

Comment on “Pro-Poor Growth: What is It?” One Pager No.1, International Poverty Center, UNDP, September 2004.

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The first of a series of “One Pagers” from the UNDP’s new International Poverty Center takes up the issue of the meaning and measurement of “pro-poor growth” and comes out strongly in favor of the definition proposed by the Center’s Director, Nanak Kakwani. This comment offers an opposing view.

In essence, Kakwani says that growth is pro-poor if its rate is higher for the poor than the non-poor; roughly speaking that inequality falls.

Consider the example of China. Today, China’s income poverty rate is probably slightly lower than the average for the world as a whole; in 2001, 17% of China’s population lived below \$1 a day (at 1993 PPP) while the corresponding figure for the developing world was 21%. But it was a very different story around 1980. Then the incidence of poverty in China was one of the highest in the world at 64%.¹ Economic growth was the main proximate cause of this rapid decline in poverty.

By Kakwani’s definition this was not pro-poor growth, rather it was growth that was biased against the poor. However, it is surely hard to accept any definition of “pro-poor growth” that does not identify what was possibly the most successful sustained record against poverty in recorded history as “pro-poor.”

I would argue that it makes more sense to say that growth is “pro-poor” if some agreed measure of poverty falls with that growth.² In other words, “pro-poor growth” means growth that is deemed to benefit the poor.

This switches the discussion back to the issue of how we measure poverty. If we follow common practice of measuring poverty in terms of purchasing power over commodities then China’s growth has unquestionably been pro-poor growth. This may be considered too narrow a definition. Some people would prefer to allow for relative deprivation, as measured by income relative to the mean in society. This can be done by letting the poverty line rise with mean income. (Naturally growth will then have less impact on measured poverty.) My preferred definition of “pro-poor growth” can thus handle relative poverty, when one thinks that people care about their relative position as well as their absolute standard of living.

However, only in the extreme case in which relative income is all that matters to welfare will this approach give us something like Kakwani’s definition of pro-poor growth. That would mean that an equi-proportionate increase in all incomes was not deemed to benefit the poor or anyone else. That position would seem so implausible in China or anywhere else as to be rejected out-of-hand.

¹ On progress against poverty in the world since 1981 see my paper with Shaohua Chen in the Fall 2004 issue of the *World Bank Research Observer*.

² For a more formal definition and an example for China, see my paper with Shaohua Chen, “Measuring Pro-Poor Growth,” *Economics Letters*, 78: 93-99.

By my preferred definition, growth is typically pro-poor in that, as a rule (though certainly not always), the incidence of poverty tends to fall with growth. That has been demonstrated repeatedly (on better and bigger data sets) since the 1990 *World Development Report* on Poverty. We don't need to hide from this fact.

The real issue is not whether growth is pro-poor but how pro-poor it is. Here one finds diverse outcomes for poor people from economic growth. One can measure this by a "distribution-corrected" rate of growth, which scales the ordinary growth rate up if the distributional change that accompanies growth is pro-poor, or down if it is not.³ This shows us how the two definitions are linked; while my preferred definition focuses on the distribution-corrected growth rate, Kakwani's focuses solely on the distributional correction.

The deeper challenge remains of explaining why poverty falls so much faster in some settings than others. Again take the example of China. China's rate of pro-poor growth in the 1990s has been a hefty 4% per annum. However, progress for the poor has been uneven over time and space since the early 1980s, with important lessons for China in the future and other developing countries not so successful against poverty. The sectoral and geographic composition of growth was key; I would argue that China could well have achieved even more rapid poverty reduction if its growth process had been more balanced. China's growth would then have been even more pro-poor by my definition, in that poverty would have fallen faster. The agrarian reforms starting in the late 1970s were crucial for kick starting pro-poor growth. (Agricultural growth had an unusually large impact on poverty in China given a relatively equitable allocation of land in the wake of the early reforms to de-collectivize agriculture). Important too was reduced taxation of farmers, and macroeconomic stability.⁴

More generally, the task of making growth more pro-poor (meaning more poverty reducing) entails some combination of higher growth and a more pro-poor distribution of the gains from growth. Both factors are influenced by initial conditions, institutions and policies in specific country settings. While there may well be trade offs between the things that are good for growth and good for distribution, it should not be presumed that this will always be the case, since some of the factors that impede growth also entail that the poor share less in the opportunities unleashed by growth.

None of this says that inequality is unimportant. Initial inequalities (in a number of dimensions — not just incomes) and how they evolve over time can be crucial to the extent of poverty reduction, both in affecting the extent of growth and in determining how its benefits are shared. Returning to the example of China, the pace of poverty reduction would have been even higher in China if not for the steep rise in income inequality. Yes, growth was pro-poor in China, but rising inequality made it less so.

³ See my paper with Chen, "Measuring Pro-Poor Growth," *ibid*.

⁴ On the reasons for China's success against poverty see my paper with Shaohua Chen, "China's (Uneven) Progress Against Poverty" (http://econ.worldbank.org/files/38741_wps3408.pdf.)