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While low inequality is most likely to be consistent with sustained growth, positive growth is neither a sufficient nor necessary condition for low inequality or poverty incidence. This paper reviews the different experiences of developed and developing countries through their integration into the world economy, economic growth, and income distribution. Drawing from these experiences, the paper reassesses the nature of the linkage between growth and distribution.

Trends in Distribution and Poverty

Global income and real GDP have risen sevenfold since the end of World War II, and threefold in per capita terms, but during that time, the gap in incomes between developed and developing nations continued to widen. In addition, large disparities emerged among developing countries.

The industrial democracies of Western Europe and North America are known to be relatively more equal than the rest of the world, but since the early 1980s inequality had begun to widen. There is variation among this group however, with the United States and Japan at two extremes. The United States has become the most unequal of the industrial democracies. From 1980 to 1990 the Gini distribution rose from 0.36 to 0.43. During that period only the top quintile of families in real income terms, gained while the rest experienced a decline. On the other hand, throughout Japan's high growth period of the 1970s its Gini index stayed at around 0.34. During the 1980s the income share of the lowest quintile in Japan exceeded that of the Nordic welfare states and Western Europe and was about twice that of the United States.

In Central and Eastern Europe both inequality and poverty rose over their period of economic restructuring. These trends vary between countries. Income distribution and poverty has become more severe in Russia and Bulgaria. According to various estimates, Russia experienced a 0.14-0.24 rise in its Gini coefficient from 1987-1993, while Bulgaria had a 0.11 increase. Conversely, economies like those of the Czech Republic, Hungary, and Poland that benefitted from stabilized and faster growth, fared better with more modest increases in inequality. These nations chose to proceed with reforms more cautiously and gradually to minimize abrupt impacts on unemployment and inequality.

Sub-Sahel Africa is the poorest region in the world, where the fundamental issue of human survival remains a grave concern. Malnutrition and disease are more widespread than they were 30 years ago, even though most African nations have undergone drastic market oriented adjustment policies. In most African nations real incomes fell or remained stagnant from 1987-1994.

The Latin American economies are more unequal relative than other developing regions. For instance, the Gini ratio is 0.605 in Brazil, 0.618 in Columbia, 0.500 in both Mexico and Venezuela, and 0.568 in Peru. Across the whole continent the working poor were not necessarily worse off but growth reached them very slowly, causing the relative distribution to worsen. Increases in inequality in the reason were coupled with rising poverty. Almost 40 million people were added to the officially defined poor in the region, and the region's incidence of poverty rose to 43 percent by the end of the 1980s. While economic recovery in the early 1990s boosted the region's growth rates, the real income of the bottom 40% remained below the poverty line in most Latin American countries. The rise in poverty is correlated with a decline in real wages. For the entire region, real wages from 1980-1987 fell 15 percent in the formal private sector and 30 percent in the public sector.

Developing countries in the Asia Pacific region are an exception -although there are wide disparities in this region, on the whole they have done relatively better in alleviating relative and absolute inequality. Malaysia, Indonesia, and Singapore stand out as nations who made progress in reducing inequality while Thailand and China are examples of areas where inequality rose. In regards to poverty, the Asia Pacific region has made progress as well.

Causes Behind Interregional Disparities

There is no overarching explanation for world wide income inequality. In the industrialized world inequality is associated with changing labor and capital markets within the domestic economy, which are linked to the global economy in technology, trade, and capital movement. The consequences of globalization are rising profits relative to wage income and growing concentration of employment in higher wage professional occupations and lower wage service industries. In addition, the adoption of labor-saving technologies and the shift in consumer demands toward technology-intensive products away from standardized products have caused a polarization of the wage gap between skilled and unskilled workers. Increased capital outflow and outsourcing of production to developing countries are added sources of the decline in demand for less-skilled workers.

The developing country experience is more varied. Large disparities in inequality and poverty can be attributed to differences in the role of government. In general, the most successful East Asian nations placed an emphasis on poverty alleviation rather than on reduction of inequality. Their strategy focused on human capital development targeted toward the rural poor and small industry. More specifically, these nations packaged a unique blend of community based, basic health and education, rural credit subsidies, infrastructure development, combined with growth oriented market interventions, and the stabilization of prices and foreign exchange rates.   In addition to government intervention, social and labor movements played a critical role in the Asian Pacific region. In South Korea for example, throughout the 1980s until 1992 grassroots movements (that were sometimes violent) prevailed in achieving many concessions. In China however, the story is different. China experienced double-digit growth rates since 1976 but its development strategy, based on expanding urban areas along selected coastal areas, has widened the income gap among regions as well as between cities and farming villages.

Inequality in Africa and Latin America has been due in part to structural reforms. In Africa, where the majority of the poor are in rural areas, poverty is exacerbated by a lack of political commitment to land reform or public sector support for rural development. The rural poor experience very little access to credit, land and extension services. In Latin America, inequality and poverty reflect the legacy of import substitution strategies. This caused Latin American countries to embrace austerity measures in the 1980s, which quickly increased the numbers of critically poor, low-paid underemployed low-wage workers. In addition, repeated currency devaluations hit wage-earners, self-employed workers, and others who had less capacity to protect themselves against price increases.

Distribution and Growth: The Search for a New Link

Market oriented growth does not automatically reduce inequality and poverty. Post-war discussion of the distribution/growth relationship has centered around the concept of the Kuznets hypothesis: that inequality rises in the early stages of development and falls at its later stages. This hypothesis is not supported empirically, whether the studies are cross-sectional or time-series. That positive growth is not a sufficient condition for reductions in poverty or inequality has been seen in many countries. As described earlier, the supply-side policies of the United Kingdom and the United States during the 1980s shows that growth does not automatically reduce poverty. Likewise, in China and Thailand, despite impressive economic growth, it has not reached the poor.

In the cases where growth has been associated with reduced poverty or inequality, the state has been involved. Examples are Japan and the East Asian countries. In postwar Japan, land reform and subsequent improvement in the terms of agricultural trade gradually eliminated rural poverty. Japanese governments initiated a universal education system at the basic and secondary levels, at the same time implementing comprehensive social security and national health programs. In other Asian situations, it took spontaneous and often violent social movements to bring about redistribution. In the Phillippines innovative grassroots movements and labor’s efforts for collective bargaining had positive effects on the incomes of the working poor.

Inequality is often rationalized by supply-side economists who say that by enduring inequality now nations can have more opportunities for equality later. There is no empirical evidence supporting these claims either. Indeed, a number of recent studies point to a strong relationship between equality and growth. Japan, Finland, Germany, the Netherlands, Belgium, and Sweden, which were more equal in distribution in the 1980s, were associated with faster productivity growth, whereas less equal countries, such as New Zealand, Australia, Switzerland, and the United States, tended to be correlated with slower growth.

Conclusion

This paper has shown that the relationship between distribution and growth is affected by the country’s development strategy as well as by its sociocultural environment. It further argues that the alleviation of poverty and poverty calls for a strategy to target specifically the disadvantaged population for social adjustments so that they can share in the benefits of growth. The state should provide better health care, education and training, and other social adjustments to help broaden the participation of those left behind. Such a strategy has been shown to have long term payoffs since equitable distribution appears to be compatible with sustained economic growth.