

## Introduction

Sebastian Galiani’s paper proposes three solutions to the challenge of poverty and inequality in Latin America: nutritional interventions, conditional cash transfers, and early childhood development programs. His coverage of these topics is careful and thorough, leaving me only a few concrete objections to his benefit-cost estimates that may be useful for the expert panel. Most of these are questions about the external validity of benefits and costs estimated from studies conducted outside of LAC. I will present these fairly limited comments in the second part of this “opponent note.” But my main criticism is that the scope of the solutions that Galiani offers is too narrow, in two ways. First, he pays almost no attention to inequality, even though the challenge is poverty and inequality. His benefit-cost calculations focus on average benefits, without distinguishing benefits conditional on one’s position in the income distribution. Second, the main focus of Galiani’s solutions is investments in children’s human capital which will reduce (income) poverty only in the future. This reflects a widespread but somewhat outdated perception that it is not realistic to reduce immediate income poverty in developing countries because tax and transfer systems are difficult to implement there. Yet the recent success of several transfer payment schemes in Latin America should have changed this perception.

To underscore this criticism, I will dedicate a significant share of this note to showing the importance of weighting solution benefits based on recipients’ position in the income distribution. I will do this in the benefit-cost language of this meeting to highlight for the expert panel the importance of considering not just the average costs and benefits of the proposed solutions, but the distribution of those costs and benefits across the income distribution.<sup>2</sup> This is especially true of any solutions to the challenge of poverty and inequality. The one exception to this is benefits that are non-monetary and intrinsically important in the sense of Sen’s capabilities: things like good health, cognitive ability, political voice, security, etc. I see no compelling reason to value these capabilities more for the rich or the poor, though others certainly disagree.<sup>3</sup> At first, this might seem to include many of the solutions that the expert committee will see, including those in Galiani’s paper. However, in this paper, and in many of the original Copenhagen Consensus papers, these intrinsic benefits do not factor into the benefit-cost calculations explicitly.<sup>4</sup> Instead, health and education benefits are valued based for their ability to produce *monetary* benefits (future income or savings in health care costs) alone. Those monetary benefits should be weighted. Using simple quantitative examples, I will show that quite reasonable social welfare weights

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<sup>1</sup> Many people helped me to prepare this note. I had several helpful conversations with Harold Alderman, who suggested that distributional concerns should be an important part of this challenge; with David Coady, who provided me with several helpful papers and data from the evaluation of *Progesa/Oportunidades*; and with Peter Glick and David Sahn, who commented on early drafts and ideas. I received advice on references and the state of knowledge in various fields from Steven Beckman, Chris Barrett, Flavio Cunha, Teresa Gonzalez, Sue Horton, Chessa Lutter, Becky Stoltzfus, and Edy van Doorslaer. Thomas Walker provided excellent research assistance. Of course, all remaining errors are my own.

<sup>2</sup> This is not my original observation. Simon Appleton (2004) suggested it in his comments on the Hunger and Malnutrition solutions in the original Copenhagen Consensus papers.

<sup>3</sup> For example, the literature on the gradient approach to health inequality (Wagstaff, Paci, and van Doorslaer, 1991; van Doorslaer et al. 1997).

<sup>4</sup> This point is also made by Appleton (2004).

can produce benefit-cost ratios for (some of) Galiani's solutions that are significantly to dramatically higher than his estimates.

## **Review of Galiani's Solutions**

### Nutritional Interventions

This solution draws directly on Behrman, Alderman, and Hoddinott (2004), the hunger and nutrition solutions paper for the original Copenhagen Consensus. This is a sensible choice, since that paper's solutions were ranked highly in 2004. I will follow Galiani's lead and refer the expert panel to Simon Appleton's (2004) "opponent note" for that paper, which makes several insightful comments which I include below.

#### *Promotion of Breastfeeding*

The evaluation of breastfeeding promotion relies on the estimates of Horton, et.al. (1996) and, in particular, Behrman, Alderman and Hoddinott appear to use the lowest cost per infant death averted in that paper, from \$100-\$200 (in 1993 dollars). However, those costs were estimated for breastfeeding programs that were established in hospitals that previously promoted formula feeding. Hospitals in Latin America no longer do this. So the more relevant costs per death averted are the higher ones in Horton, et.al., \$549-\$807, which were estimated for cases in which the comparison hospital did not promote formula use, but also did not have focused promotion and support for breastfeeding. This is the relevant comparison group in Latin America today, so the estimated benefit-cost ratio should be 2.75 (549/200) to 8 (807/100) times lower than those reported in Behrman, Alderman, and Hoddinott, and also in Galiani. The adjustment makes this solution unattractive. I should add that I don't want to argue that breastfeeding is a bad idea; quite the contrary. It is just that we have already made good progress and captured much of the benefits in LAC. The remaining effort, to promote *exclusive* breastfeeding for longer periods (up to six months), has a lower return.

On the other hand, the Horton, et.al paper considers only the benefits from reduced diarrheal and respiratory infections. The study also ignores any benefits from reduced morbidity and mortality that breastfeeding after six months of age might produce. Each of these would increase our estimate of the benefits, but I cannot quantify that adjustment.

#### *Micronutrient Supplementation and Fortification*

The micronutrient interventions have the really eye-popping benefit-cost ratios, reported in Behrman, Alderman, and Hoddinott's Table 9 and summarized in Galiani's Table VII. Two of Appleton's comments bear repeating here. First, it is difficult to understand how Behrman, Alderman, and Hoddinott get from their very comprehensive review of the literature's cost and benefit estimates in the text to the ranges of costs and benefits reported in Table 9. I have every confidence in their work, but it is difficult to consider the external validity of their results if we cannot be sure of the circumstances surrounding the estimates that they use. Second, given the very low cost of these interventions, it may not be possible to spend \$10 billion on them. For example, at \$0.25 per person for iron fortification, the cost per year for all of LAC is about \$150 million. Iodine supplementation may not cost much more, and vitamin A, which only has to be targeted to young children, would be \$60-\$600 million per year. One way to think about this is that the marginal benefit to these interventions declines

quickly: once someone has adequate micronutrient intake, further consumption has limited value.

This last observation raises a concern about the external validity of the studies used for the benefit-cost estimates. Behrman, Alderman, and Hoddinott draw from studies around the world to estimate both benefits and costs of micronutrient interventions. Whether these studies are applicable to Latin America is an open question. Galiani's Tables V and VI show that protein-calorie deficiency is less pronounced in Latin America than most other developing areas. This matters because the standard approach to these micronutrient deficiencies is to treat everyone regardless of whether s/he is deficient because the cost of testing outweighs the benefits of savings from treating fewer people, and the treatment dosages are not harmful even to those who are not deficient. As Behrman, Alderman, and Hoddinott note (p.29, p.32), the benefits for such a protocol vary in inverse proportion to the share of the population that is deficient. Since LAC has generally lower deficiencies, benefit-cost ratios are lower here than elsewhere.<sup>5</sup> Much like the breastfeeding solution, it may be that we have already picked the low-hanging fruit in Latin America.

On the other hand, an interesting editorial in *The American Journal of Clinical Nutrition* (Rasmussen and Stoltzfus, 2003) notes that the results for iron deficiency in pregnancy that Behrman, Alderman, and Hoddinott use (from Nepal) were quite similar to results for low-income women in Cleveland. These two populations probably bracket a large share of LAC, so for iron deficiency, at least, the external validity of the Behrman, Alderman, and Hoddinott results may be good.

### Conditional Cash Transfers

The calculations for this solution are quite clear and careful, so I have only a few comments, only one of which is likely to change its estimated benefit-cost ratios significantly. First, on the increase in household consumption (p.30), it makes more sense to simply use the amount transferred to households (13,311 pesos) rather than the estimated change in consumption (10,203 pesos). Even if households chose not to spend all of the transfer immediately, they presumably benefit from the savings at some future period, so that should be included in the benefits. That will raise slightly the overall benefits. Second, the simulations seem to assume that no one works before age 18, even if s/he drops out of school. But most children who drop out do so in order to work. This income would reduce the income differences attributable to the program somewhat. Third, it would be helpful to break out the summary results at the top of page 32 into the various components: transfer income, returns to education, and returns to health so that we can see their relative importance.

The one comment that will have a substantial effect on the estimates is that the benefits should be weighted by the beneficiaries' place in the income distribution. As I show below, this increases the social benefit-cost ratio significantly because *Progesa/Oportunidades* is well-targeted to the poor.

### Early Childhood Development

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<sup>5</sup> Ideally, I would compare deficiencies in LAC to the pre-treatment deficiencies at the study sites cited in Behrman, Alderman, and Hoddinott, but as Appleton has noted, it is not easy to understand which results they used, and from what sites, in their benefit-cost calculations.

The analysis of this solution is also quite detailed and careful, so my comments are again few. The inclusion of new benefit-cost analyses for pre-primary schooling in Uruguay is especially helpful because the other cited studies from developing countries (Jordan, Turkey, and Bolivia) have relatively low benefit-cost ratios. The studies from the U.S. -- the Perry pre-school and Abecedarian projects -- have much higher benefit-cost ratios, but I worry about their external validity for Latin America. The children in those programs will have 'graduated' to high-quality school systems. If there is complementarity between education investments across time, as suggested by Galiani (citing an influential paper by Cunha and Heckman (2004)), then the returns to ECD may be lower for children who will eventually attend poor quality schools. Cunha (2007) estimates a CES production function for cognitive skill acquisition and finds that pre-school and later investments are more complementary than a Cobb-Douglas specification. In the extreme case of Leontief production functions, the returns to pre-school could be zero if the complementary investments in primary and higher education are not also made. It is reassuring, then, to see high benefit-cost estimates for the Uruguayan case, though I still wonder about the comparability of school systems in Uruguay and other LAC countries.

For the *Hogares Comunitarios* case, I am concerned about the extremely high estimate for the impact on child heights and would be uncomfortable if this accounted for a large share of the estimated benefits. For comparison, the estimated impact of the protein-calorie supplementation in the INCAP trial, an intervention specifically designed to reduce stunting, was only 2.45cm (Habicht, Martorell, and Rivera (1995)). It is also worth noting that at least some of the benefits of this program, and perhaps a large share, come from increased parents' labor supply. That is a benefit, to be sure, but not a benefit to the children's human capital from ECD, but rather a benefit from a more efficient organization of parents' time. There appear to be economies of scale to child care so pooling childcare with the *madre comunitaria* enables parents to free up time without (presumably) reducing the quality of their children's care. That may make this a good program, but it is not an ECD investment *per se*.

Finally, it is worth noting that program coverage for pre-primary education in Latin America is far from universal, and the incidence for smaller public services is often not very good. The middle class often succeeds in capturing these programs, even if they are intended for the poor. Thus, Galiani's assertion that such services can be effectively targeted to the poor merits some skepticism.

### **The Scope of Galiani's Solutions**

The survey results that led to the inclusion of poverty and inequality as a challenge for this meeting show that inequality figures prominently in respondents' opinions (Berkman and Cavallo, 2006). Of those responding that poverty and inequality are a main challenge, 88% cited "unequal distribution of income and wealth" as a reason for choosing this challenge, vs. 68% for "incidence of poverty." Most of the other reasons cited for choosing this challenge -- concentration of political power; social, ethnic and racial discrimination; and concentration of land property -- also reflect concerns about inequality more so than poverty. Indeed, the reasons for citing some of the *other* challenges also reflect concerns about inequality. 60% of those choosing education as a challenge cite "disparities in access to quality higher education" as a reason. 86% of those choosing health cite "disparities in access to quality health care" as a reason. It is hard to see how this meeting can ignore inequality in the face of these results.

It is true that Galiani's solutions, and any of the other solutions that the panel considers, will reduce both poverty and inequality *if* they are targeted to the poor, but there is nothing in his analysis that values such targeting. This is because Galiani implicitly uses a social welfare function that values each person's well-being equally.<sup>6</sup> That is inconsistent with a concern for poverty and especially inequality. Below, I will show how changing this assumption can increase significantly the social benefits of policies that are well-targeted to the poor.

A second limitation is the strong focus on solutions whose benefits mostly will not come to fruition until the beneficiaries, today's children, enter the labor market in 15 years or so. The same Latin American public that expresses concern about poverty and inequality may not be so patient as to have a 6% discount rate, and thus may not be satisfied with solutions that only take effect in the future. Indeed, the political popularity of conditional cash transfers in Latin America is due to their combination of investments in human capital *and* current transfers. While CCTs are one of his proposed solutions, the only way that Galiani finds benefits greater than costs for CCTs is through the returns to the human capital investments. The transfer itself has a ratio less than one, with the benefits (current consumption) less than the cost (the value of the transfer plus administration costs).

To be fair, Galiani does briefly consider transfer payments, but rejects them as unworkable: "Given the high levels of inequality prevalent in LAC and the deficient capacity that exists for redistribution through conventional tax and transfer mechanisms, a package of cost-effective policies targeting poor households is needed to build up the present and future income generation capacity of the poor." (p.17 Indeed, this was the dominant view among development economists until recently, as reflected in the Besley and Burgess (2003) survey that Galiani cites. But the economic and political success of CCTs is changing opinions rapidly. These transfer schemes can be achieved with modest administrative costs (Caldés, Coady, and Maluccio, 2006) and significant redistributive benefits (Coady, 2006; Coady, Grosh, and Hoddinott 2004). Further, transfer payments are a cornerstone of developed countries' anti-poverty programs. Sooner or later, they will have to gain importance in Latin America as well, though as Galiani's Figure II makes clear, relatively little redistribution currently takes place here.

## Why Weight?

Let me now run through some calculations to illustrate the importance of weighting benefits across the income distribution. I do this by considering a pure transfer payment scheme, which cannot have a benefit-cost ratio greater than one if everyone's benefits are valued equally, because it is not an investment and it does not increase productivity by resolving any market failure.<sup>7</sup> Thus, the only way that such a scheme will be attractive is if we weight the benefits of poorer people more heavily than benefits to the rich.

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<sup>6</sup> Galiani is not alone in this. With only minor exceptions, all of the original Copenhagen Consensus papers made the same assumption.

<sup>7</sup> One possible exception to this is if there are poverty traps, in which case a transfer may generate positive returns if it helps people change from a low- to a high-level equilibrium. These are potentially quite important, but I know of no evidence for this in Latin America. Note that Gertler, Martinez, and Rubio-Codina (2006) find that households did invest 12 percent of their cash benefits from *Progres/Oportunidades* at an average rate of return of 18 percent.

The choice of a particular social welfare function is arbitrary, but applied policy analyses such as this one generally prefer simple ones such as Atkinson's (1970):

$$(1) \quad W = \int_0^{y_{\max}} U(y)f(y)dy, \quad U(y) = \frac{y^{1-\varepsilon}}{1-\varepsilon} \text{ if } \varepsilon \neq 1, \quad U(y) = \ln(y) \text{ if } \varepsilon = 1$$

Important limitations of this function are its additive separability and the constant relative inequality aversion of  $U(y)$ . Nevertheless, the parameter  $\varepsilon$  allows us to vary the degree of inequality aversion, and that is the key requirement for this example. The weight that this function gives someone with income  $y_i$  relative to a reference income  $y^*$  is

$$(2) \quad \beta_i = \left( \frac{y^*}{y_i} \right)^\varepsilon$$

For values of  $\varepsilon > 0$ , this function gives greater weight to people with lower incomes, and this weight is larger the larger is  $\varepsilon$ . Choice of  $y^*$  often does not matter, as long as it is consistent across comparisons. But for our case, it will be important to choose it so that the  $\beta_i$ 's average to one.

Galiani (and all of the original Copenhagen Consensus solution papers) assume that  $\varepsilon = 0$ , i.e. that each person has equal weight in the social welfare function. Indeed, in some cases where health benefits are valued according to the labor productivity of a person or sub-group, the implicit value of  $\varepsilon$  is negative because less value is placed on the health of those with lower productivity. But a concern for inequality dictates that we choose a value of  $\varepsilon > 0$ . What is a reasonable value? Economists have taken two approaches to estimating this parameter: opinion surveys and laboratory experiments, usually with university students as respondents or subjects. The range of estimates is distressingly large, from about 0.2 (Amiel, Creedy, and Hurn, 1999) to greater than 3.0 (Pirttila and Uusitalo, 2007). It may also be useful to note also the opinion of some wise economists. Atkinson's (1970) original example considered values of  $\varepsilon$  from 1.0 to 2.5. The recent Stern Review on global warming (2007) used  $\varepsilon = 1.0$ , and was criticized by Dasgupta (2006) for not using a higher value. In the end, it seems that the best that we can do is to consider a range of values, much as Atkinson did.

As an example, I consider the best-known CCT, *Progresas/Oportunidades* in Mexico. Coady (2006) estimates the distributional characteristic of that program's cash transfers, defined as

$$(3) \quad \lambda = \frac{\sum_i \beta_i dy_i}{\sum_i dy_i + C}$$

where  $\beta_i$  is the welfare weight defined above,  $dy_i$  is the transfer that person  $i$  receives, and  $C$  is the administrative cost of the program. This has a convenient form for the Copenhagen Consensus because it can be interpreted as a benefit-cost ratio: the numerator is the weighted sum of the income transfers (benefits), and the denominator is the cost: the transfers themselves plus administration. Coady does not include the administrative costs in some of his calculations, and he normalizes the  $\beta$ s in a different way, so I have reworked his

estimates.<sup>8</sup> I use 12 percent of the transfers as the cost,  $C$ , which is at the high end of the estimates for *Progresa* in Caldés, Coady, and Maluccio (2006) and includes a 2.5 percent cost to participants for time attending required health talks. Note that by normalizing the  $\beta_i$ 's to average one we guarantee that a uniform absolute transfer has a benefit-cost ratio of one if administration costs are zero, and less than one if they are positive.

**Table 1 - Social benefit-cost ratios for income transfers**

	$\varepsilon$				
	0.2	0.5	1.0	2.0	3.0
Progresa, gross benefits	1.13	1.56	2.42	4.40	6.14
Jamaica distribution, gross benefits	1.04	1.10	1.21	1.38	1.48

The first row of Table 1 shows the calculations for *Progresa*, based on Coady (2006). The benefit-cost ratios are always positive, but at the lowest value of  $\varepsilon$ , they are not appreciably different from one. Note, too, that a great deal depends on *Progresa*'s good targeting. If I repeat the exercise but distributing the benefits across quantiles according to the distribution for the worst LAC transfer scheme cited in Caldés, Coady, and Maluccio -- the food stamp program in Jamaica -- the benefit-cost ratios are always near one even for high values of  $\varepsilon$ .<sup>9</sup>

This simulation is comparable to most of the analyses that the expert panel will see: it distributes a certain amount of cash to an investment or activity, in this case, simple cash transfers. But a better way to think about "investing" the \$10 billion in question might be to use it to pay for the efficiency costs associated with imposing a transfer scheme like *Progresa*, that both distributes benefits, but also imposes taxes to pay for those benefits. I will assume that the tax is a VAT with incidence proportional to observed household expenditures. In this case, the denominator of the benefit-cost ratio is simply  $C$ , because  $\sum dy_i = 0$ .<sup>10</sup>  $dy_i$  can be positive or negative, depending on whether one receives more benefits than s/he pays in taxes for the transfers. The numerator could be positive or negative, but will be positive if the program succeeds in making progressive transfers. Here, we have to think of spending the IDB's \$10 billion not on transfers, but on the costs of running a transfer scheme.

Another important difference is that we cannot ignore the efficiency costs of raising the funds to transfer. The typical Copenhagen Consensus exercise assumes that the money to invest is "free" in that it ignores how it is raised (or assumes it was raised with non-distortionary taxes). The previous simulation follows that precedent. Here, however, the money would actually be used to bring about a transfer scheme that itself involves deadweight losses, so we have to account for them. Unfortunately, I have not found an estimate of the deadweight loss associated with a VAT or taxes in general in Latin America. Instead, I use 25 percent, which is about the mid-point of both Feldstein's and Ballard, Shoven, and Whalley's well-known estimates of the deadweight loss of taxes in the U.S.<sup>11</sup> I add to that the 12 percent

<sup>8</sup> Coady very kindly provided me with the relevant data and even a Stata .do file.

<sup>9</sup> I continue to use the Mexican expenditure distribution for this simulation. I only change the incidence of the transfers.

<sup>10</sup> I assume that there are no efficiency losses from behavioral responses of beneficiaries. As Galiani notes, no one has found an adult labor supply response to *Progresa*. There has been a small child labor supply response, and also some increased investment in household enterprises, but those are arguably *efficient* changes which the cash transfer made possible.

<sup>11</sup> It is difficult to know if this is a good assumption. VAT is usually less distortionary than other taxes, though my choice of VAT is perhaps unrealistic. (I use it because I can observe expenditures easily in household data.) Tax systems in developing countries are very different, and probably more distortionary, than that in the U.S.

administrative and beneficiary costs from the last simulation to arrive at costs equal to 37 percent of total transfers.

**Table 2 - Social benefit-cost ratios for income transfers**

	$\varepsilon$				
	0.2	0.5	1.0	2.0	3.0
Progesa, net benefits	1.12	2.87	6.00	12.53	18.01
Jamaica distribution, net benefits	0.50	1.13	1.94	2.94	3.43

Here, the social benefit-cost ratios are considerably higher. For *Progesa*, they are comparable to many of Galiani's proposed investments, though much less so if the less well-targeted Jamaican food stamp distribution of benefits is used. What is clear from both simulations is that if benefits are well-targeted to the poor and if we use any value of  $\varepsilon$  that is not near zero, then the social benefits of pure transfer payments are larger than the costs of making those transfers, and perhaps considerably larger.

### Adjusting Galiani's (and others) Estimates

In addition to highlighting the social benefits of redistribution, the previous section also shows that if we modify Galiani's (and everyone else's) benefit-cost calculations to include their distributional consequences, we may get very different social benefit-cost estimates. Unfortunately, very few impact evaluations study the distribution of impacts across income. The exception is for *Progesa*, to which I now turn.

### *Conditional Cash Transfers*

Coady (2000) shows that the incidence of different aspects of *Progesa* – school attendance, health visits, and cash – is roughly comparable, so we can use the estimates in Table 2 to adjust Galiani's estimates of the investment benefits of *Progesa* with welfare weights. Note that Galiani's estimated benefits are based on the average impact across the sample, so the best that we can do is multiply  $dy_i$  in equation (3) by his average benefit-cost estimate.<sup>12</sup> So, for example, if we take the net benefit weights of the first row of Table 2, the benefits to *Progesa*'s CCTs are now much more attractive. Thus, Galiani's rather modest estimates start to look much better.<sup>13</sup>

**Table 3 - Modification of Galiani's estimated benefit-cost ratios for *Progesa*'s CCTs**

On the other hand, Coady and Harris (2004) argue that a benefit of cash transfer programs is that they free the tax authorities to focus on minimizing distortions because they are no longer responsible for redistribution.

<sup>12</sup> The fact that it is very difficult to find studies that examine the distribution of benefits across the income distribution, e.g. returns to schooling or iron supplementation by income deciles, is disconcerting. Galiani cites three, all related to ECD: Chaturvedi et.al. 1987 for India; Van der Gaag and Young (2002) for Jordan; and Engle, et.al. (2007), a survey. But none of these states its distributional results with sufficient detail to make calculations with different values of  $dy_i$  across the income distribution. Such information is important if we want take the distributional aspect of benefit-cost analysis seriously. It may be, for example, that iron fortification benefits poorer households more, because their diets are less rich in iron. But the reverse may be true: richer households may be more likely to buy the fortified products. Weighting these results with  $\beta_i$ 's as in equation (3) will then give different values for the social benefits than a simple average.

<sup>13</sup> There is one difficult issue that this simple calculation does not address. Presumably, a currently poor person who attends more school because of *Progesa* will eventually move up in the income distribution, so we should lesson the distributional weight that we assign to her. But doing this would require long panel data that are simply not available in Latin America.

	ε: 0		0.5		1		2		3	
discount rate:	3%	6%	3%	6%	3%	6%	3%	6%	3%	6%
Not Using DALYs	3.50	2.01	10.05	5.77	21.01	12.07	43.87	25.19	63.03	36.20
Using DALY=\$5000	4.28	2.69	12.29	7.73	25.69	16.15	53.64	33.71	77.07	48.44

### *A Note on Microcredit*

While not one of his “solutions,” Galiani does mention microcredit in his conclusions. However, the following table shows that in Latin America, microcredit is not particularly well-targeted to the poor

**Table 4 - Headcount poverty indices for different populations**

Institution	Total Population	Urban Population	Microfinance Clients
BancoSol (Bolivia)	58%	51%	49%
MiBanco (Perú)	52%	22%	27%
SogeSol (Haiti)	48%	34%	37%

Source: Marulanda and Otero, 2005.

Note: Headcounts for national poverty lines in each country

### **Conclusions**

Such a brief note requires little in the way of summary. Galiani’s solutions are mostly good ones, likely to improve the well-being of poor people in LAC by amounts far greater than their costs. I have three general comments for these solutions, and for the others that the panel will see as well. First, it is important to consider the external validity of studies used to make the benefit-cost calculations. In the case of promotion of breastfeeding and perhaps some of the micronutrient interventions (though not iron supplementation), the benefits are likely to be less in LAC today than those reported in the underlying studies. Another way to state this is that the marginal benefits of a proposed solution may not equal the observed average benefits. Economists should know to make decisions on the margin, but much of our evidence is actually average treatment effects. Second, it is important to consider the likely incidence of a solution’s benefits and costs. Many programs in LAC that are justified politically as being “pro-poor” nevertheless get captured by the middle classes, though the recent (conditional) cash transfer programs are an important exception. Third and most importantly, we should weight a solution’s benefits and costs based on its incidence across the income distribution. For programs that are well-targeted to the poor, this can make a very large difference in our estimates of the social benefit-cost ratios. In the only case for which I can do this quantitatively -- *Progresas*’s conditional cash transfers -- the benefit-cost ratios are much more attractive than Galiani suggests once we weight the outcomes, even for conservative values of welfare weights.

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