1

Introduction: a new approach to poverty, inequality, and development

The extent of poverty and inequality in the world is staggering. Recently compiled data on absolute poverty and relative inequality in a large number of countries may be found in Tables 1.1 and 1.2 respectively. Just in the countries assisted by the U.S. Agency for International Development (AID), nearly 800 *million* persons receive annual incomes below $150 (as of about 1970, in 1969 prices).

The president of the World Bank has voiced the human dimensions of these data well:

> Among our century's most urgent problems is the wholly unacceptable poverty that blights the lives of some 2,000 million people in the more than 100 countries of the developing world. Of these 2,000 million, nearly 800 million are caught up in what can only be termed absolute poverty–a condition of life so limited as to prevent realization of the potential of the genes with which they were born; a condition of life so degrading as to be an insult to human dignity. [McNamara in World Bank, 1975 : v].

In terms of inequality, the richest 5% of income recipients in less-developed countries receive income shares that on the average are five or six times higher than the income shares of the poorest 20% (which means that the income ratios of richest to poorest are more than twenty to one). If the poor in poor countries were compared with the rich in rich countries, the gap between rich and poor would be many times higher.

Until very recently, the agreed-upon goal of economic development was thought to be aggregate economic growth. This goal was reflected in the concern among development economists with macroeconomic phenomena: Industrialization strategy, the process of capital formation, the workings of financial institutions, and the impact of trade policies are

Table 1.1. *Poor majority populations in AID-assisted countries*

Country/date	Total population (millions)	% of population receiving less than $150 per capita	"Poor majority" population (millions)
Near East and South Asia			
India (1964–5)	537.0	91	488.7
Pakistan (including Bangladesh) (1966–7)	111.8	72	80.5
Egypt (1964–5)	33.3	50	16.6
Turkey (1963)	35.2	45	15.9
Sri Lanka (1963)	12.5	68	8.5
Tunisia (1970)	4.9	52	2.5
Regional subtotal	734.7	83	612.7
East Asia			
Thailand (1962)	34.7	65	22.6
Korea, South (1970)	32.0	45	14.4
Philippines (1971)	37.1	32	11.9
Vietnam, South (1964)	17.9	44	7.9
Regional subtotal	121.7	47	56.8
Africa			
Sudan (1963)	15.2	81	12.3
Tanzania (1967)	13.2	91	12.0
Kenya (1968–9)	10.8	86	9.3
Madagascar (1960)	6.5	88	5.7
Malawi (1969)	4.5	96	4.3
Chad (1958)	3.2	96	3.1

Senegal (1960)	3.8	69	2.6
Dahomey (1959)	2.5	94	2.3
Ivory Coast (1970)	4.2	45	1.9
Sierra Leone (1968–9)	2.5	70	1.8
Zambia (1959)	4.2	20	.8
Botswana (1971–2)	.6	84	.5
Gabon (1968)	.5	22	.1
Regional subtotal	71.7	79	56.7
Latin America			
Brazil (1970)	93.6	45	42.1
Colombia (1970)	21.1	42	8.9
Peru (1970–1)	13.6	35	4.8
Ecuador (1970)	6.1	70	4.3
Dominican Republic (1969)	4.3	38	1.6
Chile (1968)	9.8	16	1.6
El Salvador (1969)	3.5	43	1.5
Honduras (1967–8)	2.6	58	1.5
Guatemala (1966)	5.2	22	1.1
Uruguay (1967)	2.9	23	.7
Jamaica (1958)	2.0	27	.5
Costa Rica (1971)	1.7	14	.2
Panama (1969)	1.5	16	.2
Guyana (1955–6)	.8	28	.2
Regional subtotal	168.7	41	69.2
All regions (37 countries)	1,096.8	72.5	795.4

Note: Countries included are the thirty-seven AID-assisted countries for which income-distribution data are reported in Shail Jain, "Size Distribution of Income: Compilation of Data," International Bank for Reconstruction and Development, Bank Staff Working Paper No. 190, November 1974. Twenty-seven AID-assisted countries are not included for lack of income-distribution data. These are Afghanistan, Bolivia, Burundi, Cameroon, Central African Republic, Ethiopia, Gambia, Ghana, Guinea, Haiti, Indonesia, Khmer Republic, Laos, Lesotho, Liberia, Mali, Morocco, Nepal, Nicaragua, Niger, Paraguay, Rwanda, Swaziland, Togo, Upper Volta, Yemen Arab Republic, and Zaire. But the total 1970 population of these countries was only 242 million, compared to 1,097 million for the countries included in the table. The method and sources for the table are as follows. Population and GDP data are for 1970 (converted to 1969 prices in all cases), except for Pakistan, Sierra Leone, Tanzania, Thailand, India, Senegal, Sudan, South Vietnam, Egypt, and Zambia (1969 data); Botswana (1968 data); Chad (1963 data); and Dahomey (1967 data). Dates for the income-distribution data are shown in parentheses next to the country name. Income-distribution data in the IBRD source just cited were presented in the form of income shares accruing to twenty equal subgroups of the population. To calculate the percentage of the population receiving an annual per capita GDP below $150 the income share of a subgroup was multiplied by the total GDP figure for that country. This product was then divided by the number of individuals in that subgroup or the total population divided by 20. GDP and population refer to the most recent year for which data are available. With $150 as a guide, the closest 5% interval was located and, assuming equal distribution within this interval, the approximate percentage determined. The order in which countries are presented within regions was determined by the magnitude of the poor majority of the population (col. 3).

Sources: AID (1975). The sources for the population and GDP figures were the *U.N. Statistical Yearbook, 1969* and the *U.N. Yearbook of National Accounts Statistics, 1971*, V, III, respectively. GNP deflator indexes found in "Gross National Product," AID, F M SRD, May 1974, were used to convert all GDP figures to 1969 prices. (Exceptions: Botswana, Jamaica, Sri Lanka, Chad, Dahomey, and Guyana GNP deflators were taken from an appropriate regional table of Africa or Latin America in the *U.N. Statistical Yearbook, 1973*.)

Table 1.2. *Size distribution of personal income before tax in fifty-six countries*

Country and level of GDP per head	Percentiles of recipients					
	Below 20%	21%–40%	41%–60%	61%–80%	81%–95%	96%–100%
Under $100						
Chad (1958)	8.0	11.6	15.4	22.0	20.0	23.0
Dahomey (1959)	8.0	10.0	12.0	20.0	18.0	32.0
Niger (1960)	7.8	11.6	15.6	23.0	19.0	23.0
Nigeria (1959)	7.0	7.0	9.0	16.1	22.5	38.4
Sudan (1969)	5.6	9.4	14.3	22.6	31.0	17.1
Tanzania (1964)	4.8	7.8	11.0	15.4	18.1	42.9
Burma (1958)	10.0	13.0	13.0	15.5	20.3	28.2
India (1956–7)	8.0	12.0	16.0	22.0	22.0	20.0
Madagascar (1960)	3.9	7.8	11.3	18.0	22.0	37.0
Group average	7.0	10.0	13.1	19.4	21.4	29.1
$101–$200						
Morocco (1965)	7.1	7.4	7.7	12.4	44.5	20.6
Senegal (1960)	3.0	7.0	10.0	16.0	28.0	36.0
Sierra Leone (1968)	3.8	6.3	9.1	16.7	30.3	33.8
Tunisia (1971)	5.0	5.7	10.0	14.4	42.6	22.4
Bolivia (1968)	3.5	8.0	12.0	15.5	25.3	35.7
Ceylon (Sri Lanka) (1963)	4.5	9.2	13.8	20.2	33.9	18.4
Pakistan (1963–4)	6.5	11.0	15.5	22.0	25.0	20.0
South Korea (1966)	9.0	14.0	18.0	23.0	23.5	12.5
Group average	5.3	8.6	12.0	17.5	31.6	24.9

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Table 1.2. *Continued*

Country and level of GDP per head	Percentiles of recipients					
	Below 20%	21%–40%	41%–60%	61%–80%	81%–95%	96%–100%
$201–$300						
Malaya (1957–8)	6.5	11.2	15.7	22.6	26.2	17.8
Fiji (1968)	4.0	8.0	13.3	22.4	30.9	21.4
Ivory Coast (1959)	8.0	10.0	12.0	15.0	26.0	29.0
Zambia (1959)	6.3	9.6	11.1	15.9	19.6	37.5
Brazil (1960)	3.5	9.0	10.2	15.8	23.1	38.4
Ecuador (1968)	6.3	10.1	16.1	23.2	19.6	24.6
El Salvador (1965)	5.5	6.5	8.8	17.8	28.4	33.0
Peru (1961)	4.0	4.3	8.3	15.2	19.3	48.3
Iraq (1956)	2.0	6.0	8.0	16.0	34.0	34.0
Philippines (1961)	4.3	8.4	12.0	19.5	28.3	27.5
Colombia (1964)	2.2	4.7	9.0	16.1	27.7	40.4
Group average	4.8	8.0	11.3	18.1	25.7	32.0
$301–$500						
Gabon (1960)	2.0	6.0	7.0	14.0	24.0	47.0
Costa Rica (1969)	5.5	8.1	11.2	15.2	25.0	35.0
Jamaica (1958)	2.2	6.0	10.8	19.5	31.3	30.2
Surinam (1962)	10.7	11.6	14.7	20.6	27.0	15.4
Lebanon (1955–60)	3.0	4.2	15.8	16.0	27.0	34.0
Barbados (1951–2)	3.6	9.3	14.2	21.3	29.3	22.3
Chile (1968)	5.4	9.6	12.0	20.7	29.7	22.6
Mexico (1963)	3.5	6.6	11.1	19.3	30.7	28.8
Panama (1969)	4.9	9.4	13.8	15.2	22.2	34.5

Group average	4.5	7.9	12.3	18.0	27.4	30.0
$501–$1,000						
Republic of South Africa (1965)	1.9	4.2	10.2	26.4	18.0	39.4
Argentina (1961)	7.0	10.4	13.2	17.9	22.2	29.3
Trinidad and Tobago (1957–8)	3.4	9.1	14.6	24.3	26.1	22.5
Venezuela (1962)	4.4	9.0	16.0	22.9	23.9	23.2
Greece (1957)	9.0	10.3	13.3	17.9	26.5	23.0
Japan (1962)	4.7	10.6	15.8	22.9	31.2	14.8
Group average	5.1	8.9	13.9	22.1	24.7	25.4
$1,001–$2,000						
Israel (1957)	6.8	13.4	18.6	21.8	28.2	11.2
United Kingdom (1964)	5.1	10.2	16.6	23.9	25.0	19.0
Netherlands (1962)	4.0	10.0	16.0	21.6	24.8	23.6
Federal Republic of Germany (1964)	5.3	10.1	13.7	18.0	19.2	33.7
France (1962)	1.9	7.6	14.0	22.8	28.7	25.0
Finland (1962)	2.4	8.7	15.4	24.2	28.3	21.0
Italy (1948)	6.1	10.5	14.6	20.4	24.3	24.1
Puerto Rico (1963)	4.5	9.2	14.2	21.5	28.6	22.0
Norway (1963)	4.5	12.1	18.5	24.4	25.1	15.4
Australia (1966–7)	6.6	13.4	17.8	23.4	24.4	14.4
Group average	4.7	10.5	15.9	22.2	25.7	20.9
$2,001 and above						
Denmark (1963)	5.0	10.8	18.8	24.2	26.3	16.9
Sweden (1963)	4.4	9.6	17.4	24.6	26.4	17.6
United States (1969)	5.6	12.3	17.6	23.4	26.3	14.8
Group average	5.0	10.9	17.9	24.1	26.3	16.4

Source: Paukert (1973: tab. 6).

examples. We economists know, or think we know, a great deal about the determinants of economic growth, at least at the macroeconomic level.

The limitations of gross national product (GNP) and its rate of growth as indicators of economic well-being are now well appreciated.[1] GNP does not tell us how the benefits of economic activity are distributed. Two countries may have the same GNP, yet the lower income groups may have a larger share in one than in the other. Likewise, although two countries may grow at the same rate, the poor may share widely in the benefits of growth in one country and be excluded from participation in the other. Analysts and planners now recognize that to assess a country's economic performance and its progress toward economic development, the level of GNP and its growth rate must be supplemented if not replaced by other, more microeconomic measures.

The consequent refocusing of attention on microeconomic aspects of development with specific concern for the poverty population is little less than revolutionary. Academicians, aid agencies, and policy makers in less-developed countries (LDCs) alike have become aware of the severity of poverty and inequality and are now trying to deal with them. The international development community has awakened to the income-distribution problem with calls for "Redistribution with Growth" (World Bank), "Meeting Basic Needs" (United Nations International Labour Office), and "New Directions in Development Assistance" (United States Agency for International Development). Governments' development plans now include specific antipoverty policies. Even students of economic development now receive the message in at least one popular text: "As reflected in this new edition, the 'leading issues' now coalesce in a central theme: policies which are designed to eradicate poverty, reduce inequality, and deal with the problems of employment."[2]

The tasks confronting the development economics profession at present are to synthesize the lessons of the past and to chart for the future how to ameliorate poverty to the greatest extent possible in the least time. How are we to do that? At least two research strategies suggest themselves.

One approach is to keep the conventional focus on growth but to weigh the growth performance by the distributional record. This clearly was the course followed by the profession in the 1970s. There seems to be an unspoken consensus that countries' development experiences may be ranked as follows (ordered from best to worst):

1. Rapid growth, good distributional performance
2. Rapid growth, poor distributional performance
3. Slow growth, good distributional performance
4. Slow growth, poor distributional performance
5. Nongrowth

Typically, when distributional aspects of development have been taken into consideration, they have been entered secondarily, only after analysis of the rate of aggregate economic growth.

Another approach is possible. Rather than regarding GNP growth as the principal *outcome* of a country's development performance, what if we were to look upon the growth rate of GNP as a principal *determinant* of changing poverty and inequality? Suppose we set aside for now the traditional question, Does the type of distributional pattern found in a country promote or hinder growth? Suppose we ask instead, Do the rate and type of growth promote or hinder distributional goals?

This second approach has far-reaching implications for the study of economic growth. It makes growth much more a microeconomic phenomenon than has hitherto been recognized. It calls for new data to trace countries' growth histories. It calls for new models to understand why countries fared as they did. And it calls for new planning approaches for future development.

Here I adopt this alternative approach. I start with poverty and inequality as the phenomena to be explained and then see how the rate of growth and type of development help explain them. This method is reflected in the ordering of the words in the title: *Poverty, inequality, and development.* To my mind, poverty and inequality are the most pressing problems and merit the greatest prominence.

I should make clear that I am not rejecting the first approach. Much can be learned by beginning with the macroeconomics of growth and then proceeding to the microeconomics of distribution. Others in the profession are trying to do just that. Several new lines of inquiry offer great promise. Among them are large-scale models such as those of Blitzer, Clark, and Taylor (1975) and Adelman and Robinson (1978); the Social Accounting Matrices of Pyatt and Thorbecke (1976) and their collaborators; and the neoclassical modeling of Fei, Ranis, and Kuo (1979) linking growth and distribution via theories of the functional and size distributions of income. These various approaches should help us unify the causal linkages from growth to distribution and from distribution to growth, both simultaneously and recursively. That challenge confronts the profession in the 1980s.

Meanwhile it is important to fill the gap in knowledge of distributional aspects of growth. This book appears now in the hope of informing planners, scholars, and students both of the lessons of the past and of the questions that remain to be answered.

The central question addressed here is, Who benefits how much from economic development and why? Among the subsidiary questions to be examined are these: What is known about the distributions of income and poverty in the poor countries of the world? What are the correlates of the observed patterns? What are the main sources of inequality? What indexes should be used to measure the participation of the poor in economic development? What is the welfare economic basis for this choice? To what extent have individual countries alleviated their poverty and reduced their inequality in the course of economic growth? What accounts for the differences among countries? If the agenda for the book is ambitious, so too is the job of developing the world's poorest economies.

This book is addressed to the broad community of scholars and students. For many, it will be the first serious exposure to the microeconomics of development. Mathematical statements and formal theoretical developments are used where rigor is needed, but where included, these formal procedures are explained heuristically. The result, I hope, is a volume comprehensible to all those who seek to lessen poverty and inequality through economic development.