

Defining pro-poor growth: a response to Kakwani

by Martin Ravallion
World Bank

In its first One Pager, the International Poverty Centre discussed the meaning and measurement of 'pro-poor growth' and came out strongly in favor of a definition proposed by its Director, Nanak Kakwani, according to which growth is pro-poor if its rate is higher for the poor than the non-poor; roughly speaking, if inequality falls. This comment offers an opposing view.

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

By Kakwani's definition this was not pro-poor growth, but rather growth that was biased *against* the poor. But it is surely hard to accept any definition that does not identify as 'pro-poor' what was possibly the most successful sustained record against poverty in recorded history. I would argue that it makes more sense to say that growth is 'pro-poor' if some agreed measure of poverty falls with that growth. In other words, 'pro-poor growth' means growth that is deemed to benefit the poor.

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

Only in the extreme case in which relative income is all that matters to welfare will this approach give us something like Kakwani's definition of pro-poor growth. This would mean that an equi-proportionate increase in all incomes was not deemed to benefit the poor or anyone else. That position would seem so implausible in China or anywhere else as to be rejected out-of-hand. By my definition, on the other hand, growth is typically pro-poor in that as a rule, though certainly not always, the incidence of poverty tends to fall with growth. This has been demonstrated repeatedly, on better and bigger data sets, since the 1990 *World Development Report* was published.

The real issue is not *whether* growth is pro-poor but *how* pro-poor it is. One can measure this by a 'distribution-corrected' rate of growth, which scales the ordinary growth rate up if the distributional change that accompanies growth is pro-poor, or down if it is not. This shows us how Kakwani's and my definitions are linked: while mine focuses on the distribution-corrected growth rate, Kakwani's focuses solely on the distributional correction.

The deeper challenge remains of explaining why poverty falls so much faster in some settings than others. Again take the example of China. Its rate of pro-poor growth in the 1990s was a hefty 4% per annum. However, progress for the poor has been uneven over time and space since the early 1980s. I would argue that the sectoral and geographic composition of growth was critical. China could well have achieved even more rapid poverty reduction if its growth process had been more balanced. By my definition, China's growth would then have been even more pro-poor than it was, as poverty would have fallen faster. Thanks to its relatively equitable allocation of land in the wake of the early reforms to de-collectivize agriculture, China's agrarian reforms starting in the late 1970s were crucial for kick-starting pro-poor growth. Important too was reduced taxation of farmers and macroeconomic stability.

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

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

References:

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- Ravallion, M. and Chen, S., "China's (Uneven) Progress Against Poverty", World Bank Policy Research Working Paper 3408, September 2004.