

# Making Growth Inclusive:

## Some lessons from countries and the literature

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*Growth is back on the development agenda, promoted by bilateral and multilateral donors, and the G20, as the most effective way to lift people out of poverty. Economic growth has reduced poverty in developing countries in the past, but by ignoring the issue of equality, donors and poor country governments have failed to maximise the benefits of that growth – and in some cases, people have become worse off. This paper extracts lessons from case studies of Brazil, Viet Nam, and Ghana to suggest three key areas where action by governments is likely to deliver: a proper redistributive agenda; appropriate macroeconomic prudence; and a policy environment that fosters a pro-poor private sector.*

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## Executive summary

Economic growth in developing countries is desirable and necessary, but it is the distribution of that growth that matters for poverty reduction, rather than the pursuit of growth for its own sake.

Policy makers have often promoted economic expansion as the panacea for poverty reduction in the developing and emerging world. But there has been a failure to recognise that growth is a means to an end, rather than an end in itself ('The Growth Report')<sup>1</sup>

Growth can be an unpredictable weapon in the fight against poverty. It has been more effective in delivering poverty reduction in some countries than in others, and at differing rates. In countries as diverse as Cambodia, Honduras, Uganda, and South Africa, inequalities have risen as they have grown (Kanbur and Spence 2010; Ramcharan 2010). Poverty reduction is twice as responsive to economic growth in East Asia as in sub-Saharan Africa, because structural inequalities matter in translating growth into poverty reduction (Draper, et al. 2010). Economist Bill Easterly has found that the rate of improvement of almost all quality of life indicators is only weakly related to the rate of economic growth (Easterly 1999).

In the wake of the global economic and food and fuel crises, as the deadline to meet the Millennium Development Goals (MDGs) approaches, and with the emergence of the G20, the international community is again focusing on growth, although this time apparently recognising that the type of growth that is aimed for matters: that there is a need for it to be 'inclusive' and 'sustainable'.

These are welcome aims, but to date the challenge has yet to be taken on in a clear-eyed way, and policy makers do not appear to have shifted their approach to meet the manifold challenges of development in the 21st century.

In many respects, there have been important successes in development in the past half-century. There has been global progress in health, education, and civil and political rights. Since 1960, global average infant mortality has halved; between 1970 and 2000 the global average ratio of female to male literacy improved from 59 to 80 per cent; the overwhelming majority of people now live in countries that have signed the UN Universal Declaration of Human Rights (Kenny 2011); and the African continent as a whole has seen a rise of more democratic and accountable governments (Radelet 2010). Progress has been seen even in countries where prospects appeared to be the least promising: in landlocked Mali, for example, since the mid-1990s infant mortality has declined by a quarter, the primary school completion rate has doubled, and poverty has fallen by one-third. And in the wake of the global economic crisis, at least moderate growth is set to continue in both emerging economies and low-income countries (LICs), unlike in the advanced economies.<sup>2</sup>

But in many other respects, the challenges of development – and in particular, the risks – are arguably more difficult than in the past, in part due to our increasing interdependence: countries and people are more vulnerable to economic and climactic shocks, and are having to fight for access to scarce resources such as land, food, and water.

Without the correct complementary policies in place, economic growth may be even less able to meet these challenges than previously: in particular, because it has a very imperfect relationship to risk. In many cases economic growth can entail increased risk to poor people.

Central to the response to these new challenges, studies suggest, should be a real shift to battling inequality. This means inequality of income, and also of assets, both financial and human, such as education and good health; inequalities of opportunity and also a genuinely level playing-field for poor people; inequalities based on gender, and also on where in a country people live, on what race they are, and what they believe. Such inequalities are not only morally repugnant, but they are holding back people from benefiting from the progress that has taken place in their countries.

As a senior economist at the IMF writes: 'In sum, when economic growth is positive, society might be better off when compared with the past. But economic policies that simply focus on average growth rates could be dangerously naïve, especially in countries with high existing levels of inequality' (Ramcharan 2010).

Using secondary research, this paper suggests that one key element in reducing intra-country inequalities is redistribution – that is, aligning more opportunity towards those at the bottom. Investments in education and labour-intensive livelihoods are examples. But creating opportunity may not be enough to ensure inclusiveness in growth: an actual redistributive mechanism for income – progressive taxation – may be necessary.

Moreover, while Kraay (2006) stated that 'sustained poverty reduction is impossible without sustained growth', other academics have shown that distribution can play as strong a role as growth – or an even stronger one – in increasing income for poor people (White and Anderson 2001; Bourguignon 2004). 'The Growth Report' surmises that, while growth is the main route to poverty reduction, as a country develops, redistribution becomes more important as a way to reduce poverty.

This need not be massive or confiscatory to create large benefits for poverty and society as a whole, but it will entail something of a redistribution of power. In Oxfam's experience, political and economic transformation are inseparable, so any discussion of redistribution of assets should include the redistribution of power and voice that is required for such changes to take place. These issues are covered in detail in other Oxfam research (Green 2008) and so, for reasons of space, will not be covered here.

This paper is not an attempt to examine what causes growth, which is a vast and controversial research landscape. Also beyond its scope is an examination of the environmental and ecological impacts of increased growth, and whether growth will need to be limited to counter those impacts. As part of a new agenda for development, we will have to change our production and consumption patterns, our ways of generating energy, and deal with the issue of inter-generational inequalities. This is a very important subject which will be tackled by future Oxfam papers.

Instead this paper focuses on the 'inclusive' element of 'inclusive and sustainable growth', at the national level. It starts by asking why growth needs to be

'inclusive', the new word used by the international community for what was previously termed 'equitable'.

It then briefly summarises the experiences of three countries which span geographical regions and different levels of economic and other development: Brazil, an example of inclusive growth that seems likely to be enduring, provided deeper social issues are also confronted; Viet Nam, where one of the most significant cuts in poverty reduction took place with strong progress towards the MDGs, but more recently inequality is undermining that poverty reduction ; and Ghana, where growth has reduced poverty but has increased inequality.

Finally, it will draw out the conclusions from these case studies, together with evidence from a representative selection of recent, relevant literature, to suggest an agenda that has in the past delivered growth that is not captured by elites, but whose benefits are instead shared widely throughout countries.

The message from the literature to policy makers in donor and developing countries is clear: there is no simple prescription for delivering inclusive growth, nor should they behave as if there were one (in G20 negotiations, for example). Instead, there is a menu of options. As Michael Spence, chair of the Commission on Growth and Development, has said, there is no recipe, only ingredients. But evidence at least suggests which of these ingredients appear to have been the most relevant to producing inclusive growth:

- **A redistributive agenda:** This would include cash transfers, redistributive public expenditure on health, education, and agricultural services, and a progressive taxation system. This package should serve to arm poor and marginalised people with the skills to allow them to participate in the benefits of economic growth, and limit their exposure to the downside risks of that growth;
- **Macroeconomic prudence:** This means sustainable, moderate levels of inflation, deficits, and debt; and counter-cyclical policies, but at the same time governments must ensure that pro-poor elements of public spending are protected;
- **A policy environment conducive to pro-poor private investment,** and in particular, the domestically owned, labour-intensive private sector, especially small and medium-sized enterprises (SMEs).

The eventual selection and balance of policies will need to be based on a close analysis of the specific circumstances of a particular country or region. And it is important to note that creating truly inclusive growth may require tough new policies that challenge established interests. Economic inclusion need not be painful or traumatic, but it certainly requires deliberate political action.

## Introduction

### **The shifting international agenda on inclusive growth and poverty reduction**

Growth and its interaction with poverty have been the focus of much debate among academic and policy circles for decades. From the 1950s to the 1970s, scholars emphasised probable trade-offs between growth and income distribution. In the 1970s, the emphasis was on identifying redistribution mechanisms for poverty reduction without hampering growth. Then in the 1980s the so-called Washington Consensus, a set of policies promoted by the international financial institutions, stated that the benefits of growth (achieved through privatisation, liberalisation, and stabilisation) would 'trickle down' to all, without the need for many complementary policies.

This vision was challenged by the outcome on the ground in developing countries in the 1990s, where economic growth did not occur in a consistent manner (Easterly 2002; Rodrik 2004).

Next the research – and following just behind it, the political agenda – moved to human development indicators and the Millennium Development Goals (MDGs), in an admission that previous reforms had failed sufficiently to improve the lives of poor people across the range of different ways that poverty is experienced (Dagdeviren et al. 2002). At the same time, bilateral donors such as the UK government's Department for International Development (DFID) championed 'pro-poor growth', while the World Bank called it 'shared growth'.

Now in the wake of the global economic crisis, the donors' emphasis is once again on growth, but this time on sustainable, inclusive growth. Much of this is due to the emergence of the G20. At its September 2009 summit in Pittsburgh, the G20 committed itself to a Framework for Strong, Sustainable and Balanced Growth.<sup>3</sup> By the Korean summit in 2010, this had become the Seoul Development Consensus for Shared Growth, and included language on 'strong, sustainable, inclusive and resilient growth'.<sup>4</sup> The European Commission and USAID are using similar language as they reevaluate their overall approach to development. Similarly, the IMF and the World Bank are engaging on issues such as jobless growth and inequality.

Some possible explanations for the resurgence of interest in economic growth among donors are aid fatigue and their own domestic fiscal difficulties, both of which mean that they are looking to self-sustaining economic growth as a possible alternative to development finance. What is clear is that donors have not yet accepted the full implications of what that growth would need to look like (or how to promote it) for it to be better able to reduce poverty across the board in a new era of development challenges, where the poorest people are increasingly vulnerable to climate change, resource scarcity, and new economic crises.

There is still an unwillingness to talk about redistribution as a necessary component of a policy mix. For instance, the latest DFID business plan talks about sustainable growth in its one-page vision statement, but the goal of

‘making British international development policy more focused on boosting economic growth and wealth creation’ makes no mention of either equality or sustainability.<sup>5</sup>

Similarly, the Canadian International Development Agency (CIDA) has a new strategy on ‘sustainable economic growth’. It does reference the importance of equality between men and women, as well as employment generation, a skilled workforce, and agriculture, but again fails to mention redistribution as a way to achieve this.<sup>6</sup>

Economist and development policy expert Owen Barder contends that donors are explicitly delinking growth from the policies needed to ensure that it is inclusive. ‘Because donors focus on just one dimension of poverty reduction [growth] they marginalise other legitimate objectives such as reducing chronic poverty or providing social services in countries that cannot otherwise afford them,’ he argues (Barder 2009).

The World Bank’s chief economist, Justin Lin, says that development economics has so far been unable to provide a convincing intellectual agenda for generating and distributing wealth in poor countries. But he adds: ‘The global crisis is an opportunity not only to identify new areas of research on how to help the developed and developing countries cope with the challenges of the crisis and prevent similar crises in the future, but also on how to achieve sustainable, inclusive growth in developing countries’ (Lin 2009).

There is a large body of literature on the interaction between growth, poverty reduction, and inequality, some of it bewilderingly contradictory. There is also a problem with finding empirical evidence on inequality because of a lack of data. However, a consensus is emerging among academics on some key points, which are set out in the following chapter.

## 1. Inclusive growth defined

This section will answer the questions of what is meant by inequality and why policy makers who are thinking about growth should care about it.

While the term 'inclusive' is being widely used by policy makers, there is not a clear definition of the word. It would appear that it is a synonym for 'equitable' – antonymous for 'inequitable' – but with an emphasis on job creation and creating an enabling environment for the private sector. This paper uses the term interchangeably with 'equitable'.

In public debate there is frequently a distinction made between equality of opportunity (the idea that individuals should have the same chance of developing and being economically rewarded for their talents, regardless of their background) and equality of outcome (i.e. that people will achieve the same levels of income, health status, educational achievement, etc.). However, this would appear to be a false distinction: the promotion of equal opportunity will in fact require greater material equality. For individuals to realise their potential, they will have to enjoy more similar economic and social starting points (Jackson and Segal 2004). In other words, today's outcomes shape tomorrow's opportunities. And poor people need both 'cargo nets' to help them get onto the economic ladder, and safety nets to protect them when they fall off. For a more complete discussion of this issue, see 'The Growth Report' by the Commission on Growth and Development (2008).

### What is meant by inequality?

Inequality concerns variations in living standards across a whole population. (McKay 2002).<sup>7</sup> By far the most tracked and discussed form of inequality is that of income or wealth, using the Gini co-efficient.<sup>8</sup>

There are also other aspects of inequality, including of health, education, assets, and political participation. Inequalities exist between gender, race, and ethnic groups – indigenous people account for one in three of those living in extreme poverty, for example (Melamed 2010) – and between people living in different parts of a country (e.g. rural vs. urban areas, mountainous vs. cultivable areas – often known as 'spatial' or 'horizontal' inequalities). While income inequality is closely related to these other forms of inequality, the links are not automatic.

Gender equality, embedded in the behaviour of the family, the market, and society, affects prospects for poverty reduction and growth by stimulating productivity and earnings and improving child development outcomes (Buvinic et al. 2010). There are also inequalities inside the household (closely aligned to gender inequalities).

But in spite of its importance, gender inequality has frequently been given insufficient consideration by policy makers, perhaps because as women's work is frequently unpaid it is therefore not captured by traditional measures of either growth or inequality (i.e. GDP or the Gini co-efficient), and intra-household level data is rarely available (see Box 1).<sup>9</sup> Yet Kanbur and Spence (2010) cite a study showing that to ignore intra-household inequality understates the true extent of inequality and poverty by as much as 30 per cent.

### Box 1: Measuring growth and poverty as if inequality mattered

There are more and more initiatives looking at alternative measurements of well-being other than simple GDP indicators. The Commission on the Measurement of Economic Performance and Social Progress, established by French president Nicolas Sarkozy and led by Joseph Stiglitz, has issued its report. This not only critiques the limitations of GDP, proposing, for instance, that consumption and wealth should be captured – and at the household as well as the national level – and not just production. It also proposes that inequalities in quality of life, including health, education, and political voice, be measured and included in official data.

In 2010, the Multidimensional Poverty Index (MPI) was launched. This complements income-based poverty measures by reflecting the multiple deprivations that people face at the same time, namely in health, education, and living standards. It allows users to see where the poorest people are within countries, by ethnic group and urban/rural location. It also uses household-level, rather than national-level, data. The MPI provides a counterpoint to GDP measures: for instance, in Yemen 53 per cent of the population are poor, according to the MPI, but only 18 per cent live on less than the \$1.25 a day standard. In Ethiopia the disparity is even more extreme: 90 per cent of people are MPI poor, while just 39 per cent live on less than \$1.25 a day.<sup>10</sup>

Sources: Commission on the Measurement of Economic Performance and Social Progress;<sup>11</sup> D. Green <http://www.oxfamblogs.org/fp2p/?p=875>; Alkire and Santos 2010

The effects of these inequalities are pervasive, as the next section will explore. And they are often exacerbated because there is frequently an interaction between differing forms of inequality: for instance, asset inequality may be a consequence of, and may contribute to, inequality in political power (McKay 2002). A woman from an ethnic minority living in a rural area would experience multiple inequalities, which would reinforce each other.

There is currently no index that considers all elements of inequality, including elements such as powerlessness (McKay 2002). This will continue to be a problem, as what is not measured is not counted.

## Does inequality matter in the growth and poverty reduction debate?

Following the global economic crisis, in advanced economies there is a growing public focus on controlling rising income inequality as well as the reduced economic opportunities for the most disadvantaged people.<sup>12</sup> In the USA, recent analysis shows that, between 2007 and 2009, real GDP per capita in the five richest states rose by an average of 2 per cent, but in the five poorest it fell by 3 per cent. In France, the income gap has also widened: during the recession, real GDP per capita fell by twice as much in the five poorest regions in the area around Paris.<sup>13</sup> Pew Research, a survey organisation, has been tracking the percentage of people in the USA who agree with the statement, 'Our society should do what is necessary to make sure everyone has an equal opportunity to succeed' for the past two decades, and the figure has remained constant at around 90 per cent.<sup>14</sup>

There is some indication that developed country politicians are starting to respond to these concerns, by their efforts to curb bankers' pay and bonuses, for instance. The book *The Spirit Level*, by two epidemiologists (Wilkinson and Pickett 2009), has contributed to the debate in the UK and more widely. It sets out a case that unequal societies are bad for everyone in them, not just the

poorest people, and that increased levels of inequality are correlated with a wide range of ills including obesity, large prison populations, and teenage pregnancy rates.

However, the issue of equality continues to be under-served by policy makers in the developing world, other than in Latin America, where there have been unprecedented falls in rates of inequality<sup>15</sup> and where governments have actively pursued redistributive measures such as cash transfers. An important new report from the Economic Commission for Latin America and the Caribbean (ECLAC), 'Time for Equality', makes a strong, rights-based, case that the continent's governments need to take even stronger actions to pursue equality (ECLAC 2010).

There are several reasons why inclusiveness is important when targeting economic growth and poverty reduction, particularly in the new environment of enhanced risk and vulnerability that is being experienced by poor people in the wake of the multifaceted crises that have occurred in the past three years. Not least of these is that many aspects of development appear to happen in spite of, and not because of, economic growth. A survey by economist Bill Easterly found that for almost all the quality of life indicators that studies of poor people indicate matter to them (such as the World Bank's 2000 survey 'Voices of the Poor'), only in the case of three indicators was there any suggestion that income changes (i.e. growth of income) were a driving factor behind improvements (these were protein intake, calorie intake, and number of fixed-line telephones per capita) (Easterly 1999).

Although there are still disagreements in the literature on some aspects of the intersection between growth, poverty reduction, and inequality, there appears to be a degree of convergence among academics on the following:

- **Extremes of income inequality are bad for growth, as are other aspects of inequality, such as inequality of education:** Medium-term efficiency and greater equality can be complementary. Poor people remain poor partly because they cannot borrow against future earnings to invest in production, the education of their children, or assets to reduce their vulnerability. Insecure land rights and limited access to justice can create further barriers to investment and pro-poor growth (Human Development Report 2005). More equitable income distribution would have the effect of raising savings and investment levels, thereby fuelling economic growth (Watkins 1998). Kanbur and Spence (2010) argue that, while it is difficult to make a statistical argument that income inequality inhibits growth, there is stronger evidence that broader senses of inequality (such as gender inequality) are bad for growth. Vandemoortele says that rising inequality may decrease aggregate demand (Vandemoortele forthcoming).

Conversely, measures to address inequality are often growth-promoting: for instance, greater gender equality can help promote economic growth by boosting women's participation in the labour market (Buvinic et al. 2010).

- **Inequality is bad for poverty reduction even in the presence of growth:** Higher levels of inequality in the first instance mean that growth is less effective in reducing poverty (Killick 2002; ODI 2004). High-inequality

countries may need as much as three times the amount of growth to reduce poverty as low-inequality countries (Naschold 2009). In some cases, ignoring inequality can lead to growth that is accompanied by worsening poverty: Melamed (2010) cites the example of Uganda between 2000 and 2003, where GDP grew at 2.5 per cent a year but, because of worsening inequality, poverty increased by 3.8 per cent. Conversely, a relatively small reduction in inequality can have a significant effect on the poverty headcount (Naschold 2009).

- It also **matters for peoples' ability to cope with risk**. In highly unequal societies, when an adverse shock such as illness or business failure strikes, a large chunk of the population may not have either the access to credit or the personal wealth to replace lost income or smooth the impact of the shock on consumption. So even when per capita income is growing, the well-being of most people could be little changed or worse, even during a boom (Ramcharan 2010).

There are also other, less instrumental, reasons why inequalities matter.

- **Inequality is morally repugnant:** While people are generally willing to accept some inequality, this has limits and there is a very strong ethical and rights-based imperative for ensuring a 'reasonable degree of equality' between people (ODI 2004). Surveys show strong opinions in many countries that the gap between rich and poor is too large, thus indicating an underlying perception of social justice. This means putting poor people first: more weight should be given to improvements in the well-being of poor and disadvantaged groups than to the rich and privileged (Human Development Report 2005).
- **Political legitimacy:** Extreme inequalities weaken political legitimacy and corrode institutions. Inequalities in income and human capabilities often reflect inequalities in political power. Poor people (especially women), rural populations, and indigenous communities are disadvantaged partly because they have a weak political voice, and vice versa, while the rich have an outsized voice in the political process, which can lead to economic policies that benefit a few at the expense of the majority. Where political institutions are seen as perpetuating unjust inequalities or advancing the interests of elites, democracy and stability can be undermined (Human Development Report 2005; Ramcharan 2010).
- **Political stability:** Related to the point above, a paper summarising the findings of the Centre for Research on Inequality, Human Security and Ethnicity at the University of Oxford concludes: '...the presence of large horizontal inequalities ... increases the risk of violent conflict', adding that 'for the most part, international development policy has neglected horizontal inequalities' (Stewart 2010). The managing director of the IMF said in a recent speech that inequitable distribution of wealth 'can wear down the social fabric', and that in poorer countries 'inequality can dampen economic opportunity ... it can divert people towards unproductive activities. It can make countries more prone to adverse shocks - with fewer people able to dip into savings during bad times ... and it can lead to instability, a breakdown in democracy, and even war'.<sup>16</sup>

Kanbur and Spence (2010) say: 'Persistent inequality in its various dimensions leads to political and social instability or very harsh repression.'

- **Public policy goals:** Extreme disparities in health and education reduce the scope of disadvantaged groups to take advantage of opportunities for improving welfare (Human Development Report 2005). In a country with a highly unequal income distribution, the population at large is likely to be less healthy than would be predicted for countries with the same average income (Jack and Lewis 2009). The *British Medical Journal* has written: '...what matters in determining mortality and health in a society is less the overall wealth of that society and more how evenly wealth is distributed'.<sup>17</sup>

### ***Where there is still disagreement***

While several theoretical papers conclude that income inequality is detrimental to growth, other models predict that inequality is likely to be growth-enhancing, drawing mainly on the greater ability and propensity of rich people to invest and the need for unequal wage structures to provide incentives for outstanding achievement (Besley and Cord 2007).

## **The growth–poverty–inequality nexus**

### ***What sort of growth is needed to reduce poverty across the board?***

Growth can be good for poverty reduction. A major study conducted by the World Bank, based on evidence from 14 countries, showed that the pace of overall economic growth is the main factor that determines how quickly poverty declines (Besley and Cord 2007). 'The Growth Report' states that in the past 30 years, absolute poverty has fallen substantially, and this is almost entirely due to sustained growth. As Nobel laureate Amartya Sen wrote recently: 'Economic growth, properly supplemented, can be a huge contributor to making things better for people.'<sup>18</sup>

But growth can also be an unpredictable weapon in the fight against poverty. It has been more effective in delivering poverty reduction in some countries than in others, and at differing rates (the so-called growth elasticity of poverty). In countries as diverse as Cambodia, Honduras, and Uganda, inequalities have risen as economies have grown (Kanbur and Spence 2010). South Africa enjoyed robust growth from 2000 to 2005, but inequality worsened dramatically. During those five years, the country's Gini coefficient increased by around 12 per cent to 0.58, making it one of the most unequal countries in the world. Poverty reduction is twice as responsive to economic growth in East Asia as in sub-Saharan Africa, because structural inequalities matter in translating growth into poverty reduction (Draper et al. 2010).

As the above-mentioned World Bank study confirms: 'Greater poverty reduction was observed where policies were in place to enhance the capacity of poor people to participate in growth' (Besley and Cord 2007).

In addition, growth is even less sure to reduce non-income poverty. When wider definitions of poverty are considered, along with what is increasingly being

termed 'well-being', but could also be called human development – i.e. the multifaceted, multi-dimensional way that poverty is experienced in real life – the efficacy of growth has been much less clear. For example, improved nutrition is not nearly as well correlated to GDP growth as to reduced income poverty (Headey 2010). A study by the former chief economist for the World Bank, Francois Bourguignon, found that there is 'practically zero' correlation between GDP growth and achievement of the non-income poverty-related MDGs (Bourguignon et al. 2008).<sup>19</sup>

What is needed is the right sort of growth that reaches poor people. But what makes some growth processes more pro-poor (and therefore more inclusive) than others? Recent research suggests at least four reasons for the variation:

1. The sector composition of growth. In countries where the majority of the poor live in rural areas, growth in the agricultural sector is generally more pro-poor than growth in services or manufacturing (Killick 2002).<sup>20</sup> However, in rapidly urbanising societies, including in sub-Saharan Africa, services and manufacturing are also important for pro-poor growth (Besley and Cord 2007; Kapsos 2005; Loayza and Raddatz 2010; Ravallion 2009);
2. The levels of human capital, assets, technology, and infrastructure available in the economy (Besley and Cord 2007). This is particularly the case for education (including literacy rates), lower levels of landlessness, and lower infant mortality;
3. Macroeconomic prudence ('The Growth Report') combined with the introduction of progressive taxation and social spending policies;
4. The importance of countries experiencing growth with resilience – in other words, that people do not fall back into poverty. This means that growth should be steady, rather than volatile with frequent periods of negative growth (Draper et al. 2010). 'The Growth Report' says that all cases of inclusive development have sustained high growth rates for at least three decades. However, as Winters et al. (2010) point out, a notable feature of developing country growth is volatility. Fortunately, many of the policies that promote equity also promote resilience and increase predictability at the household and macro levels.

### **Box 2: Inequality, the MDGs, and growth**

Jan Vandemoortele, one of the architects of the MDGs, argues that a key reason why several of the goals will not be achieved is because they have not targeted and monitored progress towards equity.<sup>21</sup> While most countries have seen improvements in human development overall, the disadvantaged segments in society have seen little or no improvement – meaning that progress has been concentrated in the better-off groups, while the poorest and most disadvantaged people have found it 'increasingly difficult to participate in national progress'.

Perversely, 'progress' towards some MDGs could be achieved by improving services to higher-income groups, while actually leaving the poorest at times worse off. For example, Burkina Faso reduced child mortality rates at the aggregate level, but this masked an *increase* in child mortality among the poorest 20 per cent of the population (Save the Children 2010). Conversely, equitable progress towards the MDGs has often happened in very poor countries even during periods of low economic growth. For example, Mozambique and Bolivia have reduced child mortality during periods of relatively low growth (Save the Children 2010).<sup>22</sup>

The failure to include equity targets in the goals may have increased inequality, as using national averages to measure progress encourages policy makers to target the 'low-hanging fruit', i.e. to help those who will find it easiest to get out of poverty (Kabeer 2010).

More positively, some top MDG performers – such as Malawi, Mali, and Niger – have achieved progress on child nutrition and mortality while also improving equality in those areas (ODI 2010).

The Overseas Development Institute in London has developed an MDG scorecard which provides insights into how the gains are being shared across income, rural–urban, and gender gaps (ODI 2010). Watkins (2010) suggests that introducing equity targets into the MDGs themselves – focusing on wealth, gender, and other disparities – rather than just reporting on national averages would make them more effective.

Moreover, policy makers target precise growth figures as if they were key to unlocking the MDGs. But Vandemoortele says: 'Estimating a price tag or setting a specific rate of economic growth is symptomatic of the misconception that the MDGs can be achieved through a scientific, apolitical and rational process that can be manipulated from the outside and accelerated by external actors. In reality the MDGs call for fundamental changes and transformations in society and the economy that must be endogenous. They will seldom be rapid, rational or linear because they will have to address complex political, cultural and ecological constraints' (Vandemoortele 2009).

## 2. Three case studies

These three case studies were chosen because they are geographically diverse (Latin America, Asia, and Africa); cover countries at differing stages of development (a low-income country (LIC), a country that graduated from being an LIC to a middle-income country (MIC) over the period under discussion, and an MIC); and they are countries whose governments have actively attempted to address inequalities as they have grown, with greater or lesser success.

### **Case study one: Brazil – an example of inclusive growth?**<sup>23</sup>

Between 2003 and 2010 (including the year of the global economic crisis in 2009), Brazil saw an average annual GDP growth rate of 4.1 per cent. At the same time, it also witnessed an impressive reduction in its Gini co-efficient of 8 per cent, while the number of extremely poor people was reduced by half.<sup>24</sup> In other words, Brazil seems to have achieved inclusive growth, at least in terms of income inequality. This is even more impressive considering the country's recent history. It had been economically stagnant, and had had one of the worst personal income distributions in the world.

So what happened? In the previous decade, a stabilisation plan had addressed the country's hyper-inflation. In addition, the government took measures to track the poor, the old, and people with disabilities, meaning that it understood who they were and how they could be reached.

The government also made sure that it was able to collect taxes, and to fine-tune revenue collection during a crisis. This increase in tax collection allowed it to significantly increase transfers to the vulnerable (which could be efficiently targeted due to the data collection), while financial innovations meant that credit could be extended to people receiving those transfers, which in turn brought millions more people into the marketplace (although that tax system is still highly regressive).

The largest transfer scheme has been the pension, which has accounted for around 85 per cent of total cash transfers to households (ILO 2008). This was originally designed to cater only for those in formal employment, but has since been reformed to include low-income households, and rural workers do not have to contribute, which according to the International Labour Organization (ILO) is one of the most redistributive aspects of the scheme. Poverty levels are now lower among elderly people – a typically marginalised group – than the general population.

The Bolsa Familia ('Family Purse') programme, created in 2003, has been a very important transfer scheme, bringing together pre-existing programmes on education, health, and energy. By 2009 it was reaching 12.5 million families, or around a quarter of the population. It targets households based on self-reported income, and pays out up to \$112 a month to families, provided they send their children to school and use health-care services (Holmes et al. 2010). Almost 95 per cent of the recipients are women – intending to compensate them for their traditional domestic role as care-givers, and in recognition of the fact that they are most likely to use the money in a way that benefits children. There are,

however, criticisms of the equality impact of the Bolsa Familia programme (see below).

The introduction of the minimum wage may also have been a factor in the reduction of inequality. As Hailu and Soares (2009) observe, this has had a spill-over effect because the minimum wage is linked to social security benefits. However, a study for UNDP found that Bolsa Familia was more effective in reducing inequalities, despite the fact that between 2001 and 2007 the real value of the minimum wage increased by 35 per cent (Barros et al. 2009).

One interesting finding is that the growth elasticity of poverty has been 'significantly higher' in states with higher initial health conditions – in other words, growth has translated better into poverty reduction. This was also the case for states with higher levels of political participation, such as union membership (Ferreira et al. 2009).

Lustig and Lopez-Calva (2010) argue that education has been key to reducing inequality in Brazil. Similarly, Hailu and Soares (2009) say that, while much remains unknown about why inequality has fallen, two sets of causes stand out. The first is education (universal admission to primary schooling and lower repetition rates): they estimate that one-third of the reduction in inequality is due to this. The second is the cash transfer programmes and other direct cash transfers from the state to families and individuals, which account for another third of the reduction. The final third is less clear, but is possibly due to a multiplier effect caused by an increase in domestic demand stimulated by the cash transfers.

So can this inclusive growth last? Matos dos Santos (2010) argues that with better targeting of cash transfers, and a reform of the tax and public expenditure systems, the answer is broadly, yes. He says that half of the tax burden consists of consumption taxes, which are regressive, and that personal income and property taxes are still low. Brazil will need to capture more of higher incomes if it is to keep this trend moving forward. The country also needs more and better investment in quality public health and education services.

In addition, it is questionable to what extent the deeper social fabric in the country has been changed by these improvements: issues such as violence, which disproportionately affects poor, black, urban women, will also need to be addressed. In other words, the country still needs to make substantial progress in tackling wider – such as gender and ethnic – inequalities.

### **Case study two: Viet Nam – some of the fastest poverty reduction ever, with strong progress towards the MDGs, but inequality now increasing to a worrying extent**

Just 20 years ago, Viet Nam was among the poorest countries in the world. Over the years 1995-2001, GDP grew at close to 7 per cent (UNDP 2004). Today it is a middle-income country. Between 1993 and 2002, poverty fell by almost 8 per cent year, primarily in areas where the vast majority of poor people were living. This is one of the fastest reductions in poverty ever documented (Rama 2008).

Viet Nam has also made unprecedented progress in terms of MDG attainment, and features in the top ten on several indicators. The country has more than halved the proportion of underweight children. Under-five mortality rates declined from 56 to 15 per 1,000 live births between 1990 and 2007. Viet Nam also features in the top ten with regard to access to improved drinking water sources (ODI 2010).

However, while initially this growth did not lead to increases in inequality, more recently this trend has been reversed and inequalities are on the rise to a concerning extent.

The extraordinary initial turnaround came as a result of the Doi Moi ('renovation') reform process, which started in 1986. This saw the country move from a centrally planned economy to a partial market economy,<sup>25</sup> for which the government adopted the phrase 'market economy with a socialist orientation' (Rama 2008).<sup>26</sup> Policies focused on three areas: creating good-quality jobs; macroeconomic reform; and public expenditure, allowing for the provision of public goods as well as targeted transfers. Features included:

- A conscious decision taken by the government to sequence reforms so that economic growth was kick-started in the countryside, where there was more poverty. In the 1990s at least 50 per cent of poor people lived in rural areas and depended upon agriculture for a living (Klump 2007).
- Food markets were deregulated.
- Land reform was undertaken: in 1988 individual land use rights were granted and between 1986 and 1993 a large proportion of Viet Nam's agricultural land was distributed to rural households (Rama 2008). By 2000, almost 11m land titles had been issued, making this one of the largest and fastest titling programmes in the developing world. This reform also led to the creation of jobs accessible to the poorest people.
- Commodity trade barriers were reduced, with great care and attention paid to sequencing, thereby minimising the negative impact on domestic producers. Rice production increased, and the average value of rice exports rose by 9.2 per cent a year (Klump 2007). However, it should be noted that higher rice prices had ambiguous effects on poor families: it raised income for producers, but increased the cost of the main food consumed by poor people; therefore, the net benefits were concentrated in the south of Viet Nam, as this is where rice growing predominated. Meanwhile other sectors of the market – namely key industries – were protected. This meant that management and manufacturing skills were retained within the country (Vandemoortele and Bird 2010). The manufacturing sector increased its share of GDP from 15.5 per cent in 1995 to close to 20 per cent in 2001 (UNDP 2004).
- Agricultural yields increased due to targeted investment in agriculture, although it should be noted that this was in part accomplished by the wide-scale use of chemical fertilisers and pesticides, which may not be sustainable. The number of borrowers from the Vietnam Bank of Agriculture increased seven-fold in the first half of the 1990s, as rural producers responded to the opportunities created by market reforms (Watkins 1998).

- Economic and institutional reforms created a viable private sector, which meant that people moved from the informal to the formal sector, although this led to a rise in inequality due to growing wage differentials between the two (Klump 2007). In addition, private companies were allowed to enter an increased number of sectors, and foreign direct investment (FDI) was permitted and sought in labour-intensive sectors. However, increases in industrial productivity brought about only modest job growth because important sub-sectors were capital-intensive, or import-substituting.
- Public financial management systems were strengthened. Transparency was increased and decisions on almost half of public expenditures were moved to sub-national levels of government.
- Macroeconomic reform saw rampant inflation constrained, devaluation of the Vietnamese dong, and financial sector reform.

However, inequalities are becoming increasingly problematic. Between 1993 and 1998, poverty fell across all regions of the country, though at differing speeds (UNDP 2004). The south of the country is still more prosperous than the north (unsurprising, as it started from a higher level of development, but the gap is narrowing). A system of transfers has been put in place to redistribute resources from richer to poorer provinces, and some of the poorest provinces receive the equivalent of half their GDP in transfers.<sup>27</sup> In addition, there are targeted programmes to provide benefits to specific groups of people.

In addition, safety nets were targeted at the poor. These included the Public Investment Programme and the National Programme for Hunger Eradication and Poverty Reduction. These have been effective in reducing poverty, but perversely have been most successful in the richest quarter of provinces (Klump 2007).

Given the scarcity of land, Viet Nam has had to rely on other complements to unskilled labour – namely investments in human capital. An expanding budget has allowed equitable investment in services to improve access to health, education, water, and sanitation. Health and education user fees are waived for poor people. Secondary school enrolment levels have quadrupled for the poorest groups, although illiteracy has increased among poor women. Viet Nam’s relatively highly-skilled and trained labour force has been able to take advantage of new economic opportunities. However, despite these investments, there remain large discrepancies in the health status of rich and poor people – particularly among children (Klump 2007), and the quality of services remains inadequate.

In the years between 1993 and 1998 inequality was already negating the poverty-reducing potential of growth. According to a report by UNDP (UNDP 2004), despite the fact that the Gini coefficient did not show much change in these years (it moved from .33 to .35), more than a third of potential poverty reduction was cancelled by the increase in inequality.

Today, as the country has moved past MIC status, inequality is becoming even more problematic. Indeed UNDP says that: “...in Viet Nam increased inequality is the single most important constraint to sustainable poverty reduction, and perhaps political and social stability” (UNDP 2004).

In particular, there are concerns that ethnic minorities may not be able to catch up with other parts of the population. Disparities in poverty levels between ethnic minorities and the rest of the population widened from a factor of 1.6 in 1993 to 5.1 in 2006 (Vandemoortele and Bird 2010). Viet Nam has recently developed new gauge of poverty based on essential needs, including education, health, and nutrition, and based on this almost one-third of children under the age of 16 are poor. The same study shows that 62 per cent of ethnic minority children are poor, compared with 22 per cent of the majority Kinh and ethnic Chinese.<sup>28</sup>

UNDP ascribes the slowdown in poverty reduction and the increase in inequality to growing differentials amount various income groups in access to employment, land, capital and education (UNDP 2004).

The government has pursued an active policy of urbanisation, but this has resulted in an increase in urban poverty, due to an influx of poor migrants from rural areas. Moreover, the government's efforts to discourage migration by denying permanent registration have meant that more and more migrants work in the informal sector (Klump 2007).

In addition, the country has relied on economic expansion that is carbon-intensive and degrading of its natural resources, including land, water, and forests. This is unsustainable and is likely to undermine future growth, and the costs of this are often borne by poor people (Vandemoortele and Bird 2010).

### **Case study three: Ghana – growth built on agriculture has reduced poverty, but inequalities have been exacerbated, in spite of government efforts**

In the 1990s, moderate growth – of around 5–6 per cent – lifted more than one million Ghanaians out of extreme poverty, and Ghana is on-track to achieve MDG1 well before 2015 (OECD 2007). Child malnutrition has almost halved since the end of the 1980s (Leturque and Wiggins 2010). Although a poor performer on the Human Development Index, at 152 out of 182 countries, Ghana scores relatively well on the Gender-related Development Index. For a sub-Saharan African country, this is a success story.

A major explanatory factor for the reduction in poverty has been that growth has occurred in the agricultural sector. Over the past 25 years, Ghana has ranked among the top five performers in the world in terms of agricultural growth. Cocoa production, which had slumped in the 1970s and 1980s, has recovered, surpassing its previous levels. Farm incomes, albeit lower than the national average, have been rising, particularly in the 2000s, and poverty among cocoa farmers has fallen faster than both the national and rural rates (Leturque and Wiggins 2010).

However, in spite of these gains, inequalities in income and other indicators have worsened. In particular, regional disparities have widened as urban coastal areas have grown faster than rural, savannah areas of the country.

This is because the pattern of growth has been highly uneven across economic sectors and population groups. Regions outside the rural forest zone where many of Ghana's key exports are produced have seen far lower levels of

poverty reduction or even some increase (Aryeetey and McKay 2007). Poor people are mostly concentrated in the north, while most of the growth – and future business and economic opportunities – are in the south. Rural poverty is four times higher than urban poverty. According to the OECD, ‘These gaps might have an effect on the political stability and social cohesion needed to sustain the growth process, although in Ghana pro-poor growth issues tend not to be priority vote catchers’ (OECD 2007).

In addition, other aspects of agricultural development, such as land ownership, have seen little improvement. While large export crops have received much attention, much less has been invested in small food crop operations (Aryeetey and McKay 2007) and householders not producing export crops have experienced lower rates of participation in growth. Access to credit and extension services remains very difficult for women.

Trade reforms have resulted in faster growth in imports compared with exports, adversely affecting local production in, for example, rice growing, chicken rearing, and manufacturing. And limited access to key inputs, especially since the removal of subsidies on inputs, has kept levels of mechanisation and fertiliser use low (Aryeetey and McKay 2007).

Employment in other sectors has failed to take off to the same extent, particularly in the formal sector. One key reason for this is that manufacturing has been hit by trade liberalisation (Aryeetey and McKay 2007). In addition, financial institutions have been unwilling to lend to the private sector.

The government has, however, made efforts at redistribution and social protection. The tax base has been broadened, and this helped to increase government revenues from 12 per cent of GDP in 1990 to almost 24 per cent in 2004.

The government made a clear commitment to social protection in the Ghana Poverty Reduction Strategy Versions 1 and II, as well as in its National Social Protection Strategy. The latter identifies a number of areas in which women are particularly vulnerable, including their over-representation in food crop production (a sector with some of the highest poverty rates), lower education enrolment and retention, and insufficient access to credit markets. It also adopts an explicitly gender-sensitive approach to reducing poverty and empowering socially disadvantaged groups.

Social protection programmes for the poorest and most vulnerable sections of society have been expanded, notably the Livelihood Empowerment Against Poverty (LEAP) programme of cash transfers. LEAP was launched in 2008, and a year later was reaching around 26,000 households and 131,000 individuals. It gives cash conditionally on sending children to school, registering births, taking up post-natal care, and immunising children although, as a recent review of the programme points out, there is no way of checking that these obligations have actually been carried out (Gbedemah et al. 2010). In addition, the money is not necessarily given to women. However, there is a provision that women should be included in the Community LEAP Implementation Committees.<sup>29</sup>

The government has increased spending in education (heavily supported by donors) and on roads, electricity, and water. Access to education has increased, but pupil performance has declined<sup>30</sup> and the overall level of public

expenditure on health was low by West African standards, and health outcomes have in some cases deteriorated. Part of the problem has been a weakness of public sector management systems. By one estimation, deviations between budget estimates and actual spending in education and health are plus or minus 42 per cent and 68 per cent respectively (Aryeetey and McKay 2007).

More recently, oil has been discovered offshore from Ghana (at Jubilee Fields, in 2007), and the way that oil companies are taxed – and that money is spent – will be a test of the government’s real commitment to redistribution.

### 3. What can we learn from the case studies?

While there are no blueprints for generating inclusive growth, these three case studies suggest some lessons for policy makers. This section draws lessons from the case studies, and discusses them with reference to the broader literature.

#### Redistribution

Brazil, Viet Nam, and Ghana have all, to varying degrees, and with varying degrees of success, made use of explicitly redistributive policies. In the case of Brazil, this was cash transfers and expanding education; in Viet Nam it was land reform plus transfers from poorer to richer regions; and in Ghana it took the form of cash transfers and a broadening of the tax base.

While Kraay (2006) stated that ‘sustained poverty reduction is impossible without sustained growth’, other academics have shown that distribution can play as strong a role as growth – or an even stronger one – in increasing income for poor people (White and Anderson 2001; Bourguignon 2004). The Commission on Growth and Development surmises that, while growth is the main route to poverty reduction, as a country develops, redistribution becomes more important as a way to reduce poverty.

Achieving redistribution is challenging. Inequality is, in Fenton’s words, often the ‘product of deep-rooted institutions, processes and power relations’ (Fenton 2008) and highly politically sensitive.

But all three case studies show that political realities need not sound the death knell for redistribution. They describe varying levels and kinds of redistribution. And when it happens, redistribution in this wide sense can be a very powerful force to reduce poverty, as well as inequality. It is estimated that the Brazilian government could completely eradicate poverty by transferring a mere 3 per cent of GDP, for instance (Ravallion 2010).

#### Box 3: Global redistribution

Branko Milanovic of the World Bank says that there is also a strong argument for *global* (as well as national) redistribution. He argues that, from an ethical perspective, distributional justice within a nation and in the world as a whole is the same thing. And pragmatically, globalisation increases the awareness of other people’s incomes and thus the perception of inequalities among both poor and rich people.

Milanovic finds that three basic rules should guide global income redistribution. Funds should flow from:

- 1) Rich to poor countries;
- 2) Taxpayers who are richer than the beneficiaries of the transfer;
- 3) Taxpayers who are relatively rich within their own countries to relatively poor people in recipient countries, so that inequality decreases in both donor and recipient countries.

This would, he says, call for the creation of a global agency to be financed by rich people in rich countries, which would transfer funds to poor people in poor countries.

*Adapted from Branko Milanovic (2006) Global Income Inequality: A Review, World Economics, Vol. 7, No 1, January–March, 2006*

## **Taxation**

Brazil and Ghana both attempted to widen their tax bases: Brazil by collecting better data and therefore knowing who to tax; while in Ghana attempts were made, with reasonable success, to formalise the informal sector and to tax it, in a fair way. In addition, in Ghana the largest component of the tax system is direct taxes on personal income and business activity – again, generally both progressive forms of taxation (Tax Justice Network 2009). However, policy reforms are still needed to lessen the burden of taxation on poor households that have more children (Aryeetey 2010). More recently, Viet Nam has improved its tax administration (for instance all tax offices are now connected via a computer network, and tax revenues have risen as a share of GDP from an average of 19.6 per cent over 2001-4, to an average of 23.7 per cent over 2005-8 (IMF 2011).

Historically, there have been few examples of developing countries (either MICs or LICs) successfully using personal income taxation policy to redistribute income to result in greater levels of income equality. A survey of tax incidence studies in transition (and developing) economies found that tax systems were progressive in just over a third of cases, and around a fifth were regressive (Killick 2002). Indeed, Ravallion (2010) finds that in most low-income countries, it would currently not be possible for personal taxation to fill poverty gaps, because the rate of tax that would need to be levied on the wealthiest in that country would be prohibitive (in excess of 100 per cent).

However, he finds that ‘there appear to be feasible options in developing country settings’ and that in many middle-income countries, the marginal tax rates needed for substantial pro-poor distribution are very small – less than 1 per cent on average, and less than 6 per cent in all cases (Ravallion 2010).

Yet in several MICs tax systems are in fact regressive, not progressive. For example, income inequality has actually *increased* in Latin America as a whole once indirect taxes such as VAT, excise tax, and import tariffs are considered (ILO 2008) – these tend to be more regressive.<sup>31</sup> As shown above, the Brazilian tax system is still deeply regressive, even if the tax base has been expanded. This may be in part because, recently, taxation has mostly been seen as a way to raise revenue (with varying degrees of efficiency), rather than to redistribute wealth (Grown and Valodia 2010).<sup>32</sup> There may also be considerations of political economy: Di John (2006) says that the capacity of states to collect direct taxes provides an ‘important window into their power and legitimacy vis-à-vis upper income and middle-class groups’.

But there is some evidence of progress in this area. In South Africa, progressive taxation has reduced the Gini co-efficient from 0.68 to 0.64 and once the subsidised, or free, receipt of state benefits is taken into account, that number falls to 0.44 (ODI 2004).

And even in some low-income countries, attempts have been made to introduce progressive taxation, even if not to a degree that would completely meet countries’ poverty needs. In Cameroon, income taxes, indirect taxes, and other individual taxes (such as gasoline tax) tend to be progressive.

As well as primarily using direct, rather than indirect, taxes, studies show that it is important for governments to increase the tax base and to strengthen the tax

administration, for example by establishing autonomous revenue authorities (Killick 2002 – who adds that, as it will be difficult for developing countries to achieve major reductions in inequality through taxation, they should focus on broadening the tax base). And of course, for a tax to be properly redistributed, it depends on governments spending the money raised in a pro-poor (ILO 2008) and gender-sensitive (Grown and Valodia 2010) way.<sup>33</sup>

It is also vital for governments to ensure that the private sector bears its fair fiscal burden. In Ghana, drilling for oil started in 2010 and this will generate billions of dollars in new government revenue, which should be spent on public investment rather than private consumption (the IMF agrees: according to a recent paper, the revenue generated from corporate taxation should be reinvested in additional productive capacity, including education, training, health, and infrastructure<sup>34</sup>). Sadly, an oil revenue management law (passed in March 2011) does not require disclosure of contracts, which would allow civil society and others to monitor the amount of money the government receives.<sup>35</sup>

Adequately taxing businesses – including natural resource industries, which tend to benefit from unduly long tax holidays and other forms of exemptions (in Burkina Faso, for example, most gold mining companies have a ten-year concession, seven years of which are covered by a tax holiday<sup>36</sup>) – is vital for the redistribution of income in developing countries. Issues such as tax evasion, tax havens, and transfer pricing should be dealt with.

## **Public expenditure**

### **Basic public services: health and education**

All three case study countries have tried to increase access to education and health. The literature finds that these are both important factors in ensuring that any growth that happens is equitable. Access to basic social services should be universal and free at the point of use because, as well as being a right, such services build human capital and support economic growth, while at the same time limiting excessive income inequality (ILO 2008; Killick 2002; Lin 2009; Jack and Lewis 2009).

Naschold (2009) reports that the distribution of assets – primarily of education (and land) – has an even stronger effect on poverty elasticity than the distribution of income. Universal provision of these services is also inherently redistributive as, at least in the first instance, it will be middle-class taxpayers who finance this access. Killick (2002) says that the provisions of health and education are ‘among the strongest instruments available to governments for achieving progressive growth’.

‘The Growth Report’ says that, far from crowding out private investment, as is frequently argued, this spending crowds it *in*. Vandemoortele makes the point that social services serve a counter-cyclical function too, increasing resilience (Vandemoortele forthcoming).<sup>37</sup>

Melamed (2010) adds that achieving the MDGs requires services that are free at the point of use and funded through taxation and aid revenues, although she warns that the use of public money to provide services has to be handled very carefully if it is to reach poor people and to some extent compensate for existing inequalities. In Ghana, for example, the government has implemented a social health insurance system rather than one that allows universal access: recent

research indicates that just 18 per cent of the population are currently covered (Oxfam 2011) and, as the case study indicates, health outcomes have in some cases deteriorated.

### **Support for agriculture and land reform**

Support for investment in the agricultural sector was a major factor in translating growth into poverty reduction in both Viet Nam and Ghana, although in the latter more explicit targeting of non-export-led production would have been needed to reduce inequality. In Brazil, meanwhile, it was growth in the services sector that was more consistently pro-poor than agriculture (Ravallion 2009).

Agriculture can be a significant driver of inclusive growth which benefits both producers and the wide economy. But ensuring that small-scale producers participate and benefit relies on deliberate inclusion policies and programmes. If investment in this sector focuses only on the biggest farmers and areas – and fails to consider sustainability – it will bypass the poorest and more remote participants.

Research indicates that government policies should support a move up the value chain, along with investment in rural enterprises, access to credit (as was the case in Viet Nam) and extension services, and access to technology and transport infrastructure to allow access to markets.

This applies particularly to women. Women comprise, on average, 43 per cent of the agricultural labour force in developing countries (FAO 2011). They have less access than men to productive resources and opportunities, including land, labour, education, extension and financial services, and technology. In its recent synthesis of the literature on gender and agriculture, the FAO estimates that if women had access to the same productive resources as men, they could increase yields on their farms by up to 30 per cent, which would raise total agricultural output in developing countries by up to 4 per cent (which could in turn reduce the number of hungry people in the world by up to 17 per cent).

In addition, it will be important for governments to ensure that there is growth in non-agricultural employment, or a policy that links manufacturing to agriculture. As a UNDP report on Viet Nam says: “If one found that most poor households derived their incomes from street trading, one would not automatically conclude that the policy response should be to build market stalls and provide training in accountancy. More effective might be to foster employment growth in other sectors, where incomes would be higher”, (UNDP 2004).

#### **Box 4: Growth, access to natural resources, and equity**

It is outside the scope of this paper to look at issues of environmental sustainability in an extensive fashion. However, there are clear examples of instances where poverty reduction following a period of economic growth has shown up in the data but not on the ground in the most disadvantaged communities, due to issues connected with resource scarcity.

Since 1992, the countries along the Mekong River – Viet Nam, Cambodia, Laos, Thailand, Burma, and China – have been part of a borderless regional economy, known as the Greater Mekong Subregion (GMS). A key aim of the GMS was to ‘lift people from poverty and promote sustainable development for all’ through economic growth. Between 1994 and 2004 the region grew at 6 per cent a year, and the proportion of people living in poverty has fallen dramatically in all the countries, using the measure of the number of people living on less

than \$1 a day. The Asian Development Bank attributes the decline in poverty directly to the economic growth in GMS countries.

However, this figure masks the reality for poor and ethnic minorities living in the region. The transition to modern and commercialised forms of agriculture has made them worse off, due to their lack of knowledge of new agricultural techniques and their lack of familiarity with managing credit. New opportunities for commercial agriculture or trading have tended to be dominated by outsiders.

In Cambodia, there has been a rapid shift from a remarkably equal distribution of wealth in 1989, when land rights were formally granted, to a highly unequal distribution, particularly in rural areas, and particularly in areas of rapid exploitation of natural resources. The Gini coefficient for landholdings increased from almost zero (perfect equality) to 0.63 in 2004, one of the highest levels of inequality in the Asian region. Since 2004, continued expropriation of rural land and violent mass evictions, as well as a continued fostering of agro-industry through the award of large economic land concessions to companies, has widened the gap still further. In 2007, it was estimated that one-fifth of Cambodians were landless, and the poorest 40 per cent of the population occupied just 10 per cent of the land.

In the Sekong province of southern Laos, the average annual income in 2003 was just \$120, well below the \$1 a day mark. But a study by the World Conservation Union has shown that the value of the goods that households in Sekong sourced from forests, had they been bought at market, was equivalent to \$525 per household per year. This shows that if people lose access to forests in Sekong (as is happening), then even if they experience a doubling or trebling of income they will still have experienced an increase in poverty.

*Source: Hughes 2010; Oxfam Australia 2007*

Land reform is seemingly another example of a win-win policy for both growth and reducing poverty and inequality. Transferring the control of land from large landowners to small farmers can reduce inequalities, while at the same time promoting improved utilisation and higher productivity through more intensive cultivation. Watkins (1998) says that access to land has enabled households to provide their own social protection, reducing dependence on transfers in cash or kind from the state. Land reform was key to Viet Nam's (initially) equitable transformation, and in provinces where land rights were most effectively allocated farmers invested more heavily in long-term, multi-year crops and devoted more labour to non-farm activities.

Besley and Cord (2007) also cite Kenya, South Korea, Taiwan, Brazil, and Colombia as positive examples of similar kinds of reform.

However, land reform has been a much less successful tool for fighting inequality in other situations, and it is politically contentious. The FAO says that women have not always benefited from general land distribution and titling efforts, and in some cases have seen their customary rights eroded as formal rights have been extended to male heads of household, thereby increasing gender inequality. In some instances, the failings have been merely bureaucratic: in the case of Brazil, for instance, women were guaranteed equal rights to land distributed through agrarian reform in 1988, but few women were registered as beneficiaries because the registration forms mentioned them only as dependants (FAO 2011).

According to Kenny (2011), surveys suggest that in Africa evidence of the impact of formal land titling on perceived land rights of farmers, credit use, or land yields is often weak, in part because indigenous land systems frequently have greater legitimacy even after formal titling has been introduced.

## ***Social protection***

### **Conditional cash transfers, pensions, and the minimum wage**

It is important that countries combine growth with resilience – in other words, that people do not fall back into poverty following shocks and setbacks, whether individual (such as sickness) or collective (such as natural disasters or conflicts). This means that growth should be steady, rather than volatile with frequent periods of negative growth (Draper et al. 2010). Well-designed social protection is a key element to ensuring that poor people are more resilient in times of negative growth.

Cash transfers have been used by Brazil, Viet Nam, and Ghana, as well as many other developing country governments, to reduce not only volatility but also the inequality that makes people vulnerable to that volatility. Such transfers have the advantage of being highly progressive – around 75 per cent of the spending goes to the bottom two quintiles (ILO 2008).

There are a range of other social protection options open to governments wanting to foster equitable outcomes, including the social pension used to such success in Brazil, as well as the minimum wage (ECLAC 2010).<sup>38</sup> Of particular value when a crisis hits are automatic stabilisers such as unemployment insurance, which are already in place, as these can be used to respond immediately rather than requiring hard-pressed governments to implement new schemes quickly (Oxfam 2010b).

These transfers have been proven to have a powerful impact on poverty reduction and inequality: according to ECLAC, using data based on household surveys, a guaranteed partial income, such as a cash transfer or basic insurance, has moved the Gini co-efficient from 0.58 to 0.0 in the Dominican Republic; from 0.54 to 0.45 in Paraguay; and from 0.59 to 0.5 in Guatemala.<sup>39</sup>

However, there is a debate as to the gender implications of cash transfers. Some argue that handing over money to women enhances their economic empowerment and their decision-making power, both inside and outside the home. But other analysts warn that this just reinforces women's traditional role as care-givers, and that cash alone is not enough to empower them (Holmes et al. 2010).

For instance, while one evaluation of the Brazilian Bolsa Familia programme showed that women receiving money were more likely to participate in the labour market, another showed that they also tended to reduce their working hours (Holmes et al. 2010). A separate study did, however, show that women were more likely to increase their bargaining power outside the household.

## **Macroeconomic prudence**

A theme common to all three case studies, and much of the wider literature, is that countries stabilised before they grew, and that this stabilisation contributed to equitable outcomes. This was particularly important in the case study countries, as all three had been experiencing high rates of inflation (Brazil experienced hyper-inflation from 1980 to 1994, with rates peaking at around 5,000 per cent;<sup>40</sup> in Viet Nam inflation peaked at almost 500 per cent in 1986;<sup>41</sup> and in Ghana the peak was in 1983 at 123 per cent<sup>42</sup>). Instability and volatility

invariably hurt poor people (Vandemoortele 2004), and high levels of inflation curb growth (Khan and Senhadji 2001).

But what is an appropriate macro-economically prudent policy today? Since the economic crisis, the IMF has defined the elements of macroeconomic stability necessary for economic growth as:

- Moderate fiscal and current account deficits;
- Low debt to GDP ratio;
- Low and stable inflation; and
- Adequate levels of reserves<sup>43</sup>.

However, this is not necessarily the same as a macro framework for *inclusive* economic growth. While this definition may not be as stringent as the stabilisation measures contained in IMF conditions in the 1980s and 1990s, these IMF targets may still be overly rigid and cautious.<sup>44</sup>

Most LICs do not today display the same rates of high inflation as in the case study countries (Kenny 2011), meaning that there is not the urgent need to decrease it. Indeed, research shows that moderate inflation and deficits are not at odds with growth. A paper from the IMF shows that, for developing countries, inflation can be as high as 11–12 per cent before it starts to significantly impact growth (Khan and Senhadji 2001).

Similarly, while running a very high fiscal deficit is not sustainable, countries need moderate fiscal space to increase social sector spending, and in particular counter-cyclical spending, which in itself reduces vulnerabilities. Justin Lin says that counter-cyclical policy is the appropriate fiscal strategy for a developing country (Lin 2009). Research from Oxfam supports this, and indicates that countries should implement counter-cyclical policies in both good times and bad: countries that build up enough fiscal space during booms are better able to maintain or increase spending when a shock hits, and this may imply greater restraint in public spending during boom periods – but this is a delicate balance and a decision that should be made by the government (Oxfam 2010b).

Even within the IMF there is debate on what constitutes an ‘adequate’ level of reserves: if too low, it means that a country is vulnerable in an economic crisis and may need to seek economically or politically expensive outside help. But if reserves are too high, money that should be spent on expanding basic public services and infrastructure is instead diverted, which will in turn restrict growth. Again, what is needed is a balancing act.

Similarly, debt sustainability is important, but provided countries are spending money on productive sectors of the economy (including basic public services) and provided borrowing is transparent, and where possible concessional, in many countries some increase in debt levels is not a cause for concern (Oxfam 2010a; Radelet 2010).

In other words, once we are no longer talking about a situation of hyper-inflation or runaway debt, the end goal of macroeconomic prudence is to allow governments the fiscal space to allow investments in sectors – including social sectors – which promote productive investment, innovation, and the creation of decent work (ECLAC 2010).

To achieve this, the literature suggests that flexibility will be required: while broadly moderate levels of inflation, debt, and reserves are likely to be the correct policies, governments need to decide what 'moderate' means in their own domestic economic and political circumstances.

Here then is a competing vision for macroeconomic policy conducive to equitable growth, from the UN Economic Commission for Latin America and the Caribbean (ECLAC 2010):

- To achieve less volatile economies closer to their growth potential, oversight of the capital account must be improved by using capital controls.
- Central banks should target job creation, with better co-ordination between central banks and ministries of planning, finance, agriculture etc.
- The country's fiscal capacity should be expanded by increasing taxes.
- Counter-cyclical fiscal rules should be introduced, aimed at reducing volatility and expanding the fiscal base to increase spending.
- A finance system is needed that supports small and medium-sized enterprises (SMEs) as well as large businesses.

## **A policy environment conducive to pro-poor private investment**

In all three case studies countries, it was private sector development that led growth. This is unsurprising, as the private sector is the most significant force for economic growth in almost all developing countries, particularly when informal, small, and medium-scale enterprises are included (Jeppesen 1995) - in other words, the part of the private sector that is more likely to deliver poverty reduction as it is more labour- than capital-intensive, and because it has more local linkages than transnational corporations (Green, 2008).

Markets are imperfect - often not taking account of social costs and benefits, and operating in a world of risk, uncertainty, and imperfect information. Growth derived from private sector businesses operating in unregulated markets will frequently not promote inclusive, poverty-reducing growth, or lead to open, contestable markets with full and fair access for small-scale and poor traders. In addition, in most contexts, the existing business environment is biased towards larger, formal enterprises, to the disadvantage of smaller firms (Chen 2005).

The World Bank's Justin Lin believes that, in addition to an effective market mechanism, governments should play an active, facilitating role in industrial diversification (as was the case in Viet Nam) and in the improvement of infrastructure.

There is also an important role for the state to play in ensuring that the right kind of private sector is encouraged. The International Labour Organisation (ILO) Job Pact, which has been endorsed by the G20 as a cornerstone of its economic recovery plan, calls for special support to small businesses (Cafod 2011). In addition, small businesses can provide an important safety net during an economic downturn, providing a source of income for workers who have been

laid off elsewhere, and their capacity respond quickly to new market conditions is recognised as important for the economy in general (Liedholm and Mead 1999).

While there may be concerns that SMEs contribute to widespread informality and low productivity, there are historical examples of them driving economic development.

In Taiwan, for instance, when labour costs rose in the 1980s, the government actively pushed SMEs to upgrade into ever higher-technology products such as computers, particularly for export. Unlike in neighbouring China, SMEs enabled Taiwan to grow rapidly without driving up inequality. In 2006, almost 98 per cent of its 1.3m enterprises were classified as SMEs: they realised 30 per cent of total sales and employed 77 per cent of the Taiwanese workforce (Green 2008).

The government may also need to intervene to ensure access to credit to allow these smaller firms to thrive. Justin Lin adds that small firms often lack standard financial documents and a longer financial history, which inhibits their ability to raise capital on financial markets. A survey of larger firms in Ghana (of 133 medium-/large-scale enterprises) found that inadequate finance turned out to be the most significant constraint for 53 per cent of them. Finance became more of a problem the smaller the enterprise (Aryeetey 2008).

One institution that is tasked with addressing the issue of access to capital is the International Financial Corporation (IFC), a part of the World Bank. However, research by Eurodad indicates that the majority of its loans are directed towards large-scale telecoms and mining companies – sectors that tend to be large and therefore more able to access credit elsewhere, and that are not particularly job-creating.

Similarly, while FDI can be important as a provider of capital, it is often less labour-intensive, producing fewer jobs than domestic investment in similar sectors (Draper et al. 2010). This suggests that the state will need to intervene and manage the process of attracting and regulating FDI, to ensure that it is more labour-intensive, and also that it provides technology transfer.

### ***Fairer trade rules***

Much of the growth that has taken place in developing countries has been generated by increased exports. However, this has often served to exacerbate inequalities (Kremer 2007),<sup>45</sup> with those who have greater access to markets often benefiting from export opportunities and cheaper imports, while others, especially small-scale farmers, find domestic prices for their produce depressed.

A study of the differentiated impacts on women and men of Economic Partnership Agreements (EPAs) found that the majority of women in the three developing countries examined (Tanzania, Mozambique, and Jamaica) were 'highly unlikely' to be able to take advantage of any new economic opportunities offered by the trade deals, as they have such limited access to assets, credit, markets, and information (One World Action 2009). And even in export-driven sectors that are likely to expand with a trade-driven growth increase, women are likely to be trapped in relatively low-paid jobs with little job security. However, the FAO (2011) cites evidence that while export-intensive sectors often do not employ men and women on the same terms, they often provide better opportunities for women than exist within the confines of traditional agriculture.

The literature and case studies show that countries that have been able to carefully control the terms of trade liberalisation, such as Viet Nam, have been able to ensure more equitable outcomes. This suggests that fair trade rules, which allow for sequenced liberalisation at the timing decided by the country itself, are important to ensuring that growth delivers for all. Historically, liberalisation is better seen as an outcome of development, rather than an initial condition, and attempts at opening markets prematurely often end in tears. Rodrik says that as we move forward with a new model of capitalism after the global economic crisis, it will need to be recognised that developing countries may be required to use some subsidies and other practices currently prohibited by trade rules (Rodrik 2009).<sup>46</sup>

### **Labour**

Employment is the main source of income for most poor people because most poor households have few other assets to rely on other than their labour, and as such it is an essential component of equitable growth. Viet Nam, for instance, has a clear government policy to urbanise, including creating employment opportunities in cities.

Conversely, jobless growth – a problem currently afflicting the USA and other advanced economies – creates a major impediment to poverty reduction. Many developing countries have also experienced their growth as jobless growth. In some cases, growth has been accompanied by increased unemployment, particularly among young people, and the under-employment of large numbers of people in low-productivity jobs (Bird 2008). The revolutions in Egypt and Tunisia were both, in part, sparked by discontent among young people unable to find work.

On the other hand, East Asian countries have, at various times and in various places, been able to reduce inequalities through a combination of economic growth and employment generation – the so-called ‘productivist model’ (ILO 2008).

The literature indicates that in developing countries the main aim should be to raise productivity in activities that will continue to engage large proportions of the workforce, i.e. agriculture, and to foster the creation of non-agricultural wage jobs in the services and manufacturing sectors on a massive scale, particularly at the level of the small (even household) and medium-sized enterprise.

Of equal importance is that new jobs are created under the ‘decent work’ model, i.e. with a fair wage, security of employment, and good working conditions. This has a strong gender dimension in that women are often located in marginal, insecure, and poorly-paid jobs. As ‘The Growth Report’ says, labour rights should not be sacrificed to achieve economic objectives, including growth.

Growth in labour-intensive manufacturing can also raise the incomes of the poor. However, the expansion of capital-intensive mining industries can result in jobless growth (‘The Growth Report’) in addition, these jobs can often entail harsh working environments and low pay, aggravating inequality.

Finally, employment creation schemes – such as India’s Rural Employment Guarantee Scheme, which ensures that one member of every rural household has 100 days of paid labour every year – can act as an important form of social protection.<sup>47</sup>

## 4. Conclusion

This paper is not intended to be the final word on the subject of inclusive growth or indeed of inequality: there is still much research to be done on this area. But while there is no prescription as to how to bring about equitable growth, there are some policy areas which have been shown in the past to translate economic growth into inclusive growth:

- **A redistributive agenda:** This would include cash transfers, redistributive public expenditure on health, education, and agricultural services and a progressive taxation system. This package should serve to arm poor and marginalised people with the skills to allow them to participate in the benefits of economic growth, and limit their exposure to the downside risks of that growth;
- **Macroeconomic prudence:** This means sustainable, moderate levels of inflation, deficits, and debt; and counter-cyclical policies, but at the same time governments must ensure that pro-poor elements of public spending are protected;
- **A policy environment conducive to pro-poor private investment,** and in particular the domestically owned, labour-intensive private sector, especially SMEs.

Historically, different countries have followed different paths depending on their starting circumstances. Countries may be best off starting with an analysis of their economic and political situations and thereby identifying the binding constraints on inclusive growth (Rodrik 2006). As Winters et al. (2010) say, the international community can play a supportive role in this.

Moreover, the evidence in this paper suggests that donors should heed the lessons of the past, and ensure that they aim to secure inclusive growth by addressing measures designed nationally – and where necessary, globally – to do so, rather than assuming that growth alone will be sufficient to deliver poverty reduction.

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## Notes

<sup>1</sup> The Commission on Growth and Development, headed by Nobel-prize winning economist Michael Spence, brought together 21 high-level policy makers and academics, to evaluate the evidence on this issue. Their synthesis report, 'The Growth Report: Strategies for sustained growth and inclusive development', was published in 2008. Throughout this paper it is referred to simply as 'The Growth Report'.

<sup>2</sup> The IMF predicted that Ethiopia's growth in 2010 would be 7 per cent, Tanzania's 6.2 per cent, and Uganda's 5.6 per cent, for example. IMF, World Economic Outlook, April 2010, IMF, Washington DC.

<sup>3</sup> <http://www.g20.utoronto.ca/2009/2009communiqué0925.html#growth>, accessed 15 February 2011.

<sup>4</sup> <http://www.g20.utoronto.ca/2010/g20seoul-consensus.pdf>, accessed 15 February 2011.

<sup>5</sup> DFID, 'Business Plan 2011–2015', November 2010.

<sup>6</sup> 'Stimulating Sustainable Economic Growth: CIDA's sustainable economic growth strategy', Canadian International Development Agency, November 2010. [http://www.acdi-cida.gc.ca/INET/IMAGES.NSF/v/LUIImages/EconomicGrowth/\\$file/Sustainable-Economic-Growth-e.pdf](http://www.acdi-cida.gc.ca/INET/IMAGES.NSF/v/LUIImages/EconomicGrowth/$file/Sustainable-Economic-Growth-e.pdf), accessed 17 March 2011.

<sup>7</sup> While there are also inequalities between countries – and indeed this is the rationale for rich countries attempting to promote development in poorer ones – this paper specifically considers intra-country inequality only.

<sup>8</sup> The Gini coefficient is a number between zero and one that is a measure of inequality. As Vandemoortele (2009) points out, the Gini co-efficient is in itself problematic. For instance, it misses the way in which income is distributed across society – it failed to highlight the phenomenon of the disappearing middle class in the USA, for example. Instead, she proposes that policy makers look at polarisation, i.e. the clustering of members of society around more than one income level. See Vandemoortele M. (2009) 'Growth Without Development: Looking Beyond Inequality', ODI Briefing Paper No 47, February 2009, Overseas Development Institute, London.

<sup>9</sup> The Human Development Report 1995 introduced two new measures of human development that highlight the status of women. The first, **Gender-related Development Index (GDI)**, measures achievement in the same basic capabilities as the Human Development Index (HDI) does, but takes note of inequality in achievement between women and men. The second measure, **Gender Empowerment Measure (GEM)**, is a measure of agency. It evaluates progress in advancing women's standing in political and economic forums. It examines the extent to which women and men are able to actively participate in economic and political life and to take part in decision making. However, there is no composite index taking in all elements of inequalities, including elements such as powerlessness (McKay 2002).

<sup>10</sup> For a critique of the MPI, see <http://www.oxfamblogs.org/fp2p/?p=3070>, and for a response to this critique see <http://www.oxfamblogs.org/fp2p/?p=3092> (both accessed 15 March 2011).

<sup>11</sup> <http://www.stiglitz-sen-fitoussi.fr/en/index.htm>

<sup>12</sup> See the work by Isabel Sawhill and Ron Haskins at the Brookings Institution for an example of this type of discussion.

<sup>13</sup> *The Economist*, 'Internal Affairs: the gap between many rich and poor regions widened because of the recession', 12 March 2011.

<sup>14</sup> <http://pewresearch.org/pubs/1925/elusive-90-percent-solution-gas-prices>, accessed 14 March 2011. However, there is still a strong political backlash against measures to reduce inequality. As Robert Reich observes in his foreword to *The Spirit Level*, President Obama's modest proposal to limit the income tax deductions of the wealthy in order to pay for health care for all met fierce resistance from a Democratic-controlled Congress.

<sup>15</sup> Since 2000, there has been a fall in income inequality in Latin America that is both significant and widespread (Gasparini et al. 2009).

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<sup>16</sup> 'Human Development and Wealth Distribution', speech made by Dominique Strauss-Kahn, Agadir, 2 November 2010. <http://www.imf.org/external/np/speeches/2010/110110.htm>, accessed 9 February 2011.

<sup>17</sup> Editor's Choice, 'The Big Idea', *British Medical Journal* (1996) 312 (70037).

<sup>18</sup> <http://www.thehindu.com/opinion/op-ed/article1451973.ece?homepage=true>, accessed 14 February 2011.

<sup>19</sup> Of course, a country that is growing will be able to spend more on policies that explicitly target those other non-income-related goals, such as health and education, but it has to take the decision to do so. Winters et al. (2010) say that experience of recession or stagnation in developing countries has shown that, without economic growth, the levels of public and private investment and spending needed to attain better education and health outcomes and better housing cannot be maintained. Note that this paper was commissioned by the Presidential Committee for the G20 of Korea.

<sup>20</sup> Although it should be noted that donor support (aid) to agriculture fell away during the 1990s. According to OECD data, between 1980 and 1984, 17 per cent of donor aid was committed to agriculture. By 1995–1999 that figure had fallen to just 8 per cent. <http://www.oecd.org/dataoecd/40/43/2094403.pdf>, accessed 28 March 2011.

<sup>21</sup> For instance, just two of the MDGs explicitly target gender: MDG3 on gender equity and MDG5 on maternal mortality and reproductive health.

<sup>22</sup> Rodrik (2004) points out that growth has happened in low-income countries, and the problem is not that African countries have failed to grow, but that they cannot maintain that growth. He says: 'This suggests a different remedy [from pushing for major growth spurts], one that focuses in the short run on selectively removing binding constraints on growth and in the medium- to longer-run on enhancing resilience to external shocks.'

<sup>23</sup> Much of this section has been adapted from a presentation, 'Notes on the Relatively Recent Brazilian Experience of Economic Growth with (Government-Led) Income Redistribution', made by Claudio Hamilton Matos dos Santos of IPEA, Brazil at the UNDP International Policy Center for Inclusive Growth Seminar on Inclusive Growth, 8–10 December 2010. <http://www.ipc-undp.org/PageNewSiteb.do?id=235&active=1>, accessed 1 March 2011.

<sup>24</sup> From close to 18 million people living on less than \$40 a month to 9.5 million.

<sup>25</sup> Although in the south of the country pre-unification, a market-based economy had been in place in the past.

<sup>26</sup> For example, private property was reintroduced, but the state continued to own property.

<sup>27</sup> Rama (2008) points out that this redistribution is larger, in relative terms, than similar transfers in the European Union.

<sup>28</sup> 'Vietnam's children face rising inequalities', AFP, 31 August 2010. <http://www.un.org.vn/en/un-in-the-news/193-general/1522-vietnams-children-face-rising-inequalities-un-.html>, accessed 28 March 2011.

<sup>29</sup> A recent assessment of LEAP concludes that, while the programme is subsidising expenses (of the kind that are normally paid by women (such as buying school supplies), it is not noticeably reshaping household dynamics, whereby decisions lie with men and boys. This is because the amount of money transferred is low, and there is weak civil society engagement with the process, so there is no feedback loop.

<sup>30</sup> As Kenny (2011) notes, decline in quality is frequently the initial impact of a rapid increase in enrolments. However, this can be reversed over time if governments increase investments in the sector.

<sup>31</sup> For taxes to be a tool in improving equity, it is important that they are direct taxes, which are more progressive than indirect ones.

<sup>32</sup> However, the objective of equality did feature in tax policies in the past. Tax policies throughout the world until the mid-1970s were seen as powerful ways of mitigating income inequality (Grown and Valodia 2010).

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<sup>33</sup> Of course, raising sufficient revenue to fund public services and social protection is another redistributive aspect of taxation. Diane Elson, quoted in Grown and Valodia (2010), shows that countries that are unable to raise sufficient revenues are likely to under-provide social services, thereby increasing the burden of unpaid care and social provision shouldered by women. Grown and Valodia also make the point that taxation policies impact not just on income inequalities but also on gender inequality, and policy makers need to take this into account, considering, for example, that increasing VAT on childrens' clothing may reduce the disposable income of women more than that of men. Therefore, to rectify inequalities in the tax system itself, policy makers will need to improve the distributional impact of the tax system by reducing the gender inequalities it fosters among and within households.

<sup>34</sup> Presentation made by Victor Lledo and Rodrigo Garcia-Verdu at UNDP International Policy Center for Inclusive Growth Seminar on Inclusive Growth, see above.

<sup>35</sup> <http://www.oxfamamerica.org/articles/countdown-to-oil-drilling-in-ghana>, accessed 24 March 2011.

<sup>36</sup> [http://www.oxfam.org.uk/resources/policy/economic\\_crisis/downloads/dp\\_crisis\\_multiplied\\_burkina\\_faso\\_en\\_220610.pdf](http://www.oxfam.org.uk/resources/policy/economic_crisis/downloads/dp_crisis_multiplied_burkina_faso_en_220610.pdf), accessed 24 March 2011.

<sup>37</sup> For a review of the literature on health/education and growth, see Baldacci et al. 2008.

<sup>38</sup> A 2009 paper by the ILO stated that minimum wages are particularly important, as previous crises have shown that recovery to pre-crisis wage levels can take much longer than restoring economic growth. In addition, while it is often assumed that minimum wages will reduce employment, empirical evidence is mixed. Indeed, recent surveys show that the employment effects of minimum wages tend to be small or even negative

[http://www.ilo.org/public/libdoc/ilo/GB/304/GB.304\\_ESP\\_3\\_engl.pdf](http://www.ilo.org/public/libdoc/ilo/GB/304/GB.304_ESP_3_engl.pdf), accessed 21 March 2011.

<sup>39</sup> ECLAC, p.38.

<sup>40</sup> <http://www.thecsem.org/content/hyperinflation-brazil>, accessed 17 March 2011.

<sup>41</sup> <http://webh01.ua.ac.be/cas/PDF/CAS22.pdf>, accessed 17 March 2011.

<sup>42</sup> <http://www.aercafrica.org/documents/RP169.pdf>, accessed 17 March 2011. This paper states that stabilisation efforts were mostly unsuccessful in bringing down inflation in Ghana.

<sup>43</sup>

<sup>43</sup> Presentation made by Victor Lledo and Rodrigo Garcia-Verdu at UNDP International Policy Center for Inclusive Growth Seminar on Inclusive Growth, see above.

<sup>44</sup> See David Goldsborough's paper for the Center for Global Development for an analysis of more recent IMF targeting, which makes the case that it continues to be applied in an overly cautious manner (Goldsborough 2007). However, recent research conducted by Development Finance International and commissioned by Oxfam shows that, during the recent economic crisis itself, the Fund has not on the whole been overly restrictive and that countries have been able to have sufficient fiscal space to maintain social sector expenditures (Oxfam 2010a).

<sup>45</sup> Kremer (2007) says that most recent research either finds that trade liberalisation is associated with increased inequality in poor countries or finds no strong association. The relationship between openness and inequality appears positive for low-income countries and negative for high-income countries, with the turning points in the \$6,000–\$13,000 per capita GDP range.

<sup>46</sup> Trade experts will recognise this as the re-emergence of the concept of the 'development box'.

<sup>47</sup> The Government of India allocated a massive \$8.4bn for the NREGS programme for 2010, although there are fears that this may be contributing to the rise in food prices in the country. *The Economist*, 'India work scheme puts pressure on food prices', 25 February 2010. <http://www.ft.com/cms/s/0/30ca4a94-2151-11df-a6b2-00144feab49a.html#axzz1EoEFXYfY>, accessed 23 February 2011.

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