



“Summary of article by Gary Fields: Income Distribution in Developing Economies: Conceptual, Data, and Policy Issues in Broad Based Growth” in Frontier Issues in Economic Thought, Volume 5: The Political Economy of Inequality. Island Press: Washington DC, 2000. pp. 323-326

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This article maintains that broad based growth, growth that raises the living standards at all socioeconomic levels in a country, is the key to a successful development approach. This point is illustrated by an examination of the recent development experience in the newly industrializing East Asian nations -Taiwan, South Korea, Hong Kong, and Singapore.

Income Distribution and Broad Based Growth

The case has been made that the poor deserve special attention in the development process. Inspired by the work of philosopher John Rawls, a school of development thinking has arisen that focuses on maximizing the wellbeing of the worst-off person. From a political economy perspective however, it has been shown that such an approach must be coupled with benefits to the non-poor in order to secure their political support. Thus, an approach of broad-based growth, growth that is targeted on raising the living standards of the poor, but also raises the living standards of all socioeconomic levels, can be the most effective.

Changing Poverty and Inequality

Development analysts have used two criteria to determine the distributional aspects of economic growth: one absolute and one relative. To look at the absolute effects of growth one determines if incomes have risen in all strata of the income distribution. When examining the relative distributional effects of growth one determines whether income inequality has increased, decreased, or remained unchanged. Development analysts have now pieced together good databases using available data.

When looking at absolute poverty, individuals who fall below a specified income or expenditure level are said to be poor. While poverty lines are set differently in different countries (sometimes by scientific methods, e.g. by caloric intakes, other times using minimum wages, and so forth), by and large it has been found that more economic growth can be expected to help all income groups, including the poor. The limitations of this methodology is that it can be hard to tell whether particular target groups such as the poor, benefitted a lot or a little. Thus, other researchers turn to examinations of relative poverty.

Comparisons of relative inequality were pioneered by Simon Kuznets. In 1955, Kuznets hypothesized, on the basis of cross-sectional data, that inequality tends to increase in the early stages of economic growth and decrease in the later stages. Today, there is more more extensive data available to test this hypothesis. In recent times, has economic growth been broad based enough that the Gini coefficient (a common measure of inequality) has fallen? The answer is decisively indecisive.

The literature inspired by Kuznets has given rise to four hypotheses, none of which holds in current development experiences. The four hypotheses are: inequality tends to change systematically in developing countries; inequality tends to increase in the early stages of development and to decrease in latter stages; inequality is more likely to increase in fast-growing developing economies than in slow-growing ones; and a more unequal distribution of income leads to a faster rate of economic growth. Empirical tests of these hypothesis establish that there is no tendency in the inequality-development relationship. “If inequality does not tend to increase before it decreases, to fall with economic growth (or rise), or to change systematically with the rate of economic growth, it must be that it is not the rate of economic growth, but rather the type of economic growth, that determines the extent to which the poor share in the growth process.” (83) In addition, the empirical evidence shows that when inequality has changed, those changes have been small in magnitude. For the poor to receive a better share of the benefits of growth, reforms in development policies are needed.

Broad Based Growth in East Asia

The most outstanding example of broad based growth in recent decades have been the experience of the newly industrializing economies in East Asia. The East Asian “miracle” was made possible by the full utilization of labor, land and educational reforms, a pact between government and the business community, and countries’ trade and industrialization strategies. The following are lessons learned from that experience.

Policy makers have to strike a balance not raising the returns to labor prematurely (if wages are excessive, employment and output could be reduced) and not repressing wages. Because labor is so abundant in the developing world, labor intensive growth can be more beneficial for the poor than capital intensive growth.

Just as important as the quantity of labor demanded is the quality, or skills that workers bring to the labor market. There may be no tradeoff between equity and efficiency when it comes to education. Spending educational dollars on primary education rather than higher education may add more to the productive capacity of worker and spread the benefits of growth in a more broad based manner.

As with resource allocation for education, there may not be an equity-efficiency trade off when it comes to land as well. In the early post World War II period there were significant land reforms in many of the East Asian countries, laying a relatively egalitarian foundation. There are three advantages to having such an initially egalitarian distribution. First, the asset of land generates income and hence spreads the benefits of growth to the poor. Second, since it is well known that small farms have higher yields per acre, a more equal distribution of land would raise total

agricultural productivity. Finally, those with land hold a great deal of political power. Keeping power out of the hands of a landed oligarchy can be beneficial to the poor.

When it comes to the role of government in the private economy, governments have to learn to strike a delicate balance between the interests of workers (who want fair wages) the interests of consumers who want relatively cheap and stable prices, and the interests of businesses, who want to earn profits. What worked in East Asia were labor market policies that pulled the poor along with economic growth. This was chosen over pushing wages up in the hope that the economy would somehow absorb these costs. This is not an argument for unregulated labor markets, they should certainly be regulated to prevent abusive practices.

Key to a successful development approach is sound trade and industrialization strategies. The East Asian economies were able to maintain full employment and rapidly rising real wages. Much of this is attributed to export-led growth. These nations chose their trade policies carefully, adapting their policies as their comparative advantage shifted more to lower-wage countries as they moved to higher wage sectors. At first textile exports were in their favor, but then fell. The same experience held for exports in heavy machinery and consumer electronics.

Conclusions

The East Asian experience suggests certain parameters that can guide policy makers toward development strategies that will ensure broad based growth; however, more research is needed. While the East Asian nations offer an interesting example, they are only four nations. Additional country studies are needed to identify what works and what does not under different scenerios.

This article has shown that a concern for broad based growth must include the distributional aspects of economic development. When determining policy for distributional purposes, analysts must first decide whether they are concerned with changes in absolute or relative poverty. The evidence to date on the distributional effects of growth give an entirely different impression depending upon which of these distributional approaches is adopted. We now know that there is no relationship between economic growth and changing income inequality. Income distribution does not have to get more unequal first -and it does not even tend to. A real life example of this is the experience of East Asia, where full employment, rising real wages, falling absolute poverty, and low to moderate levels of inequality accompanied economic growth. The key factors in maintaining such broad based growth are labor market policies, the distribution of education, , the distribution of land, government regulation and private enterprise, and trade and industrialization strategies.