# Economic growth and poverty alleviation

[Economics]

Does Economic Growth lead toPovertyAlleviation? Please compare and contrast very briefly the experiences of China, India and Brazil. What lessons can an African country of your choice learn from these experiences? INTRODUCTION The last few decades witnessed a rapid economic growth in developing countries. However, over 88% of the 1. 2 Billion world poor (Olin et al, 2013) live in these countries. (Appendix: Table 1 . 1) This phenomenon poses the question if the recent growth has been pro-poor .

This essay argues that growth output alone is not sufficient for poverty alleviation; ether complementary measures and policies need to exist to create sustainable pro- poor growth. The essay has been organized as follows: First, the analytical debate on the correlation (or the lack of it) between economic growth and poverty reduction will be analyses. Second, case studies of China, India and Brazil will be presented with relevant data to make a brief comparison and apply the results to the developmental debate presented above.

Third, Burning Fast, a sub-Sahara country that went through a rapid development phase, will be brought into the discussion to analyses trends and offer recommendations gleaned from BIG experience. Finally, the discussion will be summarized by concluding if the hypothesis set above holds true for all four countries. While a variety of tools and measures exist in the literature for poverty measures, the current essay will use the revised poverty line of $1. 25 per day on a purchasing power parity basis and the popular head-count index (Chem. and Ravioli, 2009; Ravioli et al, 2008).

A report published by DIF (2008) argues that growth is the most powerful instrument tort pope reduction and, thus, it should be at the heart to all development policies. Cross country studies carried out by Chem. and Ravioli (1997), Adams (2002) estimates 10% increase in a country's average income will reduce the poverty rate by between 20% and 30%. Two more flagship studies, Bessel and Cord (2007) and POPS (2005), present conclusive arguments through cross country empirical evidence that on average, 1% increase in per capita income reduced poverty by 1 . 7% per cent. Appendix: Figure 2. 2 and Figure 2. 3) In Bessel and Cord (2007) above, two authors Menses-Folio and Voicelessly (p. 219-243) draws on Brazier's experience in creating pro-poor growth. In the book overview, Cord (p. 9) agrees that growth elasticity of poverty is negatively related to initial inequality and any increases in inequality further increase poverty incidence. He further states, " The factors conducive to pro-poor growth are those that improve the level of income and decrease income inequality'. This view is shared by the opponents of the current debate too.

Ravioli (2001) too observes the chance of growth being accompanied by increasing or decreasing inequality is roughly equal. However, a series of studies using cross- country data suggest that growth has neither a positive nor a negative effect on inequality. (Chem. and Ravioli, 1997; Easterly, 1999; Dollar and Kraal, 2002; Ravioli, 2004, 2007) Biracial and London (1997) argue that social divide is created by the " initial assets" hill DIF (2008) warns any attempt of asset re-distribution may have an adverse effect on the incentives to save and invest.

Nevertheless, rising inequality in the developing world, spurred by liberalizing andglobalization, is a major concern for many economists. Stilling (2013) and Millennia (2005) observe that a race to the bottom has been created by asymmetric globalization. In the Lewis Theory (Toward and Smith, 2011), surplus labor from the rural subsistence sector is gradually transferred to urban industrial sector for higher productivity.

Therural-urban migration, in the long run, may result in urban employment, wage decrease, loss of agricultural productivity, debt accumulation, monopolizing, lack of access to credit and insurance, and social exclusion. Mammary Seen (1999) described economic growth as a crucial means for expanding the substantive freedoms that people value. But in reality, in India, more than 270, 000 farmers caught in a debt trap have committedsuicidesince 1995. (Shiva, 2013; stagnant 2013) According to Gin index , global inequality is 0. Points today (Millennia, 2005) while it is between 4. 5 - 4. 7 for developing countries that saw a proliferation of economic activities in the recent past (Appendix: Figure 2. The Sunset's curve , on the other hand, tells a different story about inequality. (Sunsets, 1955; Appendix: Figure 2. 6). The inequality seen in developing countries is part of the development and will phase out as more growth is achieved. However, The Sunsets hypothesis has been one of the most debated issues in development economics.

Bannered et al (2006) explains the reasons for the drop in inequality in industrialized countries during the 20th century was not related to the optimistic trickle-down process advocated by Sunsets theory. For developing countries, high inequality is not necessarily a sign of growth or an expectation that the trend will reverse in a spontaneous fashion. Inequality, rather, can have harmful effects on the growth. Ravioli and Chuddar (2007) speaks about " Good Inequality' (egg. , that fosters entrepreneurship) and " Bad Inequality' (I. E. , geographic and human resources traps) wherein the latter is capable of driving out the former.

Some view the rise of developing countries as convergence. But historically the trend of mobility among countries has been in opposite directions. Table 2. 7 in the Appendix shows poor countries have seen a downward trend while rich countries too have seen an upward mobility (Aqua, 1993, cited by Reality Domino, 2013) Another crucial point is the spatial dimensions of the problem. In his latest book, Global Poverty and the New Bottom Billion, Andy Sumner (2010) highlights that poverty is no longer a Low Income country issue; for currently % of the world poor (approve. 1. 3 Billion) live in Middle Income countries.

According to new World Bank classification, (see footnote 1) many Licks have been graduated to Miss. This suggests hat world poverty is turning from an international to a national distribution issue and internal politics, inequality, domestic taxation, redistribution policies are becoming of growing importance visas-¤-visas economic growth. Islam (2004) identifies a gap in the literature that advocates a direct correlation between income growth and poverty reduction. Through an empirical analysis, he demonstrates that there is no invariant relationship between growth and poverty reduction.

For, the pattern and sources of growth as well as the redistribution mechanism are important from the point of view of achieving the goal of poverty deduction. BIG COMPARISON During the past three decades, China, India and Brazil - with a population count of 2. 7 Billion in their countries - have attained extraordinary levels of economic progress. (Cravings, 2006; Chary, 2004; Campus et al, 2002) China's GAP grew at an average rate of 10. 4 per cent, India at 10. 3 per cent and Brazil at 7. 5 per cent per year . (World Bank, 2012; Appendix: Figure 3. 1, Figure 3. 2, Figure 3.

During this period of rapid economic growth, China alone has lifted over 200 million people out of poverty (Asian, 2002). Indian's poverty rate fell from 42% to 24% while Brazier's "$3-a-DaY' poor populace decreased from 17% to 8% (Ravioli, 2009). What were the main drivers of economic growth in BIG countries? What were the approaches to reduce poverty? Are there any factors that impede sustainable and pro-poor growth? A. Drivers of Economic Growth: BIG experienced few common factors. The reforms appeared as a in the backdrop of a crisis-response. As a result, growth-promoting policy reforms were implemented.

BIG also liberalized the markets and exposed local producers to foreign trade. An alternative view is put forward by Rod and Submarine (2004) who argue Indian's Roth started in sass with government's attitudinal shift towards reform. However, certain factors of growth were exclusive to one or two of them. Although both China and India followed the Lewis theory of growth, China's surplus labor from agricultural sector was transferred to industrial sector while India focused on the services sector. Brazil, followed the Roster theory of growth, focusing more on local consumption. . Approaches to Poverty Alleviation: Driven by its initial conditions, each country employed different strategies to tackle poverty. Brazier's redistribution policy was markedly exclusive from other two players. It introduced Bolas Familial , that helped lift MM people out of poverty. (Slakes, 2009) China allowed the poor to participate in country's growth process and social policies. (Ravioli, 2009). In all three experiences, we realize macroeconomic stability was vital to poverty reduction. C. Sustainable and Pro-poor? This growth had its consequences.

Both China and India saw worst disparities in income and opportunities. Slakes (2009) states that government policies, by favoring high productivity regions, fuelled this inequality and rural-urban divide. Brazil, on the monetary, had success in reducing inequality through its pro-poor redistribution policies . (Stilling, 2013, Ferreira et al, 2012; Appendix: Figure 3. 4) There is much debate on if the growth of BIG is sustainable. The Economist (AAA) brought to light Brazier's slump in GAP growth, high public sector spending and other internal issues that resulted in mass public protests. The Economist, AAA; Ferreira, 2013) China's future too has been questioned because it no longer has that boundless cheap labor. China still hasn't decided to privative its state-owned enterprises that nag financial resources. Another major obstacle in China's path is the lack to rights for rural farmers to their lands. This has further deepened the rural-urban divide in China. (The Economist, Bibb). Dads and Indian's (2013) predicts China will cross the Lewis Turning Point - due to cheap labor shortages caused by demographic shift - between 2020 and 2025.

Granary and Song (2006) too refers to a turning point; but with regard to China's energy usage. Challenges loom into Indian's ability to sustain the momentum too. Ball (2003) presents employment and labor market data to show the rise in unemployment, rural-urban divide and informal sector since sass's. The IT services sector employs 1 million out of a total labor force of 450 million and it has reached its capacity. (Syria, 2011) SUB-SAHARA EXPERIENCE Burning Fast, has a population count of 16 million people.

With population growth of just over 3 per cent per annum, Burning Basso's population is expected to double within 25 years. This poses major problems for the country in terms of ensuringfoodsecurity and the sustainable development. Past political instability, corruption, ethnic tensions andviolence, especially in the neighboring Cotedivorce, government's sake capacity to respond vigorously to exogenous shocks, etc. , have left the country with lack of local services to support communities and improve people's lives. (PROS, 2007) 45% of Braking©s live below the poverty line, half of them are cotton farmers.

Malnutrition and Hiatus are majorhealthconcerns. Burning Fast also has the lowest literacy rate, 13%, in the world. (UNDO Report, 2005) Burning Fast has significant reserves of gold, but 80% of the population relies on subsistence agriculture, cotton being the economic mainstay. Only a small proportion of Braking©s work in industry or services. CIA World Fact Book) Growth and Development Breton Woods Institutions are substantially involved in Burning Fast since grants and foreign loans account for around 70% of state revenues. The World Bank, 2013) Since 1991, country was espoused to a market economy, founded on the principles of free enterprise. Government's economic and structural reforms aimed at creating the conditions for promoting private initiative and achieving sustainable growth, helped the national economy to grow at an average rate of 5 per cent a year in real terms. Despite the fact that Burning Basso's economy grew at around 5% per year from 1995 o 2002, poverty increased from 44% in 1994 to 46% in 2003. (Appendix: Figure 4. 1 and Figure 4 2) So while some people were becoming better tot, others were becoming poorer.

The inequality found in Burning Fast is not related to income distribution. It is due to existing inequalities between men and women and regional disparities. Salsa-I-Martin and Pinky's (2010)observationon African poverty (Appendix: Figure 4. 3) contradicts with the reality in Burning Fast. But Chem. and Ravioli (2008) clarifies that because of the population growth in Burning Fast, the aggregate poverty ate has not been sufficient to reduce the number of poor. This explains why the expected outcome of Poverty Reduction Strategy Papers (PROS) has not been favorable.

In addition, while income growth alone may not reduce poverty in other parts of the world, Burning Basso's experience has a direct correlation with wealth generation and poverty reduction. Lessons from BIG Burning Basso's context, demography and institutions differ from BIG countries. (Hager, (2001). Agriculture will be the centerpiece of Burning Basso's efforts to achieve growth, reduce poverty and ensure food security. This can be done by easing agriculture's profitability through technological innovation. Burning Fast can learn from China's experience on agricultural growth as well as population planning.

Burning Fast can capitalize on its mining industry through foreign market exposure, a lesson that can be learnt from Indian's IT industry. Brazier's approach to developing human capital and social insurance can offer few directions to Burning Fast to reform itseducation, health and social sector. It can also create community based rural development programs to offer social and income protection for farmers through subsidized programs. Ravioli (2009) emphasizes that combining China's growth-promoting policies with Brazier's social policies would surely be a good formula for any country.

CONCLUSION The objective of this essay was to understand if there is a direct relationship between economic growth and poverty reduction. To achieve this, I reviewed theoretical literature and relevant empirical data to understand the nature of the analytical debate. Brazil, India and China's growth and poverty reduction experiences were explored, compared and contrasted. Then I Burning Fast was brought into the discussion to analyze trends. BIG experience provides results that support my hypothesis. Major challenge was terming conclusions related to Burning Fast. Unavailability to reliable and consistent data was a major impediment.

Deviant (2013) dubbed it as " Africans statistical tragedy'. Africans Pulse (2013) observes that population censuses for Sub Sahara countries are out of date, poverty estimates are irregular, and incomparable over time due to changes in survey design and inadequate price deflator. However, through existing literature inference can be made that the growth in one aspect of the economy will not automatically translate into benefit the poor. Rather it depends on the profile of growth, the distribution across locations of the poor, and the extent of mobility across sectors.

Although the same cannot be said for BIG countries, Burning Basso's experience shows a robust relationship between economic growth and poverty reduction when the population growth is controlled for. Through implementation of Preps to achieve Millennium DevelopmentGoals, Burning Fast has seen a considerable growth in the past five years. In 2012, it's GAP growth rate stood at 10. 1%, a target government, International donors and civil society actors aspired to achieve in 2015. Inequality was found to be minimal; but for reasons not created by Economic growth.