

Pro-Poor Growth: One or Multiple Concept?

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Abstract

Confronting theoretical and empirical literature on the relationship between growth, inequality and poverty, this paper aimed at suggesting a suitable conception of pro-poor growth for development studies focusing on the true test of pro-poorness (the bias in favor of the poor), all the sources of poverty reduction and the policies implications. The weak versus strong definitions and relative versus absolute approaches of pro-poor growth were compared to neighboring concepts as well as their policy implications were drawn. The distribution-focused approaches were found typically synonyms to the quest for a middle class or a progressive growth, calling for redistribution policies and limiting the scope of growth. The poverty-outcome-focused approaches were discovered to be substituted to trickle down growth or inclusive growth, implying growth accelerating policies. The analysis resulted at tolerating the strong absolute definition of pro-poor growth.

Key words: pro-poor growth, trickle down growth, middle class, progressive growth, inclusive growth

JEL Classification: D30, D60, E60, I30, O11

I. Introduction

From the Millennium Development Goals to the Sustainable Development Goals, the target of the first goal shifted from halving the headcount by 2015 to completely eradicating poverty by 2030. But, to be steady and sustainable, poverty reduction must rely on pro-poor growth (OECD, 2006). The early market development models showed that rapid growth may either trickle down to the poor or even turn into immiserizing growth and together with the Kuznets hypothesis, demonstrated that growth does not automatically imply immediate and great improvements in poor's welfare (Arndt, 1983; Bhagwati, 1958; Kuznets, 1955).

Rooted in the redistribution with growth models (Chenery & Ahluwalia, 1974), thus taking account of the simple arithmetic of poverty inequality and growth (Datt & Ravallion, 1992; Bourguignon, 2003), the development community, both theoreticians and practitioners, rapidly found in the pro-poor growth concept their holy grail. We then witnessed a flowering of articles trying to define the concept, assess growth processes around the world and ending to a variety of definitions with different conclusions.

Two facts ushers us in considering what pro-poor growth should definitely mean for subsequent development studies. Firstly, the use of a variety of technical approaches to measuring pro-poor growth mixes up the relevance of the concept. These approaches can be grouped by whether they: - use a weak or strong (broad/general or strict) definition of pro-poor growth, - use a relative or absolute approach, - use a partial or full approach and/or - satisfy the "monotonicity axiom" (Son, 2007; Kakwani & Son, 2003).

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Secondly, voices are raised now to castigate the concept and its methods calling to substitute them with other phrases and techniques (Saha, 2011). Decomposition methods, poverty bias of growth, pro-poor growth index, poverty equivalent growth rate, growth incidence curve, poverty growth curve and equally distributed equivalent growth rate represent a sample of tools for measurement just like shared growth, broad based growth, progressive growth and inclusive growth are typical examples of alternative concept to pro-poor growth. These two concerns can also explain why the concept is now relegated² to a fashion effect³.

In this paper, we strongly consider pro-poor growth - a growth which pace and pattern enhance the ability of poor to participate in, contribute to and benefit from growth (OECD, op cit) - to be the best target for maximizing poverty reduction, suggest what it should definitely be counted for in view of the policy measures for its achievement. For instance, it should be narrowed to its strict sense of the quality of a growth process so as to focus on the way policies can act on each growth process to get maximum poverty reduction and not only considering transfers measures (Hanmer & Booth, 2001).

The rest of the article is structured as follows. Section 1 reviews the competing family of definitions of pro-poor growth. Section 2 draws a set of policy implication and provides some alternative labeling for each definition. The last section concludes the analysis.

1. Review of competing families of definitions

Two families⁴ of definitions are identified with the first holding the majority of appearance in literature. The first defines pro-poor growth as a function of distributional changes of wealth and the second by monitoring the overall outcome of growth on the welfare of the poor. To add clarity, we further acknowledge for each family a weak and a strong approach of defining or measuring pro-poor growth. The weak approaches consider it to be a mere average relation between poverty and each of its sources- growth or redistribution-, but the strong approaches considers growth and redistribution simultaneously and the reciprocity between the two as well. Table 1 below shows a sample of measures associated with each approach and their specific features.

² In a paper for comment only, Don Sillers, after distinguishing the distribution-focused and the poverty-outcome-focused family of definitions, reveals the ambiguity attached to the emotional language around the concept causing distraction from the real policy choices. He suggests using new label for the misleading family of definitions and keeping the term pro-poor for the other. For details, see Don Sillers (2010). Pro-Poor Growth- Adjusting the Rhetoric to the Reality. USAID/EGAT/PR. [Online] <http://www.slideshare.net/marketfacil/pro-poor-growth-adjusting-rhetoric-to-reality-sillers> (Nov 23, 2010).

³ Barthélemy considers that Economics obey to some fashion phenomenon as a topic can interest most journals in a decade, then be left to some isolated researchers and become topical again after some years. See Barthélemy, P. (1995). L'hypothèse de Kuznets est-elle encore d'actualité?. *Revue Région et Développement* N° 2.

⁴ See note 1.

Table 1: A sample of measures of pro-poor growth

Measures	Authors/Methods	Approaches	Specific features
Distribution-focused definition			
Poverty bias of growth	McCulloch and Baulch (2000)	Weak/broad	Average relation between poverty and redistribution
Poverty equivalent growth rate	Kakwani and Son (2003)	Strong/strict	A bias based on the nature of growth alone
Poverty-outcome-focused definition			
Poverty elasticity of growth	Decomposition methods	Weak/broad	Average relation between poverty and growth
Poverty growth curve	Son (2004)	Strong/strict	A bias both on the pace and the nature of growth

Source: Author

1.1. The distribution-focused definitions

From the Poverty bias of growth (PBG) to the Poverty equivalent growth rate (PEGR) via the normalized PBG and the Pro-poor growth index (PPGI), the main focus is the change in the distribution of wealth. This family compares the benefits of people below and above the poverty line and is also known as the relative approach of definition.

For the weak⁵ approach, growth is pro-poor if inequality lessens or does not increase during the growth process. In fact, if there happen to be an increase in inequality, then the positive impact of growth may diminish. It then suggests measures that take into account poverty reduction and improvement in inequality, like the PBG which is the negative of the distribution effect in any poverty decomposition method. This approach is then a mere mean relation between a poverty index and an inequality measure. However such a measure may not be a target as a high PBG may not mean high poverty reduction since poverty reduction also depends on the growth effect.

In the strong⁶ approach, a growth process is pro-poor when the poor benefit proportionally more than the rich, or say again, when redistribution is in favor of the poor. There seems to be a bias towards the poor but centered only on the distributive nature of the growth process. There is some idea of dynamic redistribution here, as much is done to help the poor take part in and share in the benefits of wealth production.

1.2. The poverty-outcome-focused definitions

From the Poverty elasticity of growth (PEG) to the Poverty growth curve (PGC) via the Growth incidence curve (GIC), the great interest here is the impact of growth on the welfare of people below the poverty line. The prior concern here is growth and its poverty reducing effect. The approach is absolute as it focuses mainly on the poor.

Growth is pro-poor broadly speaking when it raises the income of the poor or when a poverty index decreases in a growth episode. Studies using the PEG or the GIC (Dollar & Kraay, 2002; Ravallion & Chen, 2003; Kraay, 2004) adopt this approach as it is indicative of a mean relation between a growth and a poverty measures. However, a high GIC or PEG may not necessarily mean higher impact on poverty as the later depends on the inequality effect too. That's why the stricter approach goes beyond the average relation between growth and poverty and adds a bias in favor of the poor focusing in the whole growth process (speed and nature).

⁵ This is Kakwani and Son's (op cit) expression. They consider McCulloch and Baulch's (op cit) PBG and Kakwani and Pernia's (2000) PPGI to be part of this approach. Lopez (2004) rather qualifies it as *broad* definition of pro-poor growth.

⁶ Once again, this is Kakwani and Son's (op cit) expression. They consider that their PEGR respects the monotonicity criterion and so a high rate of PEGR would mean higher poverty reduction. Son (2007) rather speaks of strict definition of pro-poor growth.

Growth is then pro-poor, strictly speaking, if it reduces poverty more than a benchmark scenario. Bibi (2005), Osmani (2005) and Son (2004) measures fall into this approach, which is closely related to the pace of poverty and absolute inequality reduction.

2. Policy implication of pro-poor approaches and their alternative labeling

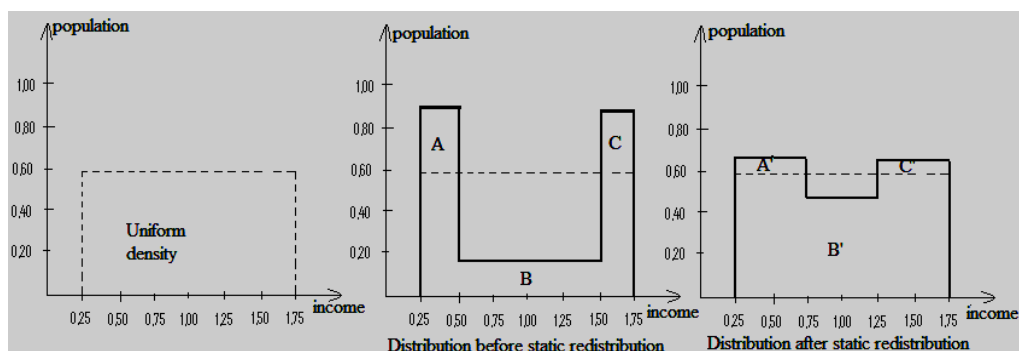
On one hand, the broad definitions of pro-poor growth present these shortcomings that they do not meet the sufficient condition for growth to be pro-poor and lead to wrong policy measures. On the other hand, the strict definitions successfully pass the test of pro-poorness. Simply reducing poverty may not be a sufficient condition to declare a growth process pro-poor so as to achieve the first target of the first sustainable development goal. The true test of pro-poor growth is the existence of a policy bias in favor of the poor (Grinspun, 2004).

2.1. Policy implications of the broad definitions

The main limitation of the weak absolute definition of pro-poor growth is that it calls for growth policies irrespective of their impact on inequality and can be merge with trickle down growth. Under this definition, a country with a growth rate of 10% and the poor's income increasing for 0.1% would have witnessed a pro-poor growth. Considering such an average relation between global income and poor's income should just be labeled trickle down growth. The true test of the trickle down hypothesis also assumes that poor people receive automatic gains from growth whatever happens with inequality (Arndt, 1983). The main focus here is that the increase in total and per capita income should be cumulative enough to benefit the rich first and eventually reach the poorer. Economists now know much on its determinants and how to influence them. All the Washington consensus's policies provide a right environment conducive to growth acceleration and a sound budgetary policy can endow each economy with positive externalities infrastructures for private activities expansion (Gemmell, 2004).

All the same, the weak relative definition of pro-poor growth may simply lead to static redistribution policies and can be reduced to the quest of a middle class or the fight against polarization⁷. Considering the mean relation between poverty and inequality is promoting redistribution using the budget to the detriment of growth, if progressive taxation is used. Static redistribution consists of income transfers (positive and negative) and could reduce the gap in income distribution first, by reducing the areas in poles A and C (as in graph 1), and a widening of the pole's base (changeover to A' and C'). Inequality and polarization will decrease and a middle class⁸ (B') will appear. But progressive taxation may have adverse effect on private incentives. Even when we admit that growth is pro-poor when the poor's income growth rate exceeds that of the non poor (White & Anderson, 2001), we still consider growth as incidental and that only distribution matters. Under this version, a mean growth of 4% with the income of the poor increasing for 5% would be preferred to a situation where an average growth rate of 7% goes with an increase of 6% in the income of the poor. This approach should be labeled construction of a middle class.

Graph 1: Construction of a middle class from a polarized distribution



Source: Adapted from Wolfson (1997) and ODI (2009)

⁷ Polarization, in some cases, may differ from inequality. See ODI (2009) for details.

⁸ For an understanding of what middle class is, see Boutler (2013) or Levine (2012).

2.2. Policy implications of the strict definitions

The strong relative and absolute definitions of pro-poor growth both pass the test of pro-poorness and their (sample) measures (PEGR and PGC) respect the monotonicity principle (Kakwani et al., op cit; Son, op cit). For these two reasons, the strict approaches of defining and measuring pro-poor growth may be appropriate. But as we go for the policies implications, the absolute approach seems to surpass the relative approach.

In the framework of the strong relative definition of pro-poor growth, in order to benefit proportionally more than the rich, the poor need to participate more in the production of wealth to share in its gains. This prescribes policies which progressively include them in the modern circuit of the economy and is similar to progressive growth or shared growth or dynamic redistribution. The later is superior to the static redistribution as it assumes that the mechanisms that generated the income increase promoted inequality reduction without any transfer of income from the non poor to the poor (Killick, 2002). Under this definition, however, a country with low poverty reduction (where growth is low, but the poor benefit proportionally more), will be preferred to one with high grades of poverty reduction (where growth is high, but the poor benefit proportionally less) (Osmani, 2005). This may not be an effective framework for rapid poverty reduction. It should definitely be labeled progressive growth.

The strong absolute definition of pro-poor growth involves seeking the highest growth possible (as it is the main factor for poverty reduction) and a growth path that alters favorably the distribution without any income transfer income from the rich to the poor. Such a definition is typically in line with the concept of inclusive growth (Ranieri & Ramos, 2013). The slight difference is that the first requires a bias in favor of the poor while the later is interested in the welfare of all both the poor, the middle class and the rich. Opting radically for asset creation and promoting a growth pattern which includes the poor deserves a wise mix of growth policies and dynamic redistribution to stimulate economic activities and get rid of all the jamming to poor's inclusion in the formal economy. Infrastructures and the private sector are two pillars to support high speed growth, but policies should also stimulate productivity gains where the poor's resources are abundant and target areas or sectors with high poverty reduction elasticity for a better quality of growth.

3. Conclusion

The aim of this paper was to suggest the best definition of pro-poor growth for development studies considering the policies implication of each approach and that poverty reduction depends on both growth and redistribution, and stick alternative labels for unsuitable definitions. We found that the distribution-focused definitions insisted on inequality reduction and limited the scope of growth itself. The weak and the strong approaches of this family of definitions are respectively substituted with the construction of a middle class or progressive growth as they implied static or dynamic redistribution.

The poverty-outcome-focused definitions rather insist on growth and its impact on the poor. The weak approach is found similar to trickle down growth and call for growth accelerating measures. The strong absolute definition is then the best for subsequent studies. It is the growth that reduces poverty more than benchmark scenario. As such it has to do with the pace of poverty reduction, the income and the reduction of absolute inequality.

A further topic may try to respond to the critics on the pro-poor growth concept for using data at two points of time making it not suitable for econometric analysis (Saha, op cit). If there were a pro-poor growth index available yearly, one could precisely assess the real effects of financial system, human capital, infrastructure or employment... on pro-poor growth. Such an index would combine information of both income and inequality and provide a direct measure of the real standard of living. The vast majority income may help in this case (Schaikh & Ragab, 2007).

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