Main objectives and policy instruments of poverty reduction

Food & Diet

While much of the western world benefits from decades of economic growth, it is hard to conceive that a large proportion of the population still struggles for survival as a result of extreme poverty and deprivation. To date, approximately 1 billion people still have an income of less than $1 per day (OECD, 2007). The question of what policies and strategies are most effective in achieving sustained poverty reduction is among one the most important and complex challenges that face policy makers involved in economic development. In light of this question, this paper will review the objectives and policy instruments associated with poverty reduction. Firstly, the paper will very briefly give an outline of the objectives of poverty reduction through considering the Millennium Development Goals. Secondly and of greater focus, the paper will consider the importance of economic growth as a policy instrument associated with poverty reduction.

Policy Objectives

Before it is possible to implement strategies and policy focussed at reducing poverty, it is firstly essential to set specific and measureable objectives targeting the areas in which poverty exists. Poverty by definition is complicated and must give consideration to a number of dimensions. The OECD (2001) defines poverty as “ the inability of people to meet economic, social, and other standards of well being”. Poverty, therefore, can encapsulate deprivation in areas such as health, income, gender, education and politics. Objectives of poverty reduction must extend to include all dimensions in which individuals are deprived or debilitated.

The most widely recognised objectives regarding poverty reduction are provided through the Millennium Development Goals (MDGs). On September 2000 the MDGs were adopted by 189 countries as a guideline for the objectives of poverty reduction to be achieved by 2015 (DFID, 2001). The MDGs outline 8 objectives central to the eradication of poverty (UNDP, 2010). These objectives are broken down into 21 different targets that are measured by 60 indicators (A full outline of the criteria to meet these objectives can be seen in Table 1):

Eradicate Extreme Hunger and Poverty

Achieve Universal Primary Education

Promote Gender Equality and Empower Women

Reduce Child Mortality

Improve Maternal Health

Combat HIV/AIDS, Malaria and other diseases

Ensure Environmental Sustainability

Develop a Global Partnership for Development

The MDGs highlight that objectives of poverty reduction are not solely confined to improvements in income but also incorporate objectives of human development, sustainability, and equality. Broadly speaking, these objectives help to provide a global criterion for measuring progress in poverty reduction and provide a scale of measurement adaptable in all countries. It is important to note, however, that although the MDGs provide a framework for developing countries to use, poverty reduction strategies must be country specific taking into consideration the causes of poverty as well as the precedence of what objectives need be tackled (OECD, 2001).

With these objectives of poverty reduction in mind, this raises the question of what instruments are best suited in achieving these objectives. As a comprehensive overview of all the main policy instruments associated with poverty reduction is well beyond the scope of this paper, the following section will concentrate on the importance of economic growth as a policy instrument associated with poverty reduction.

Policy Instruments

Economic Growth

Historically, the main instrument associated with poverty reduction has been economic growth. Economic growth is associated with poverty reduction on a number of levels. Firstly, increases in GDP per capita are associated with improvements in human development. For example, increases in the average income of a country are associated with improvements in life expectancy, infant mortality, and primary school enrolment – all key elements of the MDGs (Moser and Ichida, 2001). Secondly, economic growth helps to creates jobs which are essential to improving employment opportunities and raising incomes in the long-term (DFID, 2001). However, although economic growth is associated with improvements in income and human development, there still remains debate over the extent to which growth benefits the poorest individuals in society.

In an attempt to understand the effect of economic growth on poverty, Dollar and Kraay (2002) examined the relationship between changes in the average GDP per capita income against the income of the lowest quintile of the population in 80 countries. Dollar and Kraay found than on average the income of the poorest quintile increased proportionately with increases in average GDP per capita. Dollar and Kraay concluded that the effects of economic growth benefit the poor as much as others in society. They suggested therefore that standard growth enhancing policies should be at the heart of poverty reduction strategies.

The results from Dollar and Kraay emphasise the importance for countries to adopt frameworks that are conducive to growth as a means of poverty reduction. This is a view shared by Kruegar (2004) who highlights that " economic growth is the principal route to lasting poverty reduction". Indeed, economic policies such as openness to trade, liberalisation and sound fiscal policy which are seen as conducive to economic growth are also associated with favourable poverty reduction (World Bank, 2000). Moreover, generally poverty reduction has been most substantial in those countries which have benefited from the most impressive rates of growth (AusAid, 2007). However, the results produced by Dollar and Kraay (2002) do not come without scrutiny. The findings illustrate that economic growth benefited the lowest quintile proportionately ' on average' yet there are cases where economic growth does not always benefit the poorest individuals in society –

Botswana is perhaps an extreme example – and likewise at the other end of the scale, some countries have demonstrated that the poor have benefited substantially more than other groups during times of economic growth (World Bank, 1993). This raises a further question of why growth influences poverty reduction in some countries more than others.

Pro-Poor Growth

More recently, a greater focus is being placed on levels of inequality within a country as a determinant on the effect of economic growth on poverty reduction. The OECD (2001) suggests that only half the increases of those in poverty are a result of GDP growth whereas the other half comes from strategies that target the ‘ composition, distribution and sustainability’ of growth. Ravallion (1997) measured the effect of growth on poverty elasticity in countries with initial levels of low and high-income inequality. Ravallion found that economic growth reduced poverty in low income inequality countries almost twice as much as those in high income inequality countries. In other words, countries with high levels of inequality would need growth rates twice that of low inequality countries to match similar levels of poverty reduction. The findings by Ravallion highlight that policies targeting poverty reduction therefore must also consider the distributional aspect of growth. This places a greater emphasis on ‘ pro-poor growth’. That is, growth that is combined with objectives of rapid and sustained poverty reduction (OECD, 2007).

Pro-poor growth strategies must attempt to target the areas in which poverty and inequalities exist, and as mentioned this can occur in a number of dimensions. Typically, those in poverty have a lack of access to basic provisions and services, such as education and healthcare, and therefore inequalities are perpetuated due to a lack of opportunity. Pro-poor Policies must attempt to maximise the opportunities of the poor through utilising their skills and capabilities (DFID, 2003). This can be done through a number of channels, and the role of both the private and public sector are important. For example, in the private sector providing the poor with access to markets and credit is seen as essential for involving the poor in the economy and creating jobs (ODI, 2008). Recently microfinance schemes have been extremely beneficial in providing access to credit and vocational training for the poor. However, participation in markets is only conducive to pro-poor growth if there is appropriate regulation and policies which can protect the poor in the event of market failures (OECD, 2007). Pro-poor policies must attempt to promote macroeconomic stability within a country to ensure that the poor are not affected by market-shocks and rising inflation (DFID, 2003).

Additionally, the distribution of government spending is seen as a key instrument in the promotion of pro-poor growth. In developing countries, government spending has been found to be largely inefficient in that it tends to be focussed disproportionately towards higher income groups at the expense of the poor (Wilhelm and Fiestas, 2005). Pro-poor government spending can increase the participation of the poorest individuals through efficient and fair fiscal policy increasing access to these basic services which in turn can reduce inequalities and promote economic growth. Indeed, countries which have a fairer distribution of government spending are more likely to have lower levels of inequality (Lopez, Thomas, and Wang, 2008).

It is important to note that finding the appropriate balance between both policies that are good for poverty reduction and policies that are good for growth is extremely complicated and may required trade-offs. Pro-poor strategies such as redistribution through increased taxes may act to finance increased government expenditure in poor areas, however this may damage growth through reduced savings and investment which could consequently reduce the impact of poverty reduction in the long run (DFID, 2001). For instance, in the mid-part of Malaysia’s industrialisation, policies focussed on equity were seen as excessive and blamed for constricting economic growth (Hassan, 2004).

Broad-Based Growth

An essential factor of pro-poor growth is that it should be broad-based and target the areas where poverty is widespread. Three quarters of poverty exists in rural areas, yet policies targeting growth are predominantly focussed on the urban sector (Anriquez and Stamoulis, 2007). Indeed, widespread inequality is most substantial between rural and urban areas (Lopez, Thomas, and Wang, 2008). Recently, in the 2008 World Development Report titled ‘ Agriculture for Development’, the World Bank (2008) highlighted that investment in agriculture is increasingly becoming an important engine for poverty reduction. Investment in rural infrastructure and small-scale enterprises and services has been found to be highly effective in increasing productivity and creating employment. For example, reductions in poverty have been most substantial in countries which experienced the most significant improvements in rural productivity. From

1971 to 1999 agricultural productivity per capita in East Asia, where poverty reduction was most rapid, increased by 45% compared to sub-Saharan Africa with an increase in productivity of only 4% (DFID, 2003). Moreover, growth in agriculture is more conducive to poverty reduction than any other sector (DFID, 2003). Indeed, the World Bank (2008) highlights the improvements in the MDGs of raising the income of all individuals above $1 has been primarily due to falling rural sector poverty whereas urban poverty has remained constant and had little effect.

However, again, increases in agricultural productivity and growth are strongly influenced by levels of inequalities within the rural sector – in particular levels of land inequality. Pro-poor policies which target poverty reduction through agricultural growth must also give consideration to the potential impact of redistribution strategies. Land reform policies have been cited as a particular strategy as a means of facilitating growth, reducing inequalities and ultimately poverty reduction (Hanmer, Healey and Naschold, 2000).

Conclusion

In conclusion, this paper has highlighted the importance of growth, and in particular pro-poor growth as an instrument associated with poverty reduction. Growth is inevitably a necessary condition of alleviating poverty through raising the incomes of individuals and through wider associations with improvements in human development. However, growth by itself is not always sufficient in achieving sustained poverty reduction and the effects of economic growth on the poor are inhibited by the level of inequality within a country. Of equal importance, therefore, is the structure of pro-poor growth. Governments must take an active role in poverty reduction strategies and reduce inequalities through increasing the opportunities of the poor to access basic provisions and services, and this in turn can facilitate both poverty reduction and economic growth. Moreover, it is important that pro-poor growth targets where poverty is abundant. An increasing emphasis is being placed on growth and development in the agricultural sector as a key driver of poverty reduction.

Finally, it is important to mention that although this essay has emphasised the importance of growth, it has barely scratched the surface of the complexity of poverty reduction. Poverty is multidimensional and there are areas of poverty and human development which are barely affected by improvements in growth and therefore require policy instruments and strategies to target them directly e. g. gender inequality (Thomas, 2000). Furthermore, there is no one-size-fits-all answer to poverty reduction and each country must identify the causes of poverty and the independent strategies required to achieve sustained poverty reduction. Only then can the diverse objectives of the Millennium Development Goals be realistically achieved.