

Why Don't We See Poverty Convergence?

Does growth or the impact of growth on poverty depend on the initial poverty rate in a way that nullifies the advantage of backwardness?

Developing countries that start out with a high incidence of poverty typically do not enjoy a higher subsequent pace of poverty reduction, measured in proportionate terms. The overall incidence of poverty is falling in the developing world, but no faster than in the poorest countries. In short, we do not see “poverty convergence.”

This is puzzling if we accept two widely-held “stylized facts” about economic development, namely that there is an “*advantage of backwardness*”—countries starting out with low mean incomes exhibit higher growth rates—and that there is an “*advantage of growth*,” whereby a higher mean income tends to come with a lower incidence of absolute poverty. There is ample empirical support for both views, though with qualifications. The advantage of backwardness should mean that countries starting out with a high incidence of poverty and hence a lower mean (given the advantage of growth) should see a higher subsequent growth rate and hence a higher pace of poverty reduction. Indeed, the mean and the poverty rate will have the same speed of convergence in most widely-used log-linear models found in the literature.

In a new paper, Martin Ravallion suggests a solution to this puzzle. Intuitively, the hypothesis is that either the growth process in the mean, or the impact of growth on poverty, or both depend directly on the initial poverty rate in a way that nullifies the “advantage of backwardness.”

To test this hypothesis, a dataset was constructed from household surveys for nearly 100 developing countries, each with two or more surveys over time. These data are used to estimate a model in which the rate of progress against poverty depends on the rate of growth in the mean and various parameters of the initial dis-

tribution—encompassing those identified in the literature—while the rate of growth depends in turn on the initial distribution as well as the initial mean.

The results indicate three distinct consequences of being a poor country for subsequent progress against poverty. The usual neoclassical convergence effect entails that countries with a lower initial mean, and so typically a higher poverty rate, grow faster and hence enjoy faster poverty reduction than otherwise similar countries. Against this, there is an adverse direct effect of poverty on growth, such that countries with a higher initial incidence of poverty tend to experience a lower rate of growth, controlling for the initial mean. Additionally, a high poverty rate makes it harder to achieve a given proportionate impact on poverty through growth in the mean. (By the same token, the poverty impact of economic contraction tends to be smaller in countries with a higher poverty rate.)

The two “poverty effects” work against the mean convergence effect, leaving little or no correlation between the incidence of poverty and the subsequent rate of progress against poverty. In terms of the pace of poverty reduction, the “advantage of backwardness” for countries starting with a low capital endowment (given diminishing returns to aggregate capital) is largely wiped out by the high level of poverty that tends to accompany a low initial mean.

This dynamic “disadvantage of poverty” appears to exist independently of other factors impeding growth and poverty reduction, such as human underdevelopment and policy distortions.

The evidence is mixed on other aspects of distribution. A larger middle class—by developing-country standards—makes growth more poverty-reducing. But this effect is largely attributable to the lower poverty rate associated with a larger middle class.

Controlling for the initial incidence of poverty, there is no sign that a higher overall level of initial inequality, as measured by the Gini index, inhibits the pace of pov-

erty reduction via either the rate of growth or the growth elasticity.

Nonetheless, initial inequality is empirically important, through its bearing on the extent of poverty. While these new findings confirm that initial inequality matters to subsequent progress against poverty, they also reveal that it matters mainly via its bearing on the initial incidence of poverty. There is no sign in this paper’s results that lower inequality among the non-poor, leaving the incidence of absolute poverty unchanged, brings any longer-term payoff in terms of growth and poverty reduction. In the minority of cases in which high inequality comes with low absolute poverty at a given mean, it does not imply worse longer-term prospects for growth and poverty reduction.

Future research should aim at improving understanding of this important handicap faced by poor countries in their efforts to become less poor.

Martin Ravallion. 2009. “Why don’t we see poverty convergence?” *Policy Research Working Paper 4974*. World Bank, Washington, DC.

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tend to weaken the US dollar, increase US interest rates and lower current account imbalances over time.

In sum, to the extent that the US is expected to outperform other advanced economies in the medium term, it might continue receiving foreign capital and the previous pattern of global imbalances might be gradually restored in part. However, with strong forces operating in the opposite direction, the pre-crisis distribution of imbalances is not likely to be fully restored or sustained in the long run. Thus, it would be unwise to dismiss the possibility of an eventual major depreciation of the US dollar and a much higher diversification of global portfolios into non-US assets.