

Development Policy Lecture 9

Growth is Good for the Poor



What is poverty?

- Level of income or consumption below an accepted standard or poverty line.
 - Absolute poverty: Fixed level of income or consumption based on essential needs;
 - Relative poverty: Distance from some measure of central tendency, for example half of median income.
- “income or consumption that does not support a standard of living *considered adequate for a person or family to take part fully in the life of the community.*”

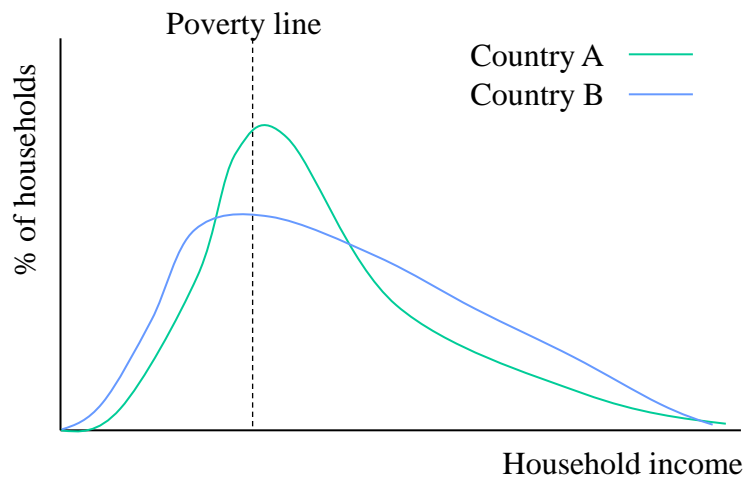
Measuring poverty

- Headcount index = q/n ,
 - q is population below the poverty line
 - n is population
- Poverty gap: Mean income shortfall below poverty line as percentage of the line.

$$PG = \frac{1}{n} \sum_{i=1}^q \left[\frac{z - y_i}{z} \right]$$

Where z is the poverty line and y_i is the income of the i th person.

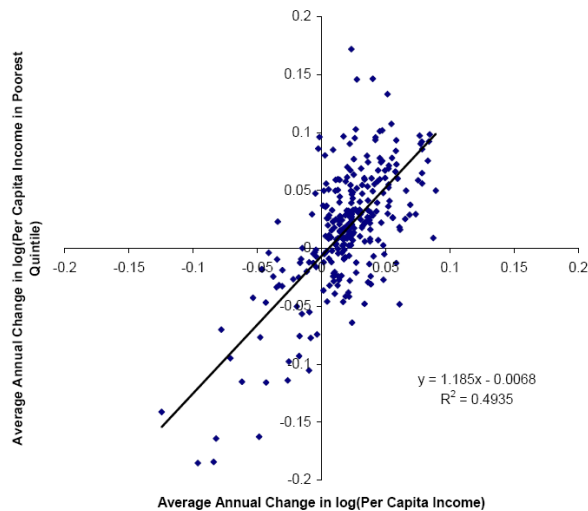
Some headcount rate, different poverty gap



Headcount and poverty gap rates at \$1.25 per day poverty line

Country	Year	Headcount rate	Poverty gap ratio
China	2008	13.1	3.2
India	2010	32.7	7.5
Indonesia	2010	18.1	3.3
Malaysia	2009	0.0	0.0
Philippines	2009	18.4	3.7
Thailand	2004	0.4	0.1
Vietnam	2008	16.9	3.8

Income growth: Poorest vs. average



Dollar and Kraay: Growth policies are not bad for the poor

1. Low inflation
2. Low levels of government consumption
3. Financial development
4. High trade/GDP ratio
5. Rule of law

Data used by Dollar and Kraay are available on the Fulbright School intranet.

Dollar and Kraay: Anti-poverty policies that are not good for the poor

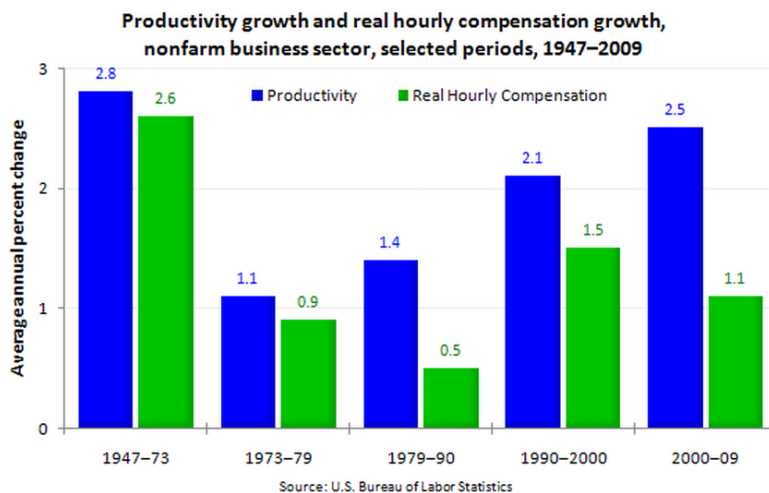
1. Primary education: associated with growth but not poverty reduction
2. Social spending: spending on health and education does not increase incomes of the poor
3. Agricultural productivity: not significantly related to either growth or poverty reduction.
4. Formal democratic institutions: Associated with higher incomes of the poor but not robust.

Income approach to GDP

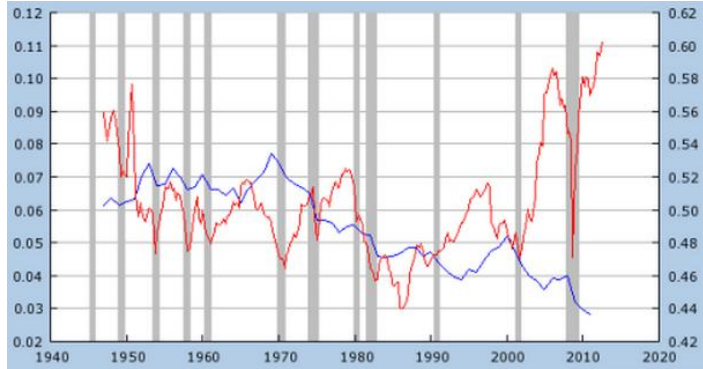
$GDP = \text{wages} + \text{rent} + \text{interest} + \text{gross profits} + \text{depreciation}$

$\text{Wages} = \text{hours worked} * \text{average wages}$

Growing gap between productivity and compensation in the US

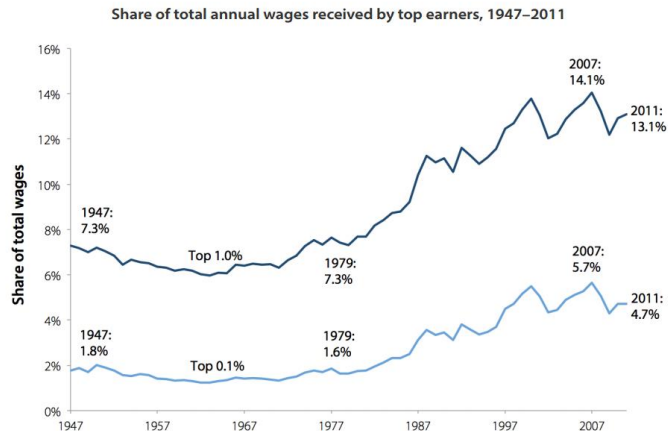


USA: Profits and wages as share of GDP



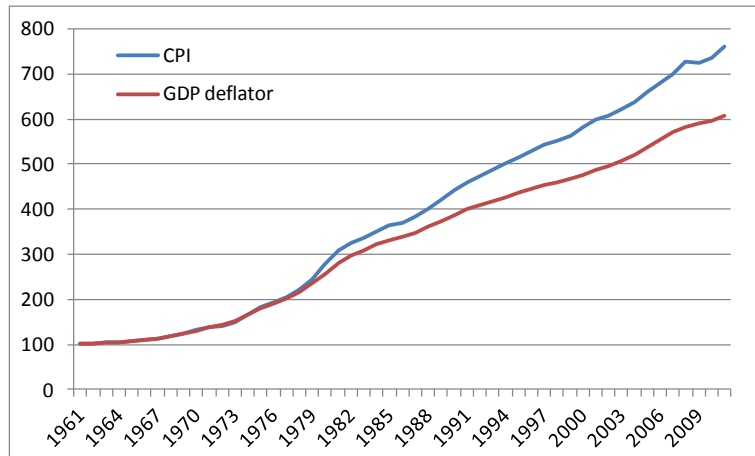
— Corporate profits/GDP (left scale)
 — Wages/GDP (right scale)

Share of wages earned by top 1% and top 0.1%, USA



Source: Economic Policy Institute

CPI vs GDP deflator, USA



Trade and poverty

- Topalova 2007: Poverty reduction slower in Indian rural districts subject to more trade liberalization
- Goldberg and Pavcnik 2007: No evidence of link between trade liberalization and urban poverty in Colombia. Poverty decreased the incomes of the poorest did not rise.
- The key is mobility: If poor people cannot move to where the better jobs are, trade will not help them.