# Economic growth, distribution policy and other factors: key elements in poverty alleviation

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**ABSTRACT**-Poverty, as a universal problem, has been widely concerned by scholars all over the world. This essay argues how economic growth, distribution policy and other factors affect poverty reduction issues. Firstly, this article will briefly introduce the context of the poverty issue and how economic growth influences poverty reduction. Secondly, two exceptional cases and three non-economic factors will be analyzed to test whether distribution policy and other factors can also influence or dismiss poverty. Finally, this article will conclude that rapid economic growth is good for poverty alleviation but not all the needs. The distribution policies and other non-economic factors may also influence the link between economic growth and poverty reduction.

## 1 INTRODUCTION

Poverty as a world-wide problem has been widely interested by scholars from different disciplines and whether rapid economic growth is the best way to deal with poverty alleviation have been argued. Firstly, this article will introduce the context of poverty reduction. Secondly, the writer will argue that in most of situations economic growth is still good for the poor by analyzing data from Dollar and Kraay. Then it will discuss how the relationship between economic growth and poverty reduction can also be influenced by redistribution, welfare policies and complementary society programs for poverty reduction by analyzing two exceptional cases. Furthermore, the writer will illustrate three non-economic elements which can be used to measure poverty. They all need to be contained into poverty reduction agenda. Then the conclusion will be made.

## 2 THE CONTEXT OF POVERTY REDUCTION ISSUE

Issue of poverty have been greatly interested by social science and economics scholars for many decades. With the development of industrialization and modernization, and the rapid economic growth of many developing countries (for example Brazil and China), great achievements have been made in economic growth and poverty reduction worldwide in the past 50 years. "In 1980, 52 percent of the world's population lived below the World Bank's $1.25/day poverty line. By 1990, the incidence of poverty had fallen to 42 percent, and to 21 percent in 2010." [1]

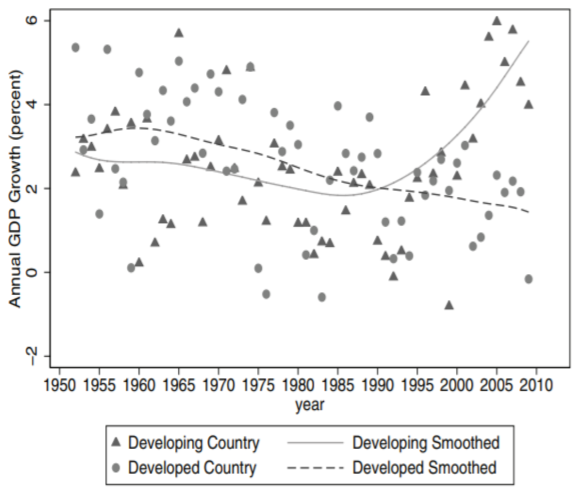


**Fig 1.** Growth Trends in Developed and Developing Countries, 1950–2011
*Sources*: Donaldson's calculations [2]

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**Table1.** The median and average Incomes trend of the world, US, China and Brazil in 1998-2005

| Median and Average Incomes | | | | |
|---|---|---|---|---|
| | | **Median income** | **Average income ($)** | **Ratio** |
| **World** | 1988 | 846 | 3,523 | 4.16 |
| | 2005 | 1,209 | 3,946 | 3.26 |
| | increase | 42.9% | 12.0% | |
| | | | | |
| **United States** | 1988 | 12,327 | 14,819 | 1.20 |
| | 2005 | 15,664 | 20,001 | 1.28 |
| | increase | 27.1% | 35.0% | |
| | | | | |
| **China** | 1988 | 310 | 361 | 1.16 |
| | 2005 | 1,013 | 1,303 | 1.29 |
| | increase | 226.8% | 260.9% | |
| | | | | |
| **Brazil** | 1988 | 1,901 | 4,030 | 2.12 |
| | 2005 | 2,107 | 3,890 | 1.85 |
| | increase | 10.8% – | –3.5% | |
| *Note*: See text for source. All dollar amounts in 2005 PPP$. | | | | |

*Sources*: Rodrik's data [3]

However, the fact is that still, every tenth person lives in extreme poverty and poverty alleviation is still an emergency issue that needed to be solved.

Many scholars, particularly that economics believes that rapid economic growth is the best way to deal with poverty, for the reason that by promoting the income of poorest and redistribution resources the poverty will be reduced, while others argue that income of poor is not the most accurate certification to measure poverty and economic growth is not the most need to deal with poverty alleviation.

## 3 THE ECONOMIC GROWTH AND POVERTY REDUCTION

Dollar and Kraay (2002) argues that economic growth can benefit every – both poor and other people. By promoting economic growth, the incomes of the poor can be increased and poverty can be reduced. Donaldson also define the poor as the "lowest quintile in terms of income." [2] Using this standard to define the poor, a dataset from four different standard sources including 137 countries was established to analyze the relationship between the economic growth and the variation of the poor's income. Then in 2004, a new dataset including 118 countries was established to expanding the result of Dollar and Kraay. By analyzing the data, the result came out at "62 percent (77 percent) of the cross-country variation in growth in incomes of the poorest 20 percent (40 percent) of the population is due to growth in average incomes." [1] This can be seen as evidence to explain the dramatic decrease of the poverty population rate in some developing centuries in recent years and a conclusion can be made that in most situations the poverty can be reduced by increasing economic growth, promoting the income of the poor and achieving shared prosperity.

## 4 DISTRIBUTION POLICY AND POVERTY REDUCTION

However, some exceptions show that economic growth sometimes is not always linked with poverty reduction. Redistribution policies, the welfare system, and the complementary society programs may also influence poverty reduction. [4] These factors need to be supported by using large and progressive tax rates and may cause a modest economic growth rate. Due to different social welfare and distribution policies, economic growth sometimes directly related to poverty while sometimes it shows a negative correlation. Here are two cases to support this idea.

The first situation illustrates that although the economic growth shows a modest trend, the income of the poverty increased. For example, Finland is a welfare state and the government set up the social safety net and unemployment programs and other extensive social programs to reduce poverty. The government use large and progressive tax rates to support this system and cost a modest economic growth. As a result, the per capita GDP of Finland grew on average nearly 4% each year during 1962-71, while the income of the bottom quintile increased 14.6% on average each year over that period.

Another situation shows the opposite trend, which means although the GDP growth, the income of the poor decreased. During 1978-1983, to pursuit the rapid economic growth, the government in Singapore transferred the economic structure into the capital-intensive type and caused the sharp rise of the unemployment rate. The public assistance for the poor in Singapore is highly restricted, families avoid poverty primarily through employment [5]. As a result, those families who lake human resources or unable to participate in the labor market easily become poor. Although during this period the per capita economy in Singapore growth averaged 5.8% per year, the income of the lowest 20% declined 1.3% on average. The income and the living standard of the poor declined although the GDP growth.

These two examples illustrate that poverty reduction policies sometimes are conflict with economic growth and the income of poor negatively correlate to economic. The poverty alleviation is not only related to income but also reverent to low Gini index, redistribution policies, and social safety net. Economic growth can benefit the poor but it is not all the need.

**Table2.** Exceptional cases

| | | | | | | |
|---|---|---|---|---|---|---|
| *Cases in which reported annual change in income of lowest quintile exceeded model's predictions* | | | | | | |
| Colombia | 1964–70 | 2.33% | 2.08% | 17.16% | 15.08% | 0.01% |
| Norway | 1979–84 | 2.75% | 2.58% | 14.57% | 11.99% | 0.12% |
| Finland | 1962–71 | 3.99% | 4.05% | 14.61% | 10.56% | 0.38% |
| Nepal | 1977–84 | −0.15% | −0.86% | 9.61% | 10.47% | 0.40% |
| Honduras | 1986–91 | −0.25% | −0.97% | 8.62% | 9.60% | 0.75% |
| Yemen | 1992–98 | 0.28% | −0.35% | 8.00% | 8.35% | 1.70% |
| Mauritania | 1988–93 | 1.72% | 1.36% | 9.65% | 8.30% | 1.76% |
| Peru | 1971–81 | 0.91% | 0.40% | 8.51% | 8.11% | 1.98% |
| Chile | 1987–92 | 5.14% | 5.41% | 13.35% | 7.94% | 2.20% |
| Norway | 1989–95 | 2.67% | 2.48% | 10.26% | 7.78% | 2.41% |
| El Salvador | 1989–95 | 2.59% | 2.39% | 9.51% | 7.11% | 3.54% |
| France | 1975–81 | 2.19% | 1.92% | 9.01% | 7.08% | 3.59% |
| Costa Rica | 1977–82 | −3.41% | −4.72% | 2.25% | 6.97% | 3.83% |
| *Cases in which reported annual change in income of lowest quintile fell below model's predictions* | | | | | | |
| Ukraine | 1988–95 | −10.96% | −13.66% | −20.21% | −6.55% | 4.80% |
| El Salvador | 1977–89 | −1.74% | −2.73% | −9.31% | −6.58% | 4.73% |
| France | 1956–62 | 3.84% | 3.87% | −3.07% | −6.95% | 3.87% |
| Singapore | 1978–83 | 5.83% | 6.23% | −1.28% | −7.51% | 2.82% |
| Mali | 1989–94 | −2.62% | −3.78% | −11.39% | −7.61% | 2.67% |
| Poland | 1991–96 | 4.83% | 5.04% | −2.73% | −7.78% | 2.42% |
| Estonia | 1988–93 | −8.40% | −10.63% | −18.41% | −7.78% | 2.41% |
| Colombia | 1970–78 | 3.35% | 3.29% | −4.79% | −8.08% | 2.02% |
| Dominican Rep. | 1984–89 | 2.38% | 2.15% | −6.45% | −8.59% | 1.46% |
| Brazil | 1986–93 | −0.97% | −1.83% | −10.57% | −8.75% | 1.32% |
| China | 1990–95 | 8.71% | 9.64% | 0.87% | −8.77% | 1.30% |
| Bulgaria | 1989–94 | −4.86% | −6.43% | −16.28% | −9.85% | 0.63% |
| Puerto Rico | 1963–67 | 6.08% | 6.53% | −4.80% | −11.33% | 0.21% |
| Russia | 1988–93 | −6.43% | −8.30% | −20.88% | −12.58% | 0.07% |

*Sources*: Donaldson's calculations [2]

## 5 OTHER MEASUREMENTS TO REDUCE POVERTY

As Oyen argues, it is wise to "put somewhat less energy into sheer measurement research, and instead turn to issues that yield more in poverty understanding". [6] Although poverty issues are highly relevant to economic and using income, use consumption, and welfare to measure poverty is an important way to determine poverty, other non-economic factors are equally important when defining poverty. Those non-economic factors can also cause poverty and needed to be contained in the poverty alleviation programme.

Capability is another poverty definition to measure poverty. "Capability" means "the ability to achieve "functioning" or "achievements, which means to able to make the decision and live a healthy and long life. [7] Thus, the UNDP (2000a, 2000b) measures capability poverty in terms of illiteracy, malnutrition, life expectancy, poor maternal health, and illness from preventable diseases.

There is no denying that capability is relevant to income because people need to gain basic needs by gaining income. The higher ability to gain income means the higher ability and the freedom to make the decision and achieve functions. But the capability is also decided by other factors, such as one's age, gender, social roles, location, and health status. [8] These factors are not just economic issues but also relevant to culture, social policies, and social relations. For example, in the 1980s in

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Bangladesh, with the help of the domestic development community and its foreign aid donors, more women get the asses to education and better medical care. These women are benefit from the social policy and are empowered to promote their social status and capability to make decisions and live healthier and free lives.

Social exclusion is another measurement to define poverty. Compare with economic measurement and capability, it more focuses on the abstract aspect, which means that the concept of "well-being" is not only about satisfied human's basic material needs but also about culture and psychological satisfaction.

Firstly, social exclusion can cause poverty by isolating a group of people from economic activities and limited them in high-risk or low-income activities. For example, in some areas, the discrimination on gender race or location may restrict certain groups of people from participate in the labor market and other economic activities and finally lead to poverty. These issues are not just economic problems and needed to be reduced by operating transformation on policy and culture.

Secondly, social exclusion also includes the political aspect. The poverties are more likely to be excluded from citizenship rights and political equalities including participation in such political activities and processes. Studies have shown that political participation among the poor tends to be substantially lower than among the well-off, even in such established democracies like the United States. [9] As a result, the more excluded from political activities, the less the poor have access to express their demands and fight for their interests. Eventually, they become poorer and this situation becomes a vicious circle.

## 6 CONCLUSION

Economic growth is a method to achieve better life and poverty reduction, however, there are also some exceptions illustrate that when focusing on economic goals, the government should also care about the social equality and redistribution strategies to protect the poor and increase the income of the poor. In addition to economic growth, capability social exclusion and other non-economic elements are also measurements to define poverty and they are as equal important as economic growth. Rapid economic growth is not the only element needed to be considered when implementing poverty alleviation programmes

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