low-income parents in Germany have similar feelings regarding the schooling of their children. This suggests that the phenomenon occurs in wealthier countries as well as poor ones. When students in Germany complete primary school, their parents must decide how they want them to continue their secondary education. One option is a 12- or 13-year track that culminates in a college degree; the other option is a 10-year track that leads to the development of vocational skills. Often, parents from lower socioeconomic backgrounds counsel their children to choose the shorter track simply because nobody in their family has ever completed more years of schooling. Many of these poor parents fear that the longer track might overwhelm their children, even if these kids have proven themselves to be good students. Children from poor backgrounds who do enroll in the longer college track often report that their families remain skeptical about their education even after they have successfully enrolled at universities. Teachers, who can counsel parents about which track to choose, often express pessimism about the higher education potential of students from migrant backgrounds. This frequently leads to migrant parents placing their children on the shorter, technical track (El-Mafaalani 2012).

Sometimes these low aspirations can lead to underachievement. When this occurs, it is known as an aspiration failure. An aspiration trap occurs when these aspiration failures contribute to persistent poverty and persistently low future aspirations, perpetuating a negative cycle.

Beliefs are not always rational

Education is of course not the only relevant area where individuals underestimate their abilities. The concept of aspiration traps can also apply to professional success, business opportunities, or any form of upward mobilization where a sense of inferiority might be prevalent. Alsop and others (2006, 12) report that “women and minority groups frequently underinvest in their human capital because they have been brought up to believe that they cannot do certain things that other people can do. [They] internalize their second class status in ways that cause them to make choices that perpetuate their disempowered status.” More privileged people, by contrast, tend to be more optimistic—and even upwardly biased—about their capacities. As Wilkinson and Pickett (2010, 40) put it, “the further up the social ladder you are, the more help the world seems to give you in keeping the self-doubts at bay.” Stutzer’s research (2004) confirms that income aspirations grow with higher income levels.

Still, education is a key factor for social mobility: With higher levels of education, people are more likely to attain better jobs and higher incomes. In addition, people with higher levels of education tend to be better informed about health care or political and civil rights, which leads to more informed political or financial decisions. There is a broad consensus that education is a good way for a family to improve its well-being and future prospects.
However, not all families see the educational system as a productive path for improving the future of their children. With data from the Dominican Republic, Jensen (2010) finds that most eighth-grade schoolboys expect fewer benefits from secondary education, despite evidence to the contrary. As a consequence, enrollment is lower, and—predictably—so are achievements. Simply put, the less of an advantage that schoolchildren expect to gain from education, the less they actually gain. St-Hilaire (2002) investigates perceived educational returns and aspirations among eighth- and ninth-grade Mexican-American students in California. Approximately 90 percent of these students believed that education was a key to getting ahead in the United States, but only 75 percent believed they would finish college, and less than 60 percent actually did.

**Despite evidence to the contrary, many people maintain low aspirations**

In light of the consensus on the value of schooling, why wouldn't everybody aspire to higher educational achievement? There are several answers to this question. One is financial constraint: Poorer people have fewer resources at their disposal to cover the costs of tuition, study materials, or school uniforms. In many countries, the fewer resources a person has, the more limited is his or her access to loans that can be used to finance a quality education. This leaves poor families without the means to cover educational costs, especially for higher degrees. Given these economic realities, it makes sense for a poor student not to aspire to be a lawyer, when this goal is simply unrealistic for financial reasons.

A second potential answer is a lack of information. Banerjee and Duflo (2012) demonstrate that misinformation concerning education is prevalent among parents in developing countries. In the case of eighth-graders in the Dominican Republic (Jenson 2010), many of the students were not informed of the benefits of education. Predictably, these students had very little hope in the potential merits of their educational path. The author controlled for this by informing a subset of students of the value of attaining an education. While these students responded more positively to the notion of educational potential merits of their educational path. The author controlled for this by informing a subset of students of the value of attaining an education. While these students responded more positively to the value of education, they did not substantially outperform the less informed students. A possible explanation for this is that despite knowing the value of schooling in general terms, students did not regard this information as applicable to their lives. This shows that a lack of information cannot fully explain the low aspirations felt by poor students.

In recent years, the idea has emerged that psychological barriers can contribute to underachievement. The field of psychology has shown that unambitious goals often lead to lower achievement (Locke and Latham 2002). In this sense, lower aspirations and less ambitious goals can act as self-fulfilling prophecies (Dalton et al. 2013; Heiferz and Minelli 2006). Recent research from India has shown that parents with higher educational aspirations for their children are willing to pay more for their education (Galab et al. 2013). With a higher quality and longer education, these students are then more likely to earn higher incomes. By contrast, parents who underestimate educational benefits are less likely to promote their children's schooling.

**Poor people are more likely to have low aspirations**

Aspiration traps are particularly harmful to people at the bottom of the socioeconomic ladder. Poverty and social disadvantages promote low aspiration levels. According to Bandura (1977 and 1997), aspiration levels can be explained through what he referred to as the two dimensions of “self-efficacy” and “locus of control.” Self-efficacy refers to the beliefs a person has about his or her capacity to complete a certain task or achieve a goal. The locus of control, in contrast, refers to whether or not people believe they can control the events in their lives. To have productive aspirations, they must perceive themselves as both capable and in control of their lives. The disbelief in control can stem from a person's immersion in a socially immobile structure, like a rigid caste system.

When do people acquire these characteristics? The anthropologist Arjun Appadurai (2004) has attracted a lot of attention among economists for his answer to this question. He argues that people who live in conditions of poverty have fewer opportunities than others to learn about their talents, opportunities, and potential goals. Consequently, they tend to be more pessimistic and risk averse. Indeed, the German sociologist Steffen Schindler (2012) found that risk aversion contributed to students from lower socioeconomic backgrounds pursuing higher education less often than their wealthier peers. In other words, poor people have a low “capacity to aspire.” He continues by saying that this capacity needs to be learned, a process that requires resources, time, and teachers or role models. All of these tend to be more accessible for affluent families.

A further explanation of why poorer people might aspire to lower goals can be derived from the seminal work of the French sociologist Pierre Bourdieu. In his book *La Distinction* (1979), Bourdieu describes how a person's social environment generally determines his or her interests, tastes, and ideas about life. During the process of socialization, children learn what “children like them” typically believe and enjoy doing (Bourdieu called this *habitus*). The children then incorporate these social norms into their own lives. In this way, the subconscious incorporation of social norms, aspirations, and goals influences careers and other life choices. People usually consider pursuing only the options with which they are familiar. For example, if going to college is not usually an option for “a person like you,” you will not consider it. This approach emphasizes how aspiration levels and living standards are transmitted from one generation to the next. Decon and Singh (2013) demonstrate these transmissions with data from Ethiopia and India. In these cases, parents tend to have higher aspirations for boys than for girls. Over time, as the children became older, they too assimilate the respective aspirations of their parents. The study found that, eventually, the educational levels of boys and girls reflected these aspirations, with boys attaining higher levels of education.

Bourdieu’s work also suggests an important link between aspirations and identity. When people construct an opinion about what is possible for “a person like them,” they consider the experiences and aspirations of peers (Ray 2006). As a result, role models can have an important impact on people’s aspirations in both a positive and negative way. Beam and colleagues (2009) carried out fieldwork
in India that showed that the presence of women in leadership positions lessened the gender bias in parents’ aspirations. Trang Nguyen (2008) investigated the effect of role models on aspiration levels in Madagascar. The author carried out an experiment where people with successful educations shared their experiences with skeptical parents in order to improve how much value the parents would place on education. The study found that parents tended to be influenced only if the “role model” came from a similar socioeconomic background—in this case, from a poor background.

Inequality and aspirations are linked

The role model experiments suggest that there is a link between inequality and aspirations. Debraj Ray (2006) has investigated precisely this link and finds that when inequality is high there are fewer opportunities for the affluent and less affluent to interact. This contributes to a sense of distance between the two groups, and a feeling among the poor that the outcomes achieved by the rich are unattainable for them. In unequal societies, the poor are also less able to witness the decision-making or higher aspirations of the rich. As a consequence, poor people’s capacity to aspire is hampered by their lack of knowledge of how different groups live, act, and pursue opportunities. A more equal society would make it easier for disadvantaged groups to observe the behaviors of others who are better off.

The dynamics of inequality and a steep social ladder can stifle the aspirations of less advantaged groups. Albert O. Hirschman’s famous tunnel parable (1973) describes how car drivers in a traffic jam become optimistic when the neighboring lane starts moving, but become increasingly more frustrated when only the neighboring lane continues moving and they stand still. Based on this parable, Ray (2010) argues that economic growth combined with increased inequality would stimulate aspirations under the condition that people who are not benefiting from the growth could expect to benefit sooner. In Latin America, for example, countries with more inclusive growth—that is, growth that benefits all levels of society—register more balanced aspiration levels across all income groups than countries with less inclusive growth (Flechtner 2013).

High aspirations with little success can lead to social unrest

In some scenarios where people perceive that their social surroundings do not allow them to make use of their capabilities, frustration and grievances develop. Bandura (1977) argues that social unrest can occur when individuals consider themselves highly capable (high self-efficacy) but perceive that they have little control over the social or political processes in their country. In other words, people engage in protest or outright rebellion when they see problems in their society or with their position in society and at the same time believe they can effect change only by protesting the established system. This argument may shed some light on the recent political unrest in Egypt, Brazil, Tunisia, Chile, and Turkey. In these countries, inequality actually decreased in the years before the protests, and education levels increased (figures 1 and 2). Education contributes to the political involvement of a growing portion of society through greater awareness of rights and the political system. Campante and Chor (2012) investigate the role of education in the protests that have swept the Arab world. They argue that greater education levels mixed with high levels of unemployment contributed to the unrest. Sakbani (2011) emphasizes that Tunisia, Egypt, and Libya have very young populations, with few opportunities, particularly for university graduates. This means that more education (and possibly higher aspirations) combined with dissatisfaction with society’s status quo can contribute to social unrest.

A role for further research and policy interventions

Much more research needs to be done to properly understand these protests and uncover how psychological processes impact economic and politically relevant decision-making. As discussed above, it is already clear that such processes are highly relevant to poverty and inequality, but there are still very few comparative analyses or available data sets related to people’s aspirations. The Young Lives International

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**Figure 1**
Gini coefficients in five countries with incidences of protest, 2000–10

Source: World Bank (2013a)

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**Figure 2**
Tertiary school enrollment (% gross) in five countries with incidences of protest, 1981–2010

Source: World Bank (2013b)
Study of Childhood Poverty is one of the few exceptions. This study corroborates the assumption that poverty is related to low aspirations (Woodhead et al. 2013). Future research with such data promises much better insights into the nature and effects of low aspirations.

It is clear that policy makers can help combat poverty by improving the aspirations of the poor and avoiding aspiration traps. One way to do this is to provide disadvantaged children with opportunities to succeed in challenging new experiences. The Venezuelan Classical Music Orchestras Program is one such example. The purpose of the program is to teach disadvantaged youth to play instruments and perform in concerts. Ongoing research suggests that these experiences are highly positive for the participating children by raising their aspiration levels (Dalton et al. 2013).

At the same time, this does not mean that policy makers should aim simply to raise aspirations for everyone; rather, aspirations should be well informed and suitable to the specific needs of the individual. For example, college might not be the appropriate path for a person who would prefer to work in a trade that requires technical training, not a university degree. When specific social groups consistently aim for low goals, however, a certain level of bias likely exists, perpetuating an unequal socioeconomic hierarchy.

References
Explaining the Gap Between Facts and Perceptions of Inequality

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A paradox

Popular perceptions about inequality can diverge significantly from the facts. This was recently the case in two countries as diverse as the United States and Egypt. Income inequality in the United States did not change before and after the 2007–09 global financial crisis, but perceptions of inequality among U.S. citizens changed significantly. Similarly, income inequality did not change in Egypt during the decade that led to the 2011 revolution, but the perceptions of income inequality among Egyptian citizens changed substantially. At times, facts and perceptions of inequality diverge as if there were no relation between the two. How can this gap between facts and perceptions of inequality be explained?

To answer these questions, we need to better understand what drives income inequality and its perceptions. This article draws on theories developed across the social sciences over the past century, as well as recent empirical evidence about income inequality and social discontent. While there is some overlap between the drivers of inequality and its perceptions, they are not the same. This is true to the extent that facts and perceptions of inequality convey two sets of different but equally important information about a society: One set of information is related to the absolute well-being of citizens in terms of income. The other set is related to the well-being of citizens relative to the well-being of others or to their own well-being in years past. The two recent examples of the United States and Egypt will help illustrate these points.

Drivers of inequality

To simplify the economics, one should consider two major mechanisms that drive income inequality: “distribution” and “redistribution.” Every year, economies produce a certain amount of wealth, typically summarized by the value of Gross Domestic Product (GDP). Annual GDP is the sum of all products and services produced by a country’s economy in the private and public sectors during a particular year. First, companies distribute this wealth to stakeholders. These are workers (salaries), shareholders (dividends), government (taxes and social contributions), and banks (savings and investments). This is the “distribution” mechanism. Second, the part of this wealth that is managed by the government (taxes and social contributions) is then redistributed to citizens in the form of public spending (health, education, pensions, and so on). This is the “redistribution” mechanism; it is a by-product of the distribution mechanism and does not generate new wealth, it simply redistributes existing wealth.

It is clear that both mechanisms can drive income inequality. The choices made by private enterprise on salaries, dividends, and investments can result in significant shifts in income distribution. Likewise, the choices made by governments on taxes and public spending can do the same. It is also clear that the “distribution” mechanism has a greater potential impact on inequality simply because it relates to a bigger slice of the economic pie. Alternatively, the resources managed by the government via the “redistribution” mechanism are only a fraction of the “distribution” mechanism, and consequently have less of an influence on income inequality. The social contract between capital, workers, banks, and the state determines the distribution of wealth, while government taxing and spending policies determine the redistribution of wealth. These are the two mechanisms that drive income inequality and they are fairly well understood in economics.

What is less clear is the optimal level of inequality in a given society, or to put it simply, what levels of inequality people prefer. To better understand people’s preferences, I asked groups of international students two simple questions about income inequality:

- Would you like income inequality to increase or decrease?
- Would you like all incomes to be equal?

The answer to the first question, for most people, but not all, is that they would like income inequality to decrease, while the answer to the second question for most people, but not all, is that they would not like all incomes to be equal. It is then obvious that there must be an optimal level of income inequality that rests between the current inequality level and zero inequality. This is referred to as the intrinsic optimal level of inequality. By answering these questions, the students revealed that they have a sense of what this optimal level should be. Consequently, if inequality is higher than what they believe it should be, they will disapprove of a further rise in inequality. In contrast, if inequality is lower than what they believe it should be, they will appreciate a rise in inequality. People’s perceptions of inequality have to do with their personal beliefs and intrinsic values related to the state of inequality. But what determines these beliefs and values?

Drivers of inequality perceptions

To begin to understand what drives perceptions of inequality, we can ask why people would like or dislike inequality in the first place. Two of the most influential theories of the 20th century on the perceptions of inequality come to rather opposite conclusions. Hirschman and Rothschild (1973) in their seminal paper on the “tunnel effect” theory argue that people might appreciate rising inequality because it signals an overall improvement in living conditions:

“The tunnel effect operates because advances of others supply information about a more benign external environment; receipt of this information produces gratification; and this gratification overcomes, or at least suspends, envy. (546)

. . . In this eventuality, the increase in income inequality would not only be politically tolerable; it would also be out-
right desirable from the point of view of social welfare” (548). Runciman’s theory of social justice (1966) comes to a very different conclusion. His theory of relative deprivation shifts the focus from absolute levels of income to relative levels of income. This relative income level is reached when people compare themselves to a group of peers:

“For the purpose of addressing relative deprivation, however, people’s estimates of their incomes are if anything more important than their actual income.” (189)

As shown later by Yitzhaki (1979), the measurement of relative deprivation corresponds to the measurement of inequality. In other words, while Hirschman and Rothschild believe the potential benefits of income inequality will lead to society’s tolerance of it, Runciman and Yitzhaki believe that rising inequality invariably leads to less tolerance.

So, who is right? To answer this question we need to understand how perceptions of income inequality have evolved over time and in what context. This includes a keen understanding of history, people’s future expectations, and the relative position of individuals in society. In this respect, there is a lot of agreement across the social sciences. To assess one’s own relative position, people look at the past and compare it to the present, or compare their own status to that of others in society. Based on these comparisons, they determine their expectations for the future. On the one hand, if a country’s economy is growing and expected to continue to grow in the future and people are faring better across classes, then tolerance for inequality will be high and Hirschman and Rothschild (1973) have a point. On the other hand, if a country’s economy is not growing or if certain segments of the population are faring worse than others, or worse than they were in the past, then tolerance for inequality will decrease and Runciman (1966) and Yitzhaki (1979) have a point.

These relations between the past and the future and between the relative positions of individuals in society are summarized in figure 1. In this scheme, the “ego” system refers to the horizontal axis and is determined by how people compare their past with their present situations and the expected future. The “alter” system refers to the vertical axis and is determined by how people compare their own situation to that of others, richer or poorer.

Within the social sciences, there are many theories that help to better explain how the “ego” and “alter” value systems operate and how they contribute to perceptions of inequality. In the “alter” system, for example, the role of relative income or poverty in contributing to individuals’ satisfaction is now very well-established. Leibenstein (1962) was perhaps the first to develop a theory around the idea that individuals derive utility from both their absolute and relative income, an idea described as the “compromise Pareto comparison.” This is a concept that was explored in much greater detail by the social science literature on happiness, which initially emerged from the “Easterlin paradox” (Easterlin 1974). This is the paradox that shows how as GDP per capita in the United States climbed during the post-war period, it was not accompanied by a proportional growth in happiness. Indeed, it is now standard in econometrics models to use absolute income and relative income together as explanatory factors for people’s life satisfaction. Most of this literature finds an important role for relative income in explaining happiness, with absolute income being equal (Verme 2013). Consequently, if rising inequality makes people less happy, it is natural to conclude that their tolerance for inequality will decline as well.

Understanding the “ego” value system also contributes to a better understanding of how the perceptions of inequality are formed. Theorists of revolutions, such as Karapetoff (1903) and Davies (1962), developed separate theories around the idea that the rate of economic change is a key to understanding changes in people’s satisfaction. These theories suggest that a wealthy and fast-growing economy that suddenly experiences a recession is more at risk of social unrest than a poor economy that experiences persistently slow growth. Economic shocks, whether positive or negative, are at least as important in understanding people’s perceptions of the economy as the state of the economy itself.

Combining the findings related to the “ego” and “alter” systems can be powerful in explaining changes in satisfaction. Hirschman and Rothschild (1973)—who argue for a positive role of inequality in times of growth—show how persistent welfare immobility over time can turn into an explosive social device in the face of societal change. By broadening the spectrum of analysis to the past and future and to relationships with others, one can accommodate the tunnel effect theory, the relative deprivation theory, and theories of societal change into a coherent framework.

**Explaining the mismatch between facts and perceptions**

These theories can help us understand the evolving perceptions of inequality observed today in the United States and Egypt. Consider first the United States. Only a decade ago, inequality as a social phenomenon was largely ignored in the public discourse and certainly not perceived as a relevant economic issue by the population at
large. Alesina and colleagues (2004), for example, noted how in the 1990s U.S. citizens had a much greater appreciation of inequality than European citizens after controlling for various individual and household characteristics. During the 1980s and 1990s, inequality rose significantly in the United States, but so did people’s incomes generally. This helps explain Americans’ tolerance for inequality as theorized by Hirschman and Rothschild (1973) and demonstrated by Alesina and colleagues (2004). But when the global crisis hit the United States and the world, perceptions of inequality changed. This is what Karapetoff (1903) and Davies (1962) theorized would happen and what was demonstrated by the “we are the 99 percent” and “occupy Wall Street” social movements.

Suddenly, politicians and economists brought the topic of “inequality” back to the forefront of U.S. society. In his 2012 book, The Price of Inequality, Joseph Stiglitz makes a convincing case that the U.S. economy during the past three decades has been “hijacked” by the top 1 percent of the income distribution and that this phenomenon is constraining growth and compromising future prosperity. In his column on December 15, 2013, Paul Krugman argued, “… if you take a longer perspective, rising inequality becomes by far the most important single factor behind lagging middle-class incomes.”

Politicians have chimed in on the debate. President Obama stated recently that income inequality “… is the defining challenge of our time.” This would have been an unthinkible statement from a U.S. president only 10 years ago. Yet, according to the Luxembourg Income Study (LIS), income inequality in the U.S., as measured by the Gini coefficient, rose significantly between 1979 and 2000 (from 0.30 to 0.38) but remained rather stable in the 2000s (table 1).

It can be seen that while inequality levels did not change much between 2007 and 2010 (table 1), the economic context and perceptions of inequality have changed dramatically.

Consider Egypt. This is another country where income inequality, measured by the Gini coefficient, did not change during the decade that led to the 2011 revolution or afterwards. This is well documented in both official Egyptian government statistics and World Bank studies, which demonstrated the robustness of these statistics (World Bank 2012, Hlasny and Verme 2013). In fact, the Gini coefficient for Egypt declined slightly from 2000 to 2011 (table 1). Yet, and in total contrast with these figures, the World Bank (2014) found that the dislike for inequality in Egypt has significantly increased during the past decade as reported by respondents to the World Values Surveys, which investigates questions of political and socioeconomic change. Despite persistently low inequality in Egypt, the popular perception of inequality is that it is high, has been rising over the past decade, and that it contributed to the revolution.

How can this paradox be explained? Again, theory and facts related to the Egyptian economy can help. First, Egypt experienced significant GDP growth during the decade that preceded the revolution—5 percent per year on average—but this growth largely remained with private enterprises and did not trickle down to households. In fact, household income and expenditure had slightly declined for all income groups, leaving inequality unchanged. While Egyptian newspapers reported income growth, Egyptian families did not experience any of that growth. The persistence of this phenomenon has probably turned high expectations about the future into bitter disappointment for the present, which contributes to the suspicion that “others” were benefiting from growth. Second, the processes of liberalization and privatization launched in the 1990s were largely captured by the elites, with little participation by the population at large. This likely contributed to a general sense of injustice. Third, the rise in Egypt’s GDP has not been accompanied by greater economic opportunity, better public services, or access to jobs. As is the case with many other emerging economies, despite a growing GDP, the employment rate has not increased. And fourth, these economic changes occurred during a period when Egypt’s demographics, especially a larger population of young people, and access to technology changed significantly. The penetration of social media and mobile phones suddenly made cross-country and interpersonal comparisons much easier and more widespread. This exposed Egyptians to other realities and changed the way Egyptians view themselves. The combination of these factors helps to explain the increase in peoples’ aversion to inequality as observed in the World Values Surveys.

**Conclusion**

The realities and perceptions of inequality are related but often inconsistent. Inequality statistics contribute to these perceptions but they are only a piece of a much more complex puzzle, a puzzle that must be understood within the broader framework of the past, present, and expected future and the relative position occupied by individuals in society. It should be clear by now that perceptions of inequality are not a good measure of income inequality. Realities and perceptions of inequality should not be understood as two measures of the same phenomenon. Perceptions of inequality relate to income inequality, but they convey a broader message about the state and evolution of the economy and any resulting economic injustices. Perceptions of inequality should neither be considered a proxy of income inequality nor dismissed by policy makers as irrelevant. If we are prepared to dig into the social science literature and learn from the history of social unrest, then perceptions of inequality become a very valid instrument to measure the degree of economic dissatisfaction in a given society.

**Endnotes**


**Table 1**

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Sources: Luxembourg Income Study (U.S.) and CAPMAS (Egypt).
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