

Issues of Economic Growth and Poverty Reduction

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Abstract

Poverty is a complex problem and reducing it depends upon many interconnected factors. It cannot be attributed to one main cause. Its reduction is possible only by achieving economic growth. An indirect causal connection between growth and poverty reduction can be seen because governments will have greater scope for action through suitable policy measures that can take care of the interests of the poor. In spite of the efforts of most of the developing countries, where the levels of poverty are high, to reduce the magnitude of poverty, the percentage of people living below the poverty level has not been reduced significantly. Of course, international financial institutions have been extending the necessary assistance by setting the goals. But poverty reduction lies in the nature of the growth process itself, as determined by the set of economic policies that are being pursued by governments to justify actions targeted towards the poor.

According to today's conventional wisdom, income poverty expresses only a part of what poverty means. Poverty is viewed as encompassing both income and non-income dimensions of deprivation. This includes lack of income and other material means, lack of access to basic social services such as education, health, and safe water; lack of personal security and lack of empowerment to participate in the political process and in the decisions that influence someone's life. For the poor, the good life or well-being is in terms of fulfilling their material and psychological needs. Well-being is good health, belonging to a community, freedom of choice and action and a steady source of income. The poor describe ill-being as lack of material things, especially food, but also lack of work, shelter and clothing and living and working in often unhealthy, polluted and risky environments (Dasgupta, 1993). These different dimensions of poverty interact in important ways. Economic growth is crucial to sustained poverty reduction. But the inclusion of the poor in the development process is more important than achieving the goal of poverty reduction (World Development Report, 2000/2001).

This paper, while examining the problem of poverty in most of the developing countries, tries to analyse the relationship between economic growth and poverty reduction by focusing on factors that are related to poverty. In the debate on poverty the often-expressed view is that economic growth is not a sufficient precondition for poverty reduction. With specific policy measures, even if there is inadequate economic growth, poverty can be reduced.

Poverty in a World of Plenty

At a time of unprecedented wealth for many countries, still 2.8 billion people - almost half the world's population - live on less than \$2 a day. Of these people, 1.2 billion live on the very margins of life with less than \$1 a day. In high-income countries, less than one child in 100 dies before reaching five years of age, while in the poorest countries, the number is five times higher. In developed countries, less than five percent of children

under the age of five are malnourished but in poorer countries as many as 50 percent of children suffer from undernourishment. This situation persists even though human conditions have improved in recent years. But the distribution of these gains is extraordinarily unequal. The average income in the richest 20 countries is 37 times the average in the poorest 20 - a gap that has doubled in the past 40 years (World Development Report, 2000/2001).

Countries that are striving to reduce poverty are also struggling to improve their levels of human development. But some of the serious impediments such as low levels of education and skills and HIV/AIDS are still standing between humanity and the realization of its hopes for freedom from poverty. Among the priorities of some of the developing countries, none was more important than freeing their fellow men, women and children from the abject and dehumanising conditions of extreme poverty (World Bank, 2001). More specifically, it was resolved, by 2015, to reduce to halve the proportion of the world's population living in extreme poverty and hunger while halting the spread of HIV/AIDS and reducing the incidence of other major diseases by integrating the principles of sustainable development into their policies.

Efforts of the developing economies to fight poverty and to improve the lives of peoples and decrease their vulnerability have become more important and urgent than ever before. Due to various reasons, for the last three years, the world economy has slowed down significantly, threatening to unravel the gains in development. The effects of falling commodity prices, political tensions, lower investment, loss of tourism revenues, and escalating trade costs will take their toll on many of those who can least afford it (World Bank, 2002).

No doubt, the world has made some progress on the poverty front. The proportion of people living on less than \$1 a day in developing countries declined from one third in 1990 to one quarter in 2000 (Islam, 2001). But not every region or country has had a share in this progress. Progress in poverty reduction has varied widely across regions. In East Asia, the number of people living on less than \$1 a day fell from around 420 million in 1987 to around 280 million in 2000 (World Bank, 2001).

But in Sub-Saharan Africa, South Asia and Latin America, the numbers of poor people have been rising steadily (UNDP, 2002). In the countries of Eastern Europe and Central Asia in transition to market economies, the number of people living in poverty has risen. Within the countries, poverty rates often vary enormously. In some African countries, infant mortality rates are much lower among politically powerful ethnic groups. In some of the countries of South Asia, women have only about half as many years of education as men, and middle school enrollment rates for girls are only two-thirds those of boys (UNDP, 2001).

Botswana in Sub-Saharan Africa could achieve rapid economic progress since its independence. But the people of Botswana have been facing the main challenge of poverty. Despite rapid economic progress, there has been no substantial reduction of poverty levels. Although Botswana graduated from being one of the poorest countries to the level of middle-income country, the estimates reveal that still around 47 percent of the people are poor, having income of less than one US dollar per day (UNDP, 2000). This level is high compared to other countries in the world with a comparable per capita income. Since Botswana is a compassionate and caring society, offering support and opportunity to those who are poor, the country has been trying to eradicate absolute poverty by the year 2016. Now, the challenge before the country is not only reducing poverty but also reducing the high degree of income inequalities, while maintaining high economic growth.

The Relationship between Growth and Poverty

There was a time when the growth of national income was taken to be the main objective of economic development. More recently, poverty reduction has come to be accepted as the explicit objective. A synthetic view is now emerging as it contends that the two objectives are not really different. This is because sustained poverty reduction is not possible without sustained and rapid economic growth. Recent empirical studies indeed demonstrate that persistent growth failures have invariably been accompanied by persistent failure to reduce poverty, and that, conversely, sustained and rapid economic growth has invariably been accompanied by reduction of poverty (Osmani, 2001).

The empirical evidence, however, also points to an important feature of the relationship between growth and poverty that is often neglected – namely, that there is no invariant relationship between the rate of growth and the rate of poverty reduction (Srinivasan, 2001). In other words, faster growth is not always accompanied faster rates of poverty reduction, just as slower growth does not always entail slower rates of poverty reduction. The reasons for these variations are not yet fully understood. Even relatively modest growth sometimes goes hand in hand with relatively rapid reduction of poverty. If the goal of policy-making is to eliminate poverty in the shortest possible time, then it is important to understand what lies behind these variations.

Hardly anyone now explicitly expresses the view that economic development trickles down automatically to the poor. Practical experience has refuted this assumption dating from the early days of development policy in the 1960s. However, some studies show economic growth and a decline in poverty running parallel (Winters, 2000). However, there is evidence, which shows that despite high economic growth, poverty is not reduced markedly. Economic growth can reduce poverty, but only if additional measures oriented on the poor are taken up. This is often termed pro-poor-growth (Streeten, 1997).

Poverty is also viewed broadly to imply basic capability failures (as opposed to just low income) – such as the capabilities to be free from hunger and to live a healthy and active life. The two basic approaches that are identified to proceed in this direction are:

- The social provisioning approach: Growth-generated resources are utilised by the society to provide services to the poor so as to enhance their various capabilities.
- The personal income approach: Growth of the economy translates into higher personal income of the poor, who then utilise their income so as to enhance their capabilities.

The working of both approaches is subject to variations. The extent of utilization of growth-generated resources for the purpose of social provisioning can vary from economy to economy. And the extent to which growth of the economy translates into higher income of the poor can also vary. A crucial variable that determines the functioning of the personal income approach is employment. It is the quantity and quality of employment of the poor that determines how growth of the economy would translate into higher incomes for the poor.

Many people still think of economic growth in relation to poverty reduction. Indeed, their correlation is one of the most discussed issues of combating poverty. The relationship is of great importance because, if there is a clear causal dependency, reducing poverty could fundamentally be limited to measures to promote growth. However, if there was low growth or stagnation it would not be possible to reduce poverty decisively. In the opposite case, that of the phenomena having no causal relation, promising measures to reduce poverty could be taken up even without economic growth.

Causality between Growth and Poverty Reduction

Among the many indicators of poverty, the income of the poor (income poverty) has the closest relationship to economic growth. An increase in gross domestic product and thus national income could, if other factors come into play, be linked with an increase in the per capita income of the poor. Such a relationship between economic growth and the income of the poor, however, cannot be described as causal, as it is asserted that growth is a necessary but not sufficient precondition for poverty reduction. In so far as growth and poverty reduction arise at the same time at the end of a process, they exist alongside each other. Both express the same thing, namely a change in per capita income as well, and both have similar causes. What matters is recognising what these causes are and what specific factors must come into play so that the income of the poor also grows. Growth as a precondition is no longer the focus and there is need for formulating specific policies that result in higher incomes for the poor. The difference of views exists in many developing countries, as the aim is no longer growth, but a purposeful reduction of poverty.

So even if economic growth fundamentally has no direct causal impact on poverty, growth still can reduce it indirectly. When there is positive economic development, the government can mobilize greater revenue and use the surplus revenue for combating poverty by providing public goods such as education and health services. Also in these cases, however, growth is not a compelling precondition.

Creation of jobs due to increased economic activity can be another indirect link between economic growth and income poverty, if such a development generates income and reduces poverty. But also in this case there is no compelling causality because, for instance, jobs in industries are not necessarily open to the really poor. In addition, these positive impacts occur to a considerable extent only in the event of labour-intensive development. In many countries, however, economic growth is achieved by capital-intensive production (Majid, 2001).

If national incomes grow, a naive observer might assume that the income of the poor must also grow along with it. But that would be a statistical fallacy. Even if only the income of the rich grows, this results in macroeconomic statistics showing a higher 'per capita' income. Average per capita income growth can certainly indicate a situation where the income of the richer sections of the population is growing faster than the poor. Despite growth, the gap between the two becomes even wider. It is obvious that the inequalities in the distribution of income and of other assets such as landed property and access to social services have direct impacts on poverty via its relation to growth. But growth also promotes inequalities. It is fair distribution of income and wealth that has more weight than growth.

Globalisation and Poverty

Whether globalisation helps or hurts the poor is one of the most contentious economic and political issues of recent years. The reason for continued disagreement is because globalisation has many dimensions. Some argue that globalisation has been contributing to increasing economic disparities in the world by marginalising the poorer countries and the poorer population groups. They tend to blame globalisation itself for deepening poverty in parts of the world. Others contend that if some countries and some population groups have failed to benefit from globalisation, the fault lies not in globalisation itself but the fact that they have not actually embraced globalisation as fully as the rest of the world (DFID, 2000).

Whether one likes it or not, globalisation has come to stay. So it is important to identify appropriate policy measures that can make globalisation work better for the poor. It is argued here that the employment-focused strategy of poverty reduction can help to derive the positive impact of globalisation (ILO, 2001). The argument that the globalisation will help the poor in developing countries typically relies on the idea that the forces of globalisation will help promote growth as well as labour-intensity in labour-abundant developing countries, both of which should be beneficial for the poor. But the rate of poverty reduction depends on the efforts to integrate the poor into the expanding activities (UNDP, 2000). The extent to which economic growth will contribute to poverty reduction depends a great deal on the degree of integrability of the poor.

It is not possible always to integrate the poor in a labour-abundant economy by changing the production structure with greater labour-intensity. This is because of the shortage of certain minimum levels of skills that are needed. Producers will then be forced to switch over to activities that require fewer workers with perhaps greater skills. And if the structure of the economy is such that it allows a small number of well-educated and well-nourished workers to exist side by side with a large number of uneducated and malnourished ones, then the producers will have no difficulty in doing so. But this is a second best option since such activities would rank below the most labour-intensive activities in the scale of comparative advantage (Ghosh, 2000). As a result of adopting the second-best option, however, economic efficiency will be sacrificed, and to that extent, growth will fall short of its potential. Limited integrability can thus inhibit poverty reduction twice – by limiting the poverty-reducing impact of any given rate of growth and by reducing the rate of growth itself (Khan, 2001).

For any given rate of growth, what determines the rate of poverty reduction is the extent to which the poor are equipped to integrate into the expanding activities (Subbarao, 1997). The explanation for the variable relationship between the rates of growth and poverty reduction lies in the nature of the growth process itself, as determined by the whole gamut of economic policies and the structural features of the economy, not just in a few targeted actions directed towards the poor.

Important Factors in the Eradication of Poverty

To eradicate poverty, one of the main areas of focus should be the agricultural sector, where over 70 percent of the world's poor live and work. The strategic importance of agriculture, in breaking the rural poverty traps, has to be recognised and revived. Wherever appropriate, governments and the private sector in developing countries should jointly allocate adequate funds to create basic social infrastructure at the village level, such as water, sanitation, schools, clinics, training centers and micro-credit facilities. Stimulating and increasing agricultural production would result in affordable food prices, improve nutrition and health, generate employment and empower farmers with purchasing power. This, in turn, would create demand for goods produced by other sectors so that the economy would benefit from these positive changes.

The second powerful factor in eradicating poverty is to recognize the role of women and their empowerment through educational and health facilities and micro credit schemes. The most important aspect is the involvement of women in the planning and implementation of such programmes at the community level. Lessons learned from pilot projects around the world confirm that success has been achieved where the locals were directly involved in decision making and defining their priorities. Such community-owned projects have motivated the stakeholders to come up with local initiatives and to expand their activities leading to a take-off point and, eventually, self-sufficiency.

Major reductions in poverty are possible by adopting a more comprehensive approach that directly addresses the needs of poor people in three important areas: opportunity, empowerment and security (World Development Report 2000/2001). Economic growth is crucial but often not sufficient to create conditions in which the world's poorest people can improve their lives. The governments of developing countries have to mobilize their efforts to reduce poverty by concentrating on the following three priority areas:

Opportunity Expanding economic opportunity for poor people by stimulating economic growth, making markets work better for poor people. Building up the assets of the poor, and improving their levels of education and capabilities so that they can be included in the development process.

Empowerment Strengthening the ability of poor people to shape decisions that affect their lives and removing discrimination based on gender, race, ethnicity and social status.

Security Reducing poor people's vulnerability to sickness, economic shocks, crop failure, unemployment, natural disasters, violence, and helping them to cope when such misfortunes occur.

Advances in these areas are complementary. Each is important in its own way, and each enhances the other. These priorities can allow the poor to have greater independence and security in their day-to-day lives. For example, empowering women and other socially disadvantaged groups expands their range of economic opportunities. Furthermore, strengthening poor people's organizations and their involvement in decision-making processes, enables them to press for improved services and for policy choices that respond to their needs. Making poor people less vulnerable helps them to take advantage of potential market opportunities (World Development Report 2000/2001).

We are also concerned with the relationship between growth and the environment and how it affects the poor and efforts to reduce poverty. The environmental soundness of growth is critical to the livelihood opportunities of the poor. But countries with similar levels of income and growth can have quite different levels of environmental performance as a result of differing policy and institutional framework and implementation capabilities.

Poverty-environment linkages are dynamic and context-specific, reflecting both geographical location and scale and the economic, social and cultural characteristics of individuals, households and social groups. In rural areas, poor people are particularly concerned with secure access to and the quality of natural resources arable land and water, crop and livestock diversity, fish, forest products and biomass for fuel. For the urban poor, water, energy, sanitation, and waste removal, drainage, and secured tenure are key concerns. There is need to manage and sustain the long-term capacity of the environment to provide the goods and services on which human development depends, and the need to ensure an equitable access by the poor to environmental assets and the benefits that they can provide.

Initiatives to Reduce Poverty

Action at national and local levels will often not be enough for rapid poverty reduction. Each country must find the right mix of policies - the one that suits its local conditions.

There are many areas that require international action, especially by high-income countries, to improve the prospects for poor countries and their people. The developed countries have a special global responsibility in this regard. They must deliver what they have promised by opening their markets fully to the products of developing countries; to let them compete in the global market on fair terms; and to provide much more generous development assistance. Equally important are promoting the production of public goods that benefit poor people such as vaccines for tropical diseases, combating HIV/AIDS, closing of the digital and knowledge divides and fostering global peace. Without these things, many developing countries will be unable to achieve the goal of poverty reduction.

It is clear that additional efforts are urgently needed to achieve the objective of poverty reduction. Developing countries must devise more effective poverty reduction strategies, centred on the Millennium Development Goals and supported by the international community. In sub-Saharan Africa, Botswana is ahead of others in formulating new strategies focusing on sustainable growth with economic diversification. Policy measures have been implemented to make agriculture more productive and sustainable with greater contribution to economic development, poverty alleviation, food security and improvement of the quality of life.

Growth must be encouraged in all countries, but the benefits of growth must also be distributed more widely. This will help to meet the challenge of poverty and also to see that the people would escape from the poverty trap and play a full part in society. Governments must ensure that their expenditures on education and health reach the poor. Development strategies need to focus, especially, on rural areas where three quarters of the world's poor live.

Conclusions

Poverty is a complex problem and reducing it depends upon many interconnected factors. That is why poverty cannot be attributed to one main cause or its reduction based on one main strategy. Economic growth is just one strategic element among many others related to poverty reduction. An indirect causal connection between growth and poverty reduction can only be seen because governments will have a greater role to play. What is needed is that governments must change the strategies of development by adopting pro-poor policies in the needed direction.

Therefore growth's role in poverty reduction must be put into perspective. Growth cannot be the first thing that comes to our mind, nor is it the golden path to reducing poverty since the trickle-down effect is weak in many developing countries. Even if there is no growth for inherent reasons, there are promising ways to take on the challenge of mass poverty in developing countries. However, governments must have the political will to design economic, financial and social policies so that they will be oriented to poverty reduction in a coherent way and the result can also be economic growth

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