

## *Progress on poverty: lessons for the future*

Over the past twenty-five years the developing countries have made tremendous progress. Consumption per capita has increased by nearly 70 percent in real terms, average life expectancy has risen from 51 to 62 years, and primary enrollment rates have reached 84 percent (Table 3.1). These remarkable gains, if evenly spread, would have gone a long way toward eliminating poverty—but, of course, they have not been evenly spread. Some countries have done much better than others. An examination of why this is so—of the reasons for successes and failures—can suggest practical solutions to the problem of poverty.

This chapter draws on past trends to identify the key factors behind rapid and sustained improvement in the living standards of the poor. The elements of the broad strategy that emerge from this analysis are then discussed in more detail in Chapters 4 through 7.

### **Changes in poverty**

If history is to guide future policy toward poverty, it is important to be as accurate as possible about what has actually happened. Unfortunately, weak-

nesses in the data make it impossible to be precise. The evidence points to considerable progress in reducing poverty, especially in the 1960s and 1970s; the picture for the 1980s is mixed. In some regions the poor have suffered serious setbacks, whereas in others the progress of previous decades has continued and has even accelerated.

### *General indicators*

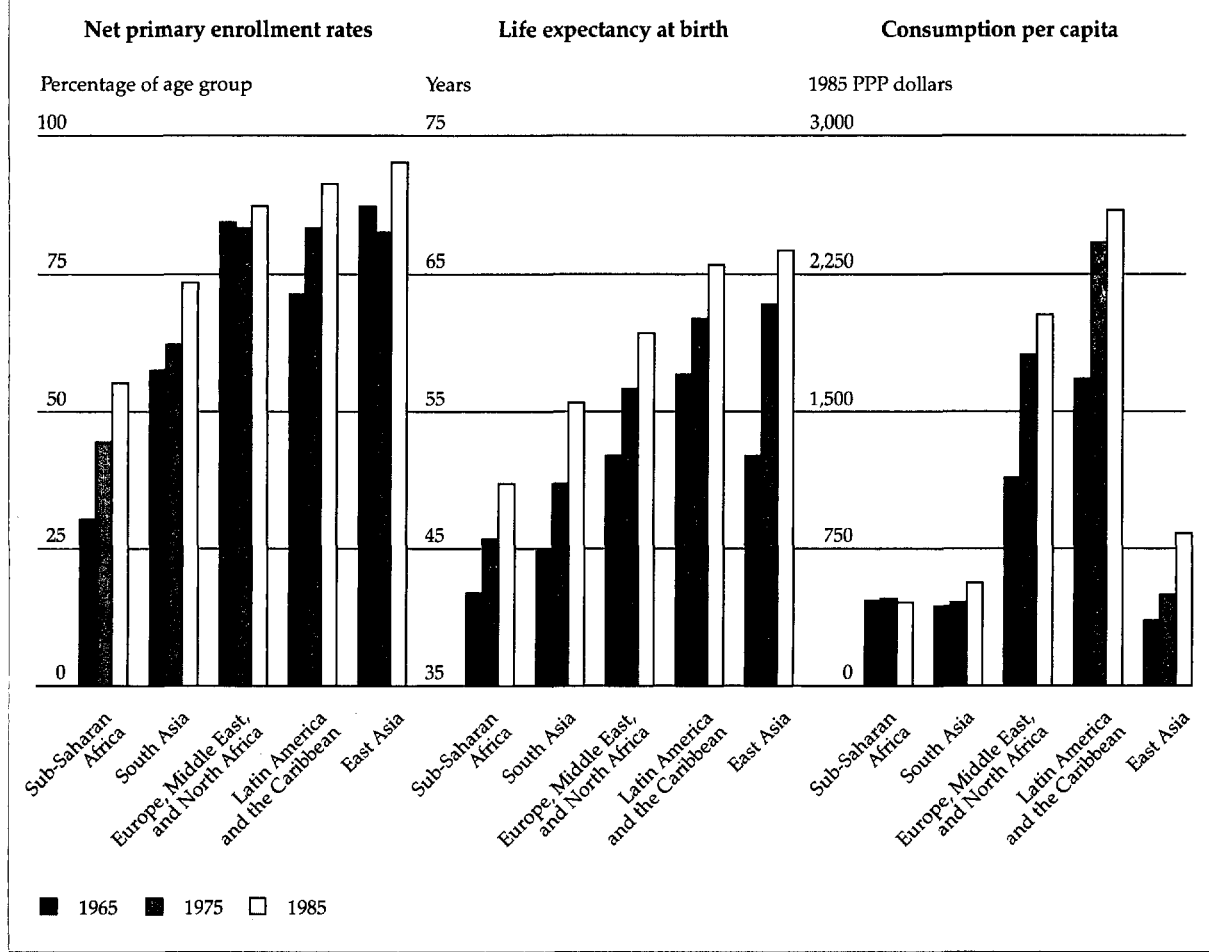
Since there is no universally accepted indicator of welfare, it is necessary to look at several different measures. We begin with a review of changes in consumption per capita, life expectancy, and educational attainment. Figure 3.1 reveals that although all regions have made good progress in life expectancy and primary enrollment, the gains in consumption per capita have differed considerably. South Asia, for example, recorded an improvement of only 30 percent from a very low base, and consumption per capita in Sub-Saharan Africa stagnated. There are two implications. First, improvements in social indicators such as life expectancy and primary enrollment can occur independent of increases in consumption. And second, since many of the world's poor live in South Asia and Sub-Saharan Africa, the substantial increase in consumption per capita in the developing world as a whole has not led to an equally impressive reduction in poverty.

Focusing on regional averages, however, provides only indirect evidence about the poor. How much, if at all, have the poor participated in the general improvement shown in Figure 3.1? To answer this question it is necessary to move from aggregate data to survey results.

**Table 3.1 Twenty years of progress in developing countries**

<i>Indicator</i>	<i>1965</i>	<i>1975</i>	<i>1985</i>
Consumption per capita (1985 PPP dollars)	590	780	985
Life expectancy (years)	51	57	62
Primary net enrollment rate (percent)	73	74	84

**Figure 3.1 Progress and stagnation in the developing world**



*What has happened to the incomes of the poor?*

Surveys that cover periods of at least ten years are available for eleven countries, which together account for 40 percent of the total population of the developing world and for 50 percent of the poor (Table 3.2). The surveys for earlier years are generally less reliable than more recent ones, and the results should therefore be interpreted as indicating trends rather than precise magnitudes. Note also that, in contrast to the exercise in Chapter 2, this chapter uses country-specific poverty lines. Comparisons between countries should be made with this difference in mind.

Table 3.2 reveals considerable progress in reducing the incidence of poverty. Indonesia, for example, cut its headcount index by 41 percentage points in just seventeen years. (Box 3.1 describes this change from the perspective of one village.) Even countries that are often thought to have fol-

lowed inegalitarian paths of development, such as Brazil and Pakistan, have succeeded in reducing the headcount index. More important, India, the country with the world's greatest concentration of poor, cut the incidence of poverty by 11 percentage points in just eleven years.

In some countries rapid population growth has increased the absolute number of poor. Nevertheless, as the changes in the average income shortfall show, the poor are better off even though they may have remained poor. In Morocco, for example, the number of people below the poverty line increased by almost a million, but their average expenditure rose from 54 percent of the poverty line to 64 percent. In sum, therefore, the evidence suggests that there has been considerable progress in reducing the incidence of poverty, a more modest reduction in the number of poor, and achievement of somewhat better living standards for those who have remained in poverty.

A weakness in this assessment is the lack of reliable data for Sub-Saharan Africa. The discussion of diverging trends in Chapter 1 and the evidence of stagnant consumption per capita in Figure 3.1

suggest that progress in reducing poverty has probably been slowest in that region. Even assuming that the distribution of income did not worsen between 1965 and 1985, the number of Africans in

**Table 3.2 Changes in selected indicators of poverty**

Country and period	Length of period (years)	Headcount index		Number of poor (millions)		Average income shortfall (percent)	
		First year	Last year	First year	Last year	First year	Last year
		Brazil (1960-80) <sup>a,b</sup>	20	50	21	36.1	25.4
Colombia (1971-88) <sup>a</sup>	17	41	25	8.9	7.5	41	38
Costa Rica (1971-86) <sup>a</sup>	15	45	24	0.8	0.6	40	44
India (1972-83)	11	54	43	311.4	315.0	31	28
Indonesia (1970-87)	17	58	17	67.9	30.0	37	17
Malaysia (1973-87) <sup>a</sup>	14	37	15	4.1	2.2	40	24
Morocco (1970-84)	14	43	34	6.6	7.4	46	36
Pakistan (1962-84) <sup>a,b</sup>	22	54	23	26.5	21.3	39	26
Singapore (1972-82)	10	31	10	0.7	0.2	37	33
Sri Lanka (1963-82) <sup>a</sup>	19	37	27	3.9	4.1	35	29
Thailand (1962-86) <sup>a,b</sup>	24	59	26	16.7	13.6	..	35

Note: This table uses country-specific poverty lines. Official or commonly used poverty lines have been used when available. In other cases the poverty line has been set at 30 percent of mean income or expenditure. The range of poverty lines, expressed in terms of expenditure per household member and in PPP dollars, is approximately \$300-\$700 a year in 1985 except for Costa Rica (\$960), Malaysia (\$1,420), and Singapore (\$860). Unless otherwise indicated, the table is based on expenditure per household member. The headcount index is the percentage of the population below the poverty line. The average income shortfall is the mean distance of consumption or income of the poor below the poverty line, as a proportion of the poverty line.

a. Measures for this entry use income rather than expenditure.

b. Measures for this entry are by household rather than by household member.

### Box 3.1 Development in a Javanese village

The story of Balearjo, an East Javanese village of almost 4,000 people, shows what declining poverty means for individuals. The village is about eight kilometers from the town of Gondanglegi and is connected to the outside world by bumpy but passable dirt roads. Although Balearjo is still somewhat poorer than its neighbors, research conducted in 1953 and 1985 shows that the lives of its inhabitants improved greatly in the intervening years. Rice yields increased dramatically, from 2 tons to 6 tons of paddy per hectare for the wet season crop, and the wage for a day's work increased from 2 kilograms of rice in 1953 to nearly 4 kilograms in 1985.

In 1953 the village would have been considered poor by most definitions. Rice was available for only four months; the diet for the rest of the year consisted of corn and, when that ran out, cassava. Clothes were worn until they were in tatters, and few people had shoes. A typical house was made of thatch and bamboo, with an earthen floor. Furnishings were sparse and uncomfortable. Few villagers could read, and few had traveled any distance from the village. A daily paper brought from a nearby town supplied the only outside news.

By 1985 things had changed. Rice was available throughout the year. Clothing was much better, and

shoes were commonplace. Most villagers had radios, and some even had television sets. More than 90 percent of the houses were made of colorfully painted brick and stucco, with partial cement floors. Furnishings were more extensive and included chairs and tables bought from stores. Literacy had improved dramatically thanks to two primary schools, one financed by the village and the other by the central government. Travel outside the village was common, and knowledge of national events, provided through hourly radio broadcasts, was widespread. In 1953 villagers relied on homemade kerosene lamps that provided little illumination, but by 1982 electric power lines had reached Balearjo, and by 1985 many households had electric light.

Such burdensome activities as rice pounding and shoulder transport had disappeared, relieving women of some of their most exhausting tasks. Higher incomes had led to demands for new products and services and hence to more productive work, such as construction, trade, and small manufacturing. Growing specialization was also evident: houses in 1953 were constructed by the owners with the help of neighbors, but by 1985 most of the work was done (and done better) by full-time carpenters.

### Box 3.2 Poverty in Africa

The absence of reliable intertemporal statistics on income distribution in most Sub-Saharan African countries makes any comprehensive account of trends in poverty there impossible. The Social Dimensions of Adjustment project is beginning to address this problem, and surveys have been conducted in three countries. For now, however, an assessment of past trends in poverty has to rely on a few household surveys, supplemented by village studies, and on aggregate statistics for income, consumption, and population.

Tanzania is one of the few Sub-Saharan African countries for which large-scale urban and rural household surveys have been conducted over a period of several years. The surveys show that real rural living standards declined at an average annual rate of 2.5 percent between 1969 and 1983. The decline in urban areas was even more dramatic; real wages fell by 65 percent over the period. Real private consumption per capita has fallen by 43 percent since 1973, and food purchases have moved away from meat, dairy products, and vegetables toward cheap starches and beans. Small-scale village surveys have revealed worsening social indicators despite government efforts to provide services.

In Nigeria trends in poverty have followed a somewhat different pattern. The rise in world oil prices and in Nigerian oil production increased per capita consumption and income throughout most of the 1970s, but the economic reversal of the early 1980s has had a severe effect on the country's poor. Consumption has plummeted by 7 percent a year, and standards of living were lower in the mid-1980s than in the 1950s. Analyses of caloric intake show no improvement between 1952 and 1985. The economic crisis of the 1980s was so severe that it more than canceled out the progress of the previous twenty years.

Ghana has only recently begun to see rising living standards after two decades of negative growth. In 1985 nearly 60 percent of the population lived on less than \$370 a year. Botswana has been one of the few African countries to achieve rapid growth (nearly 9 percent a year since 1965), but even there almost 50 percent of the population had incomes of less than \$370 a year in 1985-86. With few exceptions, the evidence supports the conclusion that poverty in Sub-Saharan Africa is severe and has been getting worse.

poverty would have increased by 55 million. Data from small local surveys and other evidence support this general conclusion (Box 3.2).

Table 3.2 deals with periods of at least ten years and may therefore mask the effect of short-run recessions. Many observers have argued that the recession and adjustment of the 1980s were particularly harmful to the poor. Table 3.3 presents evidence on changes in poverty in the 1980s. The data reveal continued progress in several East Asian and South Asian countries. India, Indonesia, Malaysia, and Pakistan—which accounted for more than 40 percent of the world's poor in 1985—managed to reduce the incidence of poverty in the 1980s. China, although it suffered a reversal after 1985, also saw a decline in poverty during the early 1980s. In the regions most severely affected by the recession, however, poverty has increased. In all the Latin American countries in the table, including Brazil, the incidence of poverty increased for at least some part of the 1980s. In Sub-Saharan Africa the only data available, those for Côte d'Ivoire, display a slight increase in the mid-1980s. Finally, the problems of Eastern Europe are clear: Poland and Yugoslavia experienced a sharp rise in poverty.

#### *Social progress and the poor*

In principle, a similar analysis for the social indicators shown in Figure 3.1 would be desirable, but distributions of social indicators are not usually available. We do know, however, that the nonpoor usually have access to social services before the poor do. Thus, only if the percentage of the population with access to social services exceeds the percentage of nonpoor can we conclude that some of the poor are being reached.

Table 3.4 compares the percentage of nonpoor in the population with primary enrollment rates and the percentage of children immunized. In East Asia universal primary enrollment had almost been reached by 1985, implying that most of the poor had access to primary education. In Sub-Saharan Africa the enrollment rate is only slightly higher than the percentage of nonpoor, and it is therefore probable that few of the poor are being reached. The other regions occupy an intermediate position. Health coverage, as measured by the percentage of children immunized, follows a similar regional pattern, but at lower levels. The evidence suggests that many poor people have benefited from the expansion in education (except in Sub-

Saharan Africa) but that less progress had been made up to 1985 in extending health care to the poor. Further expansion in coverage will mainly benefit the poor.

Regional averages mask the tremendous achievements that some countries have made in providing social services to their populations. Colombia, where mortality for children under 5 fell from 135 per thousand in 1965 to 42 per thousand by 1985, and Costa Rica, where 95 percent of the population has access to primary health care, show what can be done. Even in regions with poor overall performance, some countries have managed to make great strides. Botswana, for example, has achieved universal primary enrollment, and its under 5 mortality rate fell from 165 to 70 per thousand during the past two decades. The sheer scale of the improvements in these countries suggests that the poor must have participated in the overall progress. At the other end of the spectrum are

countries that have done much worse than regional averages indicate. In Pakistan the net enrollment ratio has hardly improved in the past twenty years—it was only 43 percent in 1985—and an estimated 36 percent of the population lacks access to health care.

Recently, concern has centered on the effect of the recession of the early 1980s on the provision of social services to the poor. In Sub-Saharan Africa and Latin America, the two regions worst affected by recession, roughly half the countries for which information is available experienced substantial declines in real per capita spending on education and health. The social indicators for the early 1980s, however, tell a somewhat less gloomy story, at least in Latin America.

Figure 3.2 shows that progress in under 5 mortality and primary school enrollment rates continued into the 1980s in most of the developing world. Progress was least in the region with the

**Table 3.3 Changes in poverty in the 1980s**

Country and period	Length of period (years)	Headcount index		Number of poor (millions)		Average income shortfall (percent)	
		First year	Last year	First year	Last year	First year	Last year
		Brazil (1981-87) <sup>a</sup>	6	19	24	23.1	33.2
China (1985-88) <sup>a,b</sup>	3	10	14	79.2	101.3	25	24
Colombia (1978-88) <sup>a</sup>	10	24	25	6.0	7.5	36	38
Costa Rica (1977-83) <sup>a</sup>	6	29	36	0.6	0.9	44	39
Costa Rica (1983-86) <sup>a</sup>	3	36	24	0.9	0.6	39	44
Côte d'Ivoire (1985-86)	1	30	31	3.1	3.3	33	26
India (1977-83)	6	50	43	324.9	315.0	29	28
Indonesia (1984-87)	3	28	17	45.4	30.0	24	17
Malaysia (1984-87) <sup>a</sup>	3	15	14	2.3	2.2	26	24
Pakistan (1979-84)	5	21	20	17.1	18.7	19	19
Poland (1978-87) <sup>a</sup>	9	9	23	3.3	8.6	..	..
Thailand (1981-86) <sup>a,c</sup>	5	20	26	9.5	13.6	27	35
Venezuela (1982-87) <sup>a</sup>	5	12	16	1.9	3.0	26	31
Yugoslavia (1978-87) <sup>a</sup>	9	17	25	3.8	5.7	..	..

Note: See note to Table 3.2 for definitions. The range of poverty lines, expressed in terms of expenditure per household member and in PPP dollars, is approximately \$300-\$700 a year in 1985 except for Costa Rica (\$960) and Malaysia (\$1,420).

a. Measures for this entry use income rather than expenditure.

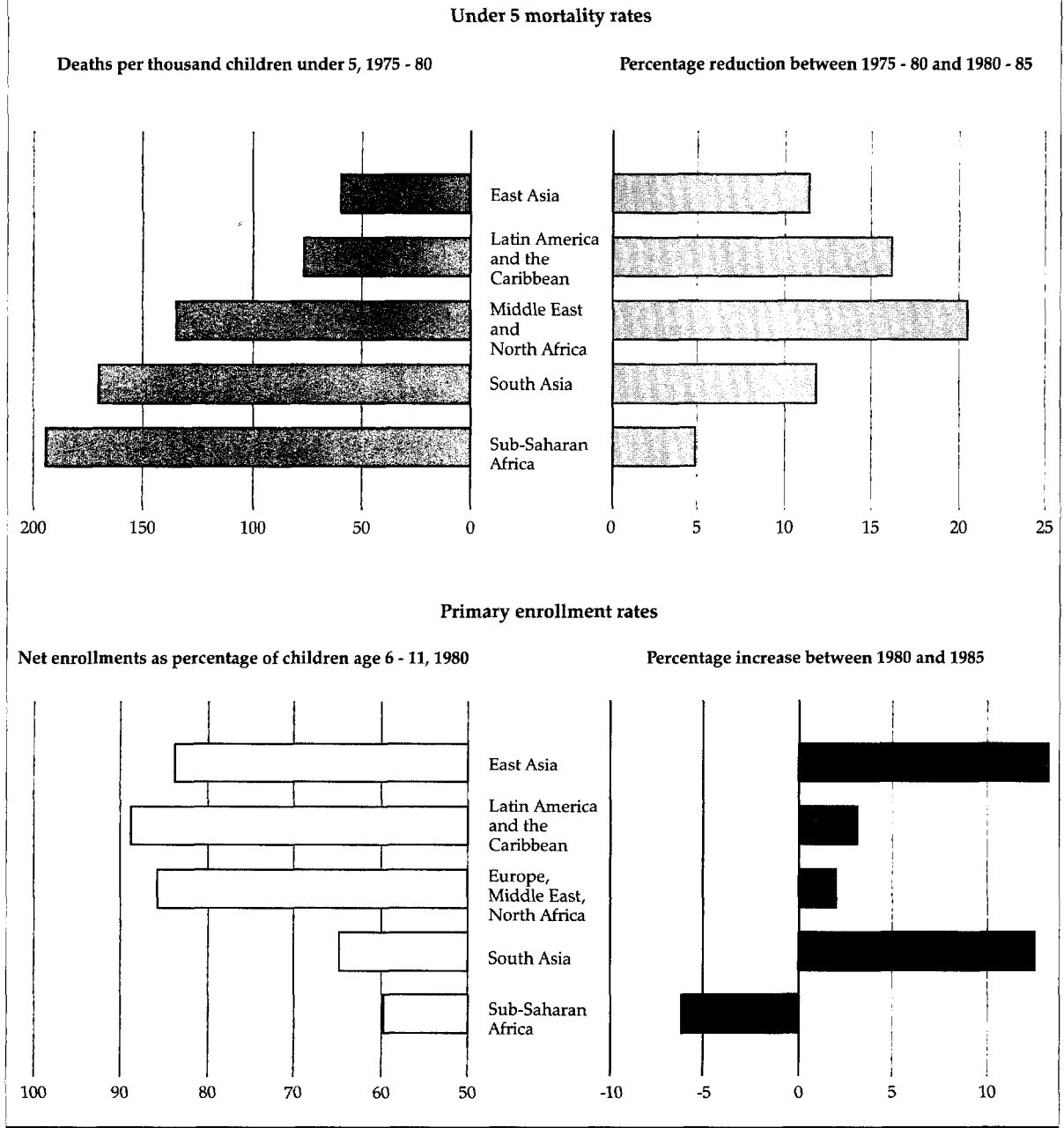
b. Rural only.

c. Measures for this entry are by household rather than by household member.

**Table 3.4 Have social services reached the poor in developing countries?**

Indicator (1985)	Sub-Saharan Africa	East Asia	South Asia	Europe, Middle East, and North Africa	Latin America and the Caribbean	All developing countries
Percentage of nonpoor in population	53	79	49	75	81	67
Primary net enrollment rate (percent)	56	96	74	88	92	84
Percentage of children immunized	47	73	43	63	65	58

Figure 3.2 The impact of recession on social indicators in developing countries



greatest needs, Sub-Saharan Africa. That region had the highest mortality for children under 5 and the lowest enrollment rate at the start of the period; it saw the smallest improvement in under 5 mortality of all the regions, and its enrollment rate actually declined. By contrast, in several Latin American countries under 5 mortality declined at an increasing rate. Brazil, Chile, and Colombia, for

example, recorded higher rates of decline in the late 1970s and early 1980s than in the 1960s and 1970s.

Changes in nutritional status are another measure of the impact of recession. Data on nutrition are not always national in coverage, but they are nonetheless of special interest because they are often drawn from areas in difficulty. Evidence from

the regions most affected by recession echoes the patterns already noted. In Latin America malnutrition has continued to decline steadily in Chile, Colombia, and Costa Rica, but progress has halted in Uruguay and Venezuela, and there are signs of worsening in Guatemala and Peru. In Sub-Saharan Africa malnutrition is on the rise, and the number of underweight children has grown substantially. Two broad patterns can be discerned. In Benin, Burkina Faso, Ghana, and Togo malnutrition rose sharply in the mid-1980s, then declined until 1986, and is now rising again. Ethiopia, Lesotho, Madagascar, Niger, and Rwanda have seen a more persistent trend of rising malnutrition around marked seasonal fluctuations. (The patterns for Ghana and Lesotho are shown in Figure 3.3.)

#### An overall assessment

Although circumstances vary enormously from country to country, this review shows that there has been a significant long-run improvement in under 5 mortality, life expectancy, and primary enrollment. In these respects the situation in the early to mid-1980s was substantially better in every region than in the 1960s and 1970s. Except in Sub-Saharan Africa, the incomes of the poor have also risen, in some cases substantially.

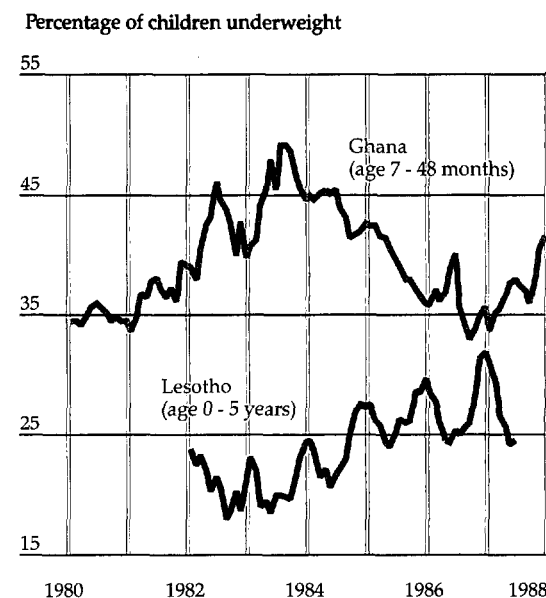
In recent years, however, much depended on where the poor lived. Most of the poor became better off on every measure, but that is because most of them live in South Asia and East Asia. In many countries of Latin America and Eastern Europe the incomes of the poor have declined—although social indicators have proved more resilient and in some countries have improved faster than before the recession of the 1980s. Sub-Saharan Africa's poor fell further behind in the 1980s; the decline that started in the 1970s has continued and in some cases has accelerated.

Regional differences aside, the review also showed that some countries have been much more successful than others in reducing poverty. Table 3.5 shows this for two key indicators—the headcount index and the under 5 mortality rate—for ten countries. The next part of this chapter draws on country experience to identify the factors underlying these differences.

#### Factors influencing country performance

Public policy is critical both in reducing poverty, as measured by income, and in improving social indicators. Policy affects incomes indirectly, through

Figure 3.3 Trends in malnutrition in the 1980s: Ghana and Lesotho



Note: The percentage of children underweight (less than 80 percent of standard weight-for-age) is used here as an indicator of malnutrition.

Table 3.5 Variation in country experience

Country and period	Average annual reduction	
	Headcount index (percentage points) <sup>a</sup>	Under 5 mortality (percent) <sup>b</sup>
Indonesia (1970-87)	2.34 (58)	3.3 (146)
Malaysia (1973-87)	1.66 (37)	3.7 (46)
Brazil (1960-80)	1.45 (50)	2.8 (107)
Pakistan (1962-84)	1.43 (54)	1.8 (200)
Costa Rica (1971-86)	1.41 (45)	9.3 (35)
Thailand (1962-86)	1.40 (59)	4.4 (70)
India (1972-83)	1.04 (54)	1.8 (199)
Colombia (1971-88)	0.91 (41)	7.2 (64)
Morocco (1970-84)	0.64 (43)	5.6 <sup>c</sup> (136)
Sri Lanka (1963-82)	0.51 (37)	2.8 (66)

Note: Use of the income shortfall rather than the headcount index yields essentially the same ranking.

a. Initial level in parentheses.

b. 1975-80 rate in parentheses.

c. 1977-81.

the rate and pattern of economic growth. It has a more direct effect on social indicators, mainly through the government's expenditure program. The two issues—higher incomes and improved social indicators—are clearly linked. Each supports the other in a variety of ways. But since the direct

**Table 3.6 Social sector spending as a percentage of GNP**

<i>Sector and country</i>	1975	1985
<i>Primary education</i>		
<i>High enrollment rate</i>		
Botswana	2.1	2.8
Tunisia	1.9	2.3
Chile	1.4	2.2
Thailand	1.6	2.0
<i>Low enrollment rate</i>		
Nepal	0.7	1.0
Ghana	1.1	0.7
Pakistan	0.6	0.7
Haiti	0.6	0.6
<i>Health</i>		
<i>Low under 5 mortality</i>		
Chile	2.5	2.1
Mauritius	2.0	2.0
Malaysia	1.9	1.8
Sri Lanka	1.7	1.3
<i>High under 5 mortality</i>		
Ethiopia	0.8	1.2
Burkina Faso	0.8	0.9
India	0.3	0.3
Pakistan	0.3	0.2

effect of policy on social indicators is easier to measure, that is a good place to start.

#### *Improving social indicators*

The countries that have succeeded in providing primary education and health care to the poor are those that have made adequate provision for the purpose in their budgets (Table 3.6). In 1985 spending on primary education as a percentage of GNP was more than four times higher in Botswana, where the enrollment rate was 99 percent, than in Haiti, where it was only 55 percent. Similarly, in countries that have achieved broad provision of health care, such as Chile and Mauritius, spending as a percentage of GNP is several times greater than in countries such as India and Pakistan, where under 5 mortality remains exceptionally high and the percentage of children immunized is low.

But increased government spending is not always the answer to improving the well-being of poor people. Better allocation of expenditures within the sector and more efficient use of funds are often more important. It is clear, however, that through well-directed public expenditures even low-income countries can dramatically improve so-

cial services. Within the sample of ten countries identified in Table 3.5, public spending is an important part of the explanation for variations in mortality of children under 5. The best performers are Sri Lanka among low-income countries and Costa Rica in the middle-income group. Both countries have had a long-standing commitment, dating to the first half of the century, to providing social services.

#### *Raising incomes*

Isolating the factors that influence the incomes of the poor is more complex than is the case with social indicators. As a preliminary step, changes in the incomes of the poor can be "explained" by decomposing them into the part attributable to overall economic growth and the part attributable to changes in the inequality of income (Box 3.3). It has been argued that inequality worsens at first with development and improves only later. This idea was encapsulated in the "Kuznets curve," which posits an inverted-U relationship between inequality and average income. The curve implies the possibility of a conflict between growth and poverty. In the extreme, the inequality of income may worsen fast enough at the outset of economic growth for poverty to increase; growth would be "immiserizing."

Table 3.7 presents a simple test of this view. It shows the change in poverty, as measured by the headcount index of Tables 3.2 and 3.3, and compares it with a simulated change in poverty. This is the change that would have occurred if inequality had remained constant—that is, if everyone had received the same percentage increase in income. If the actual decrease in poverty is less than the simulated decrease, growth has increased inequality, and the poor have gained less than the non-poor. If the actual decrease is bigger than the simulated decrease, the opposite is true.

Table 3.7 looks both at periods of long-term growth and at short-term recessions. In general, long-term growth has had only a limited effect on inequality, but it has tended to reduce it. In India, for example, the actual and simulated changes in poverty are almost exactly the same. This implies that the poor enjoyed approximately the same percentage increase as everyone else and that the income attributable to growth was distributed in the same way as the initial income.

In some countries—Colombia, for example—long-term changes in inequality have been more important. But these and other cases lend no sup-



### Box 3.3 The mechanics of changes in poverty

For any given increase in the incomes of the poor, the reduction in poverty depends on where the poor are in relation to the poverty line. If they are concentrated just below the line, the increase in their incomes will have a bigger effect on poverty than if they are spread more evenly.

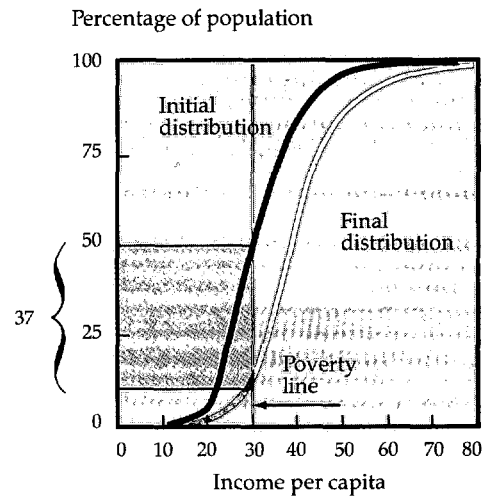
Box figure 3.3 shows the cumulative distribution function—that is, the percentage of persons who receive no more than a particular income, expressed as a function of that income. For example, with the poverty line set at 30, the curve on the left in each figure shows that 50 percent of the population is poor. A 50 percent increase in income will shift the distribution function to the right. The reduction in the incidence of poverty is 37 percentage points in the upper panel of the figure but only 27 percentage points in the lower panel.

The difference in outcome arises from differences in the slope of the distribution function at the poverty line. If the slope is very steep (implying less inequality in the region of the poverty line), as in the upper panel, a large number of people is concentrated just below the line. An increase in income moves many people above the line, and the incidence of poverty falls substantially. If the slope is less steep (implying greater inequality around the poverty line), as in the lower panel, few people are located immediately below the poverty line. In this case the same increase in income moves only a few of the poor above the line, and the reduction in the incidence of poverty will be much smaller.

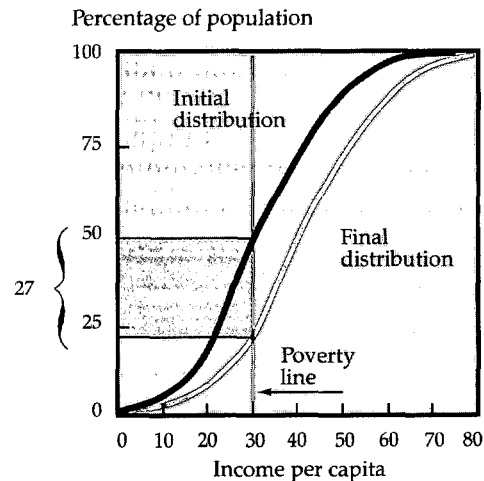
For example, starting from the latest available distributions, a 10 percent increase in the incomes of the poor in Bangladesh and India would reduce the incidence of poverty by about 7 percentage points. Where the distribution of income is more unequal, as in Venezuela and Brazil, the corresponding figure would be only 3 percentage points.

**Box figure 3.3 Different initial conditions: the impact on poverty reduction**

**Heavy concentration of poor just below poverty line**



**Lower concentration of poor just below poverty line**



port to either the Kuznets or the immiserizing-growth hypothesis. In the low-income countries inequality consistently improves (contrary to the Kuznets hypothesis), and there is no case in which the effect of growth is offset by changes in inequality (contrary to the immiserizing-growth hypothe-

sis). In short, growth reduces poverty. Even so, where inequality has worsened, as in Brazil, the implications for poverty are significant. If inequality had declined as in Malaysia, Brazilian poverty would have fallen by 43 percentage points between 1960 and 1980 rather than by 29. The pattern

**Table 3.7 Poverty, economic growth, and recession**

<i>Country and period</i>	<i>Length of period (years)</i>	<i>Observed reduction in poverty (percentage points)<sup>a</sup></i>	<i>Simulated reduction in poverty (percentage points)<sup>b</sup></i>	<i>Annual growth of mean income or expenditure (percent)</i>
<i>Long-run growth</i>				
Indonesia (1970-87)	17	41	35	3.4
Thailand (1962-86)	24	33	30	2.7
Pakistan (1962-84)	22	31	26	2.2
Brazil (1960-80)	20	29	34	5.1
Malaysia (1973-87)	14	23	19	4.0
Singapore (1972-82)	10	21	19	6.4
Costa Rica (1971-86)	15	21	22	3.5
Colombia (1971-88)	17	16	8	1.1
India (1972-83)	11	11	10	1.0
Sri Lanka (1963-82)	19	10	8	0.9
Morocco (1970-84)	14	9	1	0.2
<i>Short-run recession</i>				
Costa Rica (1983-86)	3	12	13	10.9
Indonesia (1984-87)	3	11	9	5.0
India (1977-83)	6	7	2	0.8
Malaysia (1984-87)	3	1	-1	-0.7
Pakistan (1979-84)	5	1	4	1.2
Colombia (1978-88)	10	-1	-1	-1.2
Côte d'Ivoire (1985-86)	1	-1	-5	-5.4
China (1985-88) <sup>c</sup>	3	-4	5	6.7
Brazil (1981-87)	6	-5	1	0.9
Venezuela (1982-87)	5	-5	-6	-4.5
Thailand (1981-86)	5	-6	0	0.0
Costa Rica (1977-83)	6	-7	-8	-3.4
Yugoslavia (1978-87)	9	-7	-12	-2.9
Poland (1978-87)	9	-14	-17	-1.2

a. Absolute change in the headcount index on the basis of the definition of absolute poverty in the specific country.

b. The simulation assumes that the inequality of income remains unchanged.

c. Rural only.

of growth as well as its rate is thus an important determinant of changes in poverty.

As the lower part of Table 3.7 shows, in the 1980s the link between growth and poverty reduction is still there, but it is weaker than before. By and large, economic growth reduces poverty and economic decline increases it. Fluctuations in inequality, however, were larger in the 1980s. In Malaysia, for example, poverty decreased even though mean income also declined. This suggests that external shocks or important policy changes can alter the incidence of poverty by way of changes in the inequality of income, whereas in more stable periods economic growth is the dominant influence on poverty.

Would the conclusion that growth reduces poverty change if attention were shifted from the poor to the very poor? The country-specific poverty lines used in this analysis define 20 to 50 percent of the population as poor. If we turn to the poorest tenth of the population, we find that in periods of stable growth this group enjoyed a larger-than-

average percentage increase in income in all countries except Brazil and Costa Rica, where inequality worsened. In Brazil the poor nevertheless enjoyed a substantial increase in income; in Costa Rica they suffered a loss. In general, therefore, the poorest of the poor participated fully in economic growth.

No simple pattern emerged during the 1980s. In about half the countries the very poor suffered more, or advanced less, than the average citizen. In Colombia, for example, mean income for the entire population fell by 11 percent between 1978 and 1988, whereas for the poorest tenth it fell by more than 20 percent. In contrast, the poorest households in other countries did much better than the rest of the population. In Malaysia average incomes fell by 2 percent between 1984 and 1987, but the mean incomes of the poorest actually increased by 9 percent.

These conclusions shed some light on the differing experience of the countries identified in Table 3.5. Economic growth was clearly important—in the two countries that experienced the fastest re-

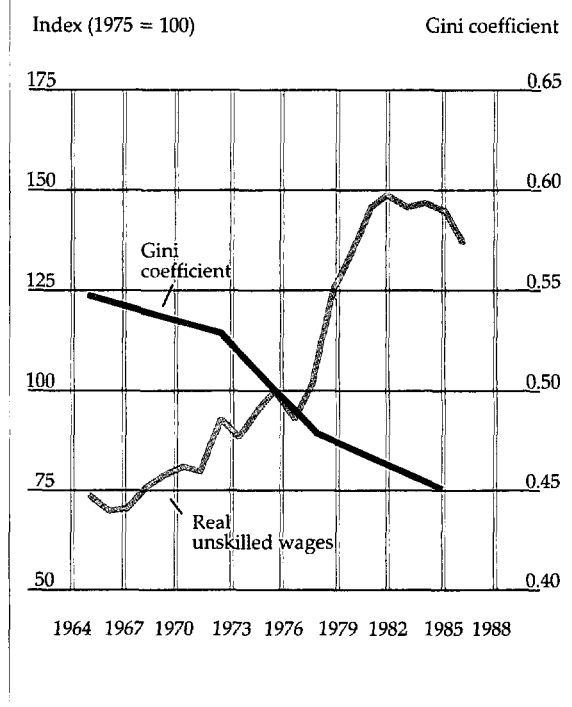
duction in poverty, per capita income grew by more than 3 percent a year, whereas the two countries that reduced poverty least had growth rates of less than 1 percent. In egalitarian economies (Indonesia, for example) economic growth that preserved the existing degree of inequality was sufficient to reduce poverty quickly. Where the initial distribution of income was less equal, as in Colombia, changes in inequality were an important complement to overall growth.

Economic growth and changes in inequality, however, are not instruments of policy; they are consequences. What were the policies that, in egalitarian economies such as Indonesia, spurred growth and even slightly reduced the initial degree of inequality? And what were the policies that, in inequalitarian economies such as Colombia, enabled the poor to benefit more than proportionately from growth? The answer lies in the factors that determine the incomes of the poor.

**OWNERSHIP OF ASSETS.** Redistributing the existing stock of assets to the poor has sometimes proved successful, but this is the exception rather than the rule. Large redistributions of land have been associated with rapid reductions in poverty, but they have occurred only in times of great political upheaval. Distribution of new capital (that is, investment) in favor of the poor has been more common. In particular, investment in human capital through primary health care and education has been an important part of the approach adopted by several countries. Whether this raises incomes, however, depends on the opportunities that are available for using the new skills.

**RETURNS TO ASSETS.** Since poverty is largely a rural phenomenon and since many of the poor depend, directly or indirectly, on the farm sector for their incomes, growth that raises agricultural productivity and the return to farm labor ought to be particularly effective in reducing poverty. The contrast between Indonesia and India illustrates this point. Between 1970 and 1987 poverty in Indonesia declined by 41 percentage points; over the same period the purchasing power of agricultural value added rose by 2.6 percent a year per rural dweller. Between 1984 and 1987, a period of especially rapid decline in poverty, purchasing power grew by 5.0 percent a year. In contrast, in India poverty decreased by 11 percentage points, and agricultural purchasing power grew by less than 0.4 percent a year. Most of the decline in poverty in India—7 percentage points between 1977 and 1983—took

**Figure 3.4 Inequality and wages, Colombia, 1965 to 1986**



place at a time when agricultural purchasing power was growing at 1.5 percent a year. Econometric analysis confirms that rural poverty in India has a strong negative link to farm incomes.

In India and Indonesia the initial distribution of income was fairly equal, and growth was able to reduce poverty even though the degree of inequality remained the same. Where the initial distribution is less equal, growth must shift the pattern of returns in favor of the poor if it is to have much effect. Colombia is one of the few Latin American countries that has managed to improve an initially very unequal distribution of income. Its Gini coefficient (a measure of inequality in which 1 represents complete inequality and 0 perfect equality) fell from 0.54 to 0.48 between 1971 and 1978, and its incidence of poverty fell by 2.9 percentage points a year. As Figure 3.4 shows, the return to poor people's most important asset—unskilled labor—had to rise sharply for this to come about. Between 1971 and 1978 real unskilled wages increased at 6.6 percent a year, as against 3.9 percent for GNP per capita. This shifted the distribution of income in favor of the poor. Box 3.4 illustrates what happened to wages and poverty in a period

### Box 3.4 Growth, real wages, and poverty: the United Kingdom and the United States, 1770 to 1920

The history of the industrial revolution in the United Kingdom and the United States suggests links among growth, real wages, and poverty. In both countries development in the early phase of the revolution was capital-intensive. Since at the same time the labor supply was increasing, the real wages of unskilled workers grew slowly, and economic growth had only a small effect on poverty. After about 1820 in the United Kingdom and 1880 in the United States, however, real wages began to rise, and poverty began to decline.

Britain's industrial revolution began around 1770, but until 1820 real wages barely increased. In the first twenty years of the nineteenth century the earnings of adult male unskilled workers grew at just 0.2 percent a year. The next fifty years saw a much faster and steadier increase at 1.7 percent a year. After about 1840 the GDP of the United States grew significantly faster than that of the United Kingdom at a comparable stage, but real wages for urban unskilled labor increased by less than 0.2 percent a year between 1845 and 1880. Then, as in the United Kingdom, they accelerated and grew

by 1.3 percent a year for the next forty years.

In both countries technological advances initially favored capital-intensive and skill-intensive industry over labor-intensive agriculture. Slow growth in labor demand coincided with dramatic population growth to restrict the growth of real wages. Several decades after the start of the industrial revolution, technological progress in farming led to a more balanced pattern of growth, and the labor-saving bias of early industrialization gave way to a neutral or labor-intensive bias. Lower birthrates and stricter immigration laws slowed population growth, and real wages increased at a faster rate.

In the United Kingdom pauperism declined after 1840. The most reliable data for the United States, from records in New York State, suggest that poverty increased up to 1865, when 8 percent of the population was receiving local relief. After that, poverty declined until the end of the century. In both countries growth in the real wages of unskilled labor reduced the incidence of poverty.

of economic growth—the industrial revolutions in the United Kingdom and the United States.

Returns to the assets of the poor can also be increased through higher productivity. In Malaysia investing in the poor contributed to rapid growth, with some improvement in a fairly unequal distribution of income and a decrease in poverty of 23 percentage points between 1973 and 1987. During this period average labor earnings for rural workers rose by almost 75 percent. Studies suggest that better education accounted for roughly one-quarter of the rise in farm earnings and about three-quarters of the rise in nonfarm earnings. By investing in the human capital of the poor and providing an environment in which new skills could be productively used, Malaysia improved both the short-run welfare of the poor and the prospects for raising incomes in the medium term.

Sri Lanka has been less successful in realizing the potential increase in productivity made possible by social spending. Between 1970 and 1985 it allocated about 10 percent of GDP to social expenditures, and coverage was widespread. Although social indicators improved, the incomes of the poor did not rise significantly. Poverty declined by only 0.5 percentage points a year during the 1960s and 1970s.

Another way of increasing the productivity of the assets of the poor is to provide better physical infrastructure. For example, Indonesia used its oil receipts to improve and extend infrastructure throughout rural Java and thus provide access to markets for most of the country's poor. In contrast, the inadequate infrastructure in much of Sub-Saharan Africa continues to deteriorate.

**TRANSFERS.** All the countries listed in Table 3.5 have used transfers, usually in the form of food subsidies. In countries such as Indonesia and Thailand moderate transfers—about 0.2 percent of GDP—have proved to be consistent with rapid growth. Other countries have gone much further. In the late 1970s Egypt's transfers (which, although they reached the poor, went mainly to the nonpoor) amounted to 7 percent of GDP. Such heavy use of transfers can cause severe macroeconomic difficulties, and by reducing growth, it condemns future generations to poverty.

Transfers are unlikely to be the answer to poverty—certainly not in low-income countries with large numbers of poor. One reason is the sheer size of the problem. Transfers of at least 15 percent of current GDP would be needed to eliminate poverty in Bangladesh—and this assumes that

the transfers would not “leak” (as they usually do) to the urban middle class. In some middle-income countries the situation is different; transfers amounting to only 1.1 percent of current GDP could eliminate poverty in Brazil. Because of leakage and administrative costs, however, much more than this would be required in practice.

#### *Explaining successful performance*

Armed with this account of the factors that have influenced poverty, we can review the performance of the countries listed in Table 3.5. The three East Asian countries—Indonesia, Malaysia, and Thailand—demonstrate the benefits of an appropriate balance between policies that spur growth and policies that enable the poor to participate in growth. All three achieved and sustained annual GDP growth rates of more than 6 percent. This growth—relatively labor-intensive, with agriculture to the fore—generated demand for the factors of production owned by the poor. These countries also provided for adequate social spending. As a result, they have achieved universal primary education, and their infant mortality rates are lower than those of many countries with similar incomes. The improvement in the skills and quality of the labor force enabled the poor to seize the opportunities provided by economic growth.

In other countries the creation of opportunities for the poor and the development of their capacity to respond have not always been as well balanced. Brazil’s GDP growth exceeded that of every other country in the sample, and Pakistan equaled the 6 percent annual growth achieved by the East Asian countries. Yet in neither country did social indicators improve rapidly. Brazil has one of the highest mortality rates for children under 5 among the middle-income countries, and Pakistan has one of the lowest rates of primary school enrollment in the world. The failure to improve the skills of the labor force has limited poor people’s ability to benefit from growth. In each case the headcount index fell, but less quickly than in Indonesia or Malaysia.

So, it is possible to have economic growth without much social progress. The converse is also true: social indicators can be improved even in the absence of rapid economic growth. Between 1971 and 1978 in Colombia and between 1971 and 1977 in Costa Rica poverty declined rapidly, under 5 mortality fell at an extraordinary rate, and GDP grew at 5 to 6 percent a year. The recession of the early 1980s brought stagnant or declining GDP per capita and put an abrupt halt to the improvement

in poverty—the headcount index remained roughly constant in Colombia and increased in Costa Rica. Still, under 5 mortality continued to fall, demonstrating that efforts to improve social indicators can yield results even during a recession. Similarly, the experience of Sri Lanka shows that remarkable social progress can be achieved even at low levels of income. The benefits of Sri Lanka’s long-standing support for the social services can be seen in its under 5 mortality rate, which was 66 per thousand in 1980—an impressive achievement for a low-income country.

Yet, as the experiences of India, Morocco, and Sri Lanka show, low GDP growth makes it difficult to reduce poverty. This suggests an important distinction: raising the incomes of the poor (and thus lifting people above the poverty line) requires broadly based economic growth, but making the poor better off in other respects—by reducing child mortality, for instance—can be brought about through specific public actions.

A key conclusion emerges from all this: the countries that have been most successful in attacking poverty have encouraged a pattern of growth that makes efficient use of labor and have invested in the human capital of the poor. This two-part approach is the basic strategy for the reduction of poverty proposed in this Report. Both elements are essential. The first provides the poor with opportunities to use their most abundant asset—labor. The second improves their immediate well-being and increases their capacity to take advantage of the newly created possibilities. Together, they can improve the lives of most of the world’s poor.

Some among the poor—for example, the infirm, the aged, and those in resource-poor areas—may not benefit even from successful implementation of the two-part approach. Others, although benefiting, will remain highly vulnerable to personal disasters such as death of the family breadwinner and to national calamities such as drought or economic recession. A comprehensive approach to poverty, therefore, requires that the basic strategy be supplemented by a system of well-targeted transfers and safety nets.

#### **What is the critical tradeoff?**

Discussions of policy toward the poor usually focus on the tradeoff between growth and poverty. But the review of country experience suggests that this is not the critical tradeoff. With appropriate policies, the poor can participate in growth and

### Box 3.5 Political coalitions and the poor

Bringing about reforms that are intended to reduce poverty is not necessarily a matter of simply pitting the poor against the nonpoor. Although many economic policies benefit the rich at the expense of the poor, others link the fortunes of both groups and can draw support from coalitions that cut across the poor-nonpoor divide.

Policy coalitions often form across the income spectrum when sectoral interests are at issue. Tariff, exchange rate, and food pricing policies often have effects that differentiate more between the agricultural and industrial sectors than across income levels. In many African and Latin American countries the agricultural sector has long suffered from policies that favor industry and cities. For example, food prices are frequently kept low, which benefits the urban poor, industrial workers, and enterprise owners at the expense of the entire rural sector, including the rural poor.

Coalitions of the poor and nonpoor also form along geographic lines—to promote the flow of resources to an entire region, such as Brazil's Northeast, or to push for interventions such as an irrigation project that will help a specific locale. Entire districts in India have pressed to be included within irrigation command areas in the expectation of increased productivity for both large and small farmers.

Service providers and recipients may also form coalitions. Pressures on governments to finance social services often come as much from the middle-income providers of services as from the beneficiaries. Teachers, medical personnel, social workers, and other middle- and upper-income service providers themselves benefit when the government devotes more resources to social services, and they often have the voting power

and organizational capacity to lobby successfully for greater investments in the development of human resources. Kenya and Sri Lanka, which spend relatively high amounts on primary education, not surprisingly have powerful teachers' unions. The expansion of primary education in Peru was largely attributable to the efforts of political parties to win teachers' votes.

In Argentina, Chile, and Peru the success of tax and other policy reforms to benefit the poor has generally turned on the stance of white-collar workers, professionals, bureaucrats, and small- and medium-size business interests. Redistributive policies were more likely to succeed when these sectors shared in transfers directed primarily to the poor. The same is no doubt true in many other countries. The Maharashtra Employment Guarantee Scheme in India transfers income from the urban nonpoor to the rural poor, but it nevertheless enjoys wide political support. The urban nonpoor see the reduction of migration to Bombay as a benefit, and landowners may look favorably on the scheme because it helps to stabilize the rural labor force and because it creates infrastructure in the countryside. By contrast, when Sri Lanka switched from a general food subsidy and ration scheme to a food stamp program during 1979-80, the fall in implicit transfers to the nonpoor undermined support for the scheme.

In sum, the political economy of poverty reduction is complex and varies greatly according to country and historical circumstances. As this brief review illustrates, policies to benefit the poor have been proposed and successfully implemented under a diversity of conditions. But experience shows that success is often built on objectives and strategies that are shared to some degree by the poor and at least some groups among the nonpoor.

contribute to it, and when they do, rapid declines in poverty are consistent with sustained growth.

If policies can be identified that both reduce poverty and contribute to growth, why have more countries not adopted them? The answer lies in political feasibility. The strategic choices that governments make reflect both economic and political factors. Countries differ enormously in their political culture, in the nature of their political organizations, in their leadership, in their bureaucratic processes, and so forth. This section investigates one aspect of the complex interaction between political and economic factors.

Policies that help the poor but impose costs on the nonpoor will encounter resistance whether or not they increase national income. The nonpoor are usually politically powerful, and they exert a

strong influence on policy. Giving the poor a greater say in local and national decisionmaking would help to restore the balance. But since political power tends to reflect economic power, it is important to design poverty-reducing policies that will be supported, or at least not actively resisted, by the nonpoor. Sometimes it is possible to build coalitions that bring together the poor and certain nonpoor groups that have an interest in reform (Box 3.5). As a rule, however, avoiding resistance by the nonpoor will call for policies that put the least burden on the majority.

#### *Increasing assets*

Governments that seek to increase the assets of the poor have pursued two approaches—redistribution of existing assets (such as land) and in-

creased public investment in the human capital of the poor. Both policies are beneficial to the poor. The experience of Japan and Korea provides an example of significant land redistributions that led to a marked and sustained decline in poverty. Colombia and Malaysia illustrate the benefits of increasing human capital.

The lower panel of Figure 3.5 uses the framework described in Box 3.6 to illustrate the benefits to the poor under each approach. Land redistribution brings an immediate and lasting gain; higher spending on education brings no improvement in the short run but a rapid increase later. (The policies were calibrated to ensure the same increase in the incomes of the poor by the tenth year.)

Do the two policies' effects on long-term growth make one preferable to the other? In principle, both policies have growth-increasing and growth-reducing effects. The land reform, for instance, might reduce saving (since the poor tend to save a smaller proportion of their income than the rich), and that would be bad for growth. But it might also encourage the more efficient use of land, which would be good for growth. Investment in education improves the quality of the work force (good for growth) but requires, at least in the short term, higher taxes to finance the increase in public spending (bad for growth). On balance, there may be little to choose between the two approaches.

The policies, however, differ strikingly in their

effects on the distribution of income and thus in their political feasibility (see the upper panel of Figure 3.5). Land redistribution causes an immediate and permanent loss of consumption for the nonpoor—which is why it is resisted so strongly. Extra spending on education can be built up more gradually so that the increased burden of taxation on the nonpoor is paid entirely out of increments to income. The second approach, therefore, is likely to be more feasible. Moreover, some nonpoor groups—for example, industrialists who need a skilled labor force—stand to gain from the human capital policy and would be likely to support it.

This does not imply that governments should reject asset redistribution or that asset redistribution and investment in the poor are mutually exclusive. Indeed, a relatively egalitarian distribution of land increases the effectiveness of other policies aimed at reducing poverty. It does suggest, however, that tilting the distribution of new investment in favor of the poor (as advocated in *Redistribution with Growth*, by Chenery and others) is likely to be more popular than reshuffling the stock of existing assets. If redistribution is impossible, the case for spending more on education and other forms of investment in human capital is all the stronger.

#### *Increasing income*

A similar comparison can be made between a current transfer of income and growth that raises the

### **Box 3.6 Tradeoffs and poverty: a simple simulation model**

The simulation model underlying the results of this section captures two tradeoffs—that between poverty and growth and that between the poor and the nonpoor. The severity of the tradeoffs depends on two factors.

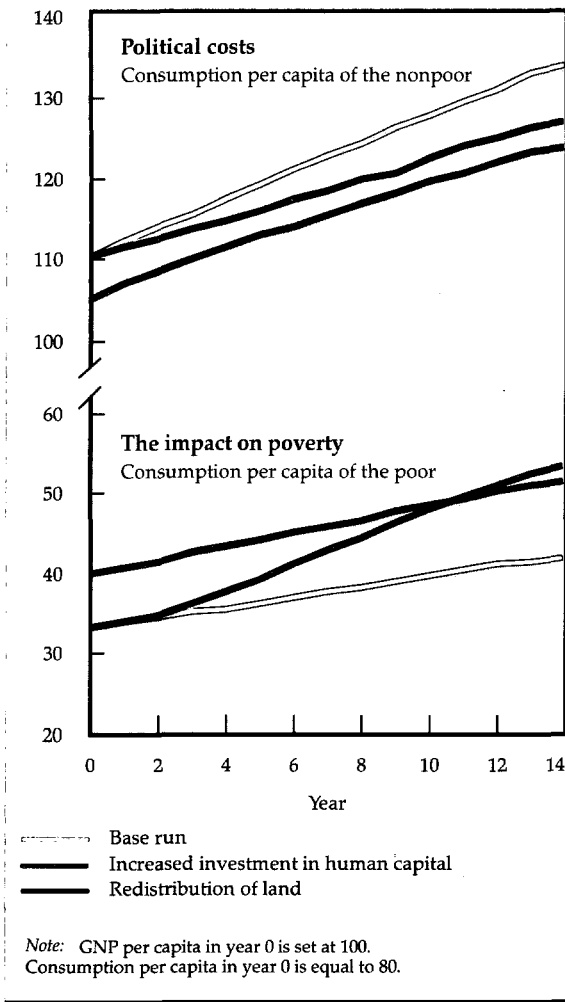
The first is the immediate economic cost of raising the revenues necessary to finance transfers and social programs. Higher taxes are likely to reduce economic efficiency (and hence GNP), at least to some extent. Moreover, not all of the increased public spending will find its way to the intended beneficiaries. Similarly, some of the rise in taxes will fall on the poor. So, to deliver a net benefit of \$1 to the poor, more than \$1 will have to be raised in taxes. In the model, a net transfer of 0.5 percent of GNP to the poor reduces GNP by 0.4 percent and the consumption of the nonpoor by 1.0 percent. Policies that allow a reduction in taxation, such as the elimination of subsidies to capital, have the reverse effect.

Second, if the nonpoor save more than the poor,

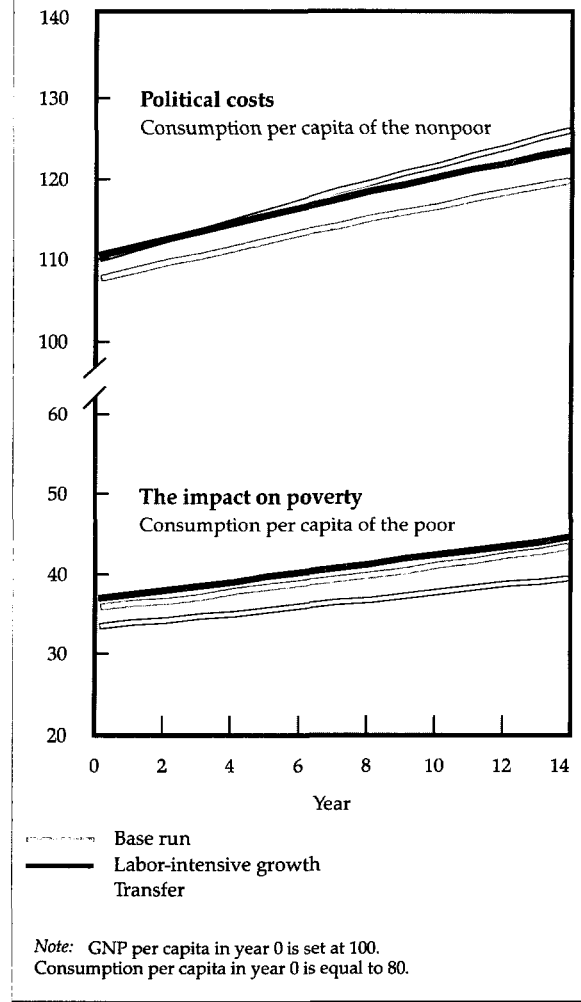
transferring income from the nonpoor to the poor will reduce national saving. This in turn will mean slower economic growth. A net transfer of 0.5 percent of GNP reduces the growth rate of GNP by 0.1 percentage points and that of the consumption of the nonpoor by 0.12 percentage points. The productivity of capital, however, is assumed to be independent of ownership. Thus, increased investment in the human capital of the poor, for example, will increase growth to the same extent as investment elsewhere in the economy.

The model depicts growth in a one-sector economy. It consists of a single production function that combines factors of production and yields national income; a submodel that distributes national income to the poor and the nonpoor according to their ownership of factors of production; a set of taxes and transfers that determines disposable income by income class; saving rates by income class; and a "cost" function that measures the loss of GNP arising from taxation.

**Figure 3.5 Increasing the assets of the poor**



**Figure 3.6 Increasing current income**



returns to assets owned by the poor. Some countries, such as Sri Lanka, have relied heavily on subsidies; others, such as Colombia, have increased the return to labor through policies that promote its more efficient use. Both approaches can benefit the poor. In the lower panel of Figure 3.6 the transfer has been chosen to ensure the same increase in income over the simulation period as with policies that remove biases against the use of labor.

As before, both policies affect growth. But in this case there is a stronger presumption—confirmed by the model—in favor of removing the biases against the use of labor. This policy produces an immediate gain in efficiency, and the level of GNP rises. Thereafter, the effect of the policy on growth

will depend on the interaction of many different factors. By contrast, an increase in the transfer is likely to reduce both the level and the future growth of income. Higher taxes will be needed to finance the increase, and long-term saving will be lower; both are bad for growth.

This initial preference for the labor-promoting approach is greatly strengthened by considerations of political feasibility. Here, as before, the difference between the two policies is striking (see the upper panel of Figure 3.6). Whereas transfers reduce the present consumption of the nonpoor, switching to a more efficient use of labor increases their consumption initially and leads to only somewhat slower rises in the future. Transfers are therefore far more likely to encounter political resis-



tance. Moreover, some among the nonpoor, such as investors in labor-intensive industry, stand to gain from the removal of biases against the use of labor and may therefore support such reforms. Again, however, the two approaches are not mutually exclusive. Indeed, some transfers will clearly be necessary for those who cannot participate in growth.

As with the review of country experience, this analysis suggests that a more efficient use of labor, coupled with increased investment in the human capital of the poor, reduces poverty and increases national income. The two-part strategy proposed in this Report thus entails no tradeoff between income and growth on the one hand and poverty on the other. The tradeoff between the poor and the nonpoor remains—but the strategy achieves a substantial reduction in poverty with a smaller cost to the nonpoor than under other approaches. It may therefore be politically more acceptable.

A tradeoff between growth and poverty does emerge during the economic restructuring that follows, for instance, a permanent fall in the terms of trade. The need to change the pattern of production makes investment even more important than usual, and as a result, policies that reduce investment become more “expensive” in terms of future

growth. Yet the poor are especially vulnerable during adjustment. Protecting them at such times becomes both more urgent and more difficult. Transfers must be targeted with special care if the poor are to be protected at reasonable cost. The case for transfers in the event of a temporary shock is much more clear-cut. The value of investment is not affected by a drought, for example—but the value of a transfer to prevent death from famine is certainly increased.

The next four chapters turn from a broad view of approaches to development to a more detailed discussion of specific policies. How are governments to promote efficient, labor-intensive growth together with investment in human capital? Chapter 4 concentrates on the first element of the strategy by identifying the policies that have encouraged a pattern of growth that uses labor more efficiently. Chapter 5 turns to the second component and examines the delivery of social services to the poor. Chapter 6 discusses the role of transfers and safety nets in helping those who may not benefit from the policies recommended in Chapters 4 and 5 as well as those who may suffer income-reducing shocks. And Chapter 7 asks how all these policies need to be modified to cope with recession and restructuring.