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A Strategy for Pro-Poor Growth: A Self-sustaining, Balanced and Poverty Reducing Growth By Hatim G Hatim *

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1. Introduction

This paper discusses the complex relationship between growth and poverty defined as lack of income sufficient to allow a person and/or family to enjoy a minimal standard of living, or to satisfy socially defined basic needs.[1] For that purpose, it embraces a definition for pro-poor growth that regards inequality reduction as a fundamental component of any growth strategy that aims at achieving unfailingly meaningful reductions in poverty.

In section 2, the paper discusses what it regards as the appropriate definition of pro-poor growth and then presents theoretical justification and supporting empirical evidence for the definition it endorses. It asserts, in this section, that any robust strategy for pro-poor growth has to ensure: a) that growth does take place and that it is self-sustaining and balanced; and b) that it does flow down to the poor in tangible improvements in their incomes and living conditions. Thereafter, the paper focuses on elaborating a broad outline of viable road map for the realisation of these two binding constituents of a pro-poor growth strategy: growth and inequality reduction, i.e. re-distribution. It spells out, first, the requirements for triggering growth and for warranting that it is self-sustaining and balanced. Then, it moves on to elucidate the re-distribution channels that lead to the decline in poverty rates through: a) improving the returns to the assets of the poor; b) enlarging the asset base of the poor, c) expanding the returns to the produce of the poor, d) upgrading the economic and social conditions at the locations where the poor live,

[1] World Bank, World Development Report 1990, Oxford University Press, New York, 1990, p.26; and Kakwani, Nanak. "What is Poverty?" United Nations Development Programme International Poverty Centre, September, 2006 Number 22

and e) expanding inclusion of the excluded and bolstering protection of the vulnerable. The paper is then finally concluded with a number of closing remarks.

2. Pro-poor Growth: definition, conceptual foundation and empirical evidence

To ensure a positive impact of growth on poverty, growth must necessarily be pro-poor. Defining pro-poor growth becomes then technically compelling. A clear, or at least a reasonably expedient, definition of this term forms the fundamental building block for articulating an appropriate and effective plan of action for the realisation of meaningful contractions in poverty rates. For this definition to gain credibility, it must in its turn possess plausible and convincing conceptual justification and supported by robust empirical evidence.

2.1 Definition

Defining pro-poor growth has been so controversial[2] to the extent that it led some economists to approximate it to the search for "The Holy Grail".[3] Two much-debated definitions -yet widely used in empirical investigations - belong to Martin Ravallion of the World Bank and to Nanak Kakwani of UNDP. Martin Ravallion defines pro-poor growth as "growth that reduces poverty."[4] Growth is pro-poor as long as it is associated with a reduction in poverty and is therefore compatible with cases of increasing gap between rich and poor. With this definition the extent with which growth is pro-poor is

[2] UNDP's International Poverty Centre One Pager Numbers 1, 4, 6, 9, 12 provide good background on the intricacies involved in agreeing on a suitable definition. See http://www.undp-povertycentre.org/ipcpublications.htm
[3] Klassen, Stephan, "In Search of The Holy Grail: How to Achieve Pro-Poor Growth," Ibero-American Institute for Economic Research, Goettingen 2003.; and Grinspun, Alejandro, "Pro-poor growth: finding the Holy Grail," International Poverty Centre, One Pager Number Six, Brasilia 2004.
[4] Ravallion, Martin "Inequality is Bad for the Poor," World Bank Policy Research Paper, World bank, Washington 2004, pp.27-28.

measured by the speed with which poverty falls[5]. Kakwani and Pernia, on the other hand, focus on inequality and calls growth as pro-poor if it benefits the poor proportionately more than the rich[6,7]. While Ravallion focuses on the effect of growth on poverty and accepts as pro-poor any growth that is accompanied by a reduction of poverty irrespective of the fate of inequality in income distribution, Kakwani takes the other extreme by limiting pro-poor growth to that which is associated with an improvement in the poor's relative position in the income distribution scale, irrespective of changes in poverty associated with that particular growth rate. With Kakwani's definition it is not improbable to face a situation where a high rate of non "pro-poor growth" leads to a higher reduction in poverty than a "pro-poor growth" of a lower rate. So theoretically speaking a country experiencing a pro-poor growth in the Ravallion sense can later move in a latter period to a pro-poor growth in Kakwani's sense but with lower deceleration rate in poverty than the first period.

The apparent difference between the two economists, as judged by the definition that each embraces, conceals significant convergences that emerge clearly in their later works on the subject. Both acknowledge, in these later works, the complexity of the growth-poverty relationship; and, both concede that poverty reduction involves the interrelation between growth and inequality. In a one of his papers on the subject, Martin Ravallion emphasizes "that more rapid poverty reduction requires a combination of more growth, a more pro-poor pattern of growth and success in reducing the antecedent inequalities that limit the prospects for poor people to share in the opportunities

[5] Ibid, p.28
[6] Kakwani, Nanak, Shahid Khandker and Hyun H. Son, " Pro-Poor Growth Strategies in Africa," Economic Policy Research Centre, Economic Commission for Africa, 2003, p.4; and Zepeda, Eduardo, "Pro-poor Growth: what is it ?," International Poverty Centre, One Pager Number One, Brasilia 2004
[7] For the sake of brevity, this definition would be referred to henceforth in this paper as Kakwani's definition.

unleashed by a growth economy."[8] Kakwani, on the other hand, concedes that poverty reduction largely depends on two factors: the scale of economic growth and the distribution of benefits of growth between the poor and the non-poor; and he accordingly develops the concept-cum-tool of "poverty equivalent growth rate" (PEGR), which takes into account both of the above two factors in measuring the effectiveness of any growth rate in reducing poverty.[9] The use of this tool in his empirical work has led him to conclude that achieving maximum reduction of poverty requires a mixture of growth enhancing and inequality reducing policies.[10] One can conclude form the discourse of these two authorities that pro-poor growth is simply a high growth rate with focused pro-poor distribution policies.

2.2 Conceptual Foundation

That reduction of poverty[11] requires improving incomes and living conditions of the poor is sheer common sense. The decisive challenge lies in how to go about achieving that. Growth and re-distribution are the two channels for raising the incomes of the poor. Growth simply provides the additional income needed to lift people out of poverty; while re-distribution policies ensure that additional income is properly and satisfactorily directed to the have-nots. It must be conceded, however, that in spite of its instrumentality in mitigating social tensions and fragmentations and in promoting social cohesion, redistribution is liable to collapse and to fall short of its commitments as a long-run source for mitigating poverty if growth falters and incomes start sliding down.

[8] Ravallion, Martin " Inequality is Bad for the Poor," World Bank Policy Research paper, World bank, p.28; and, Ravallion, Martin, "Defining pro-poor growth: a response to Kakwani," International Poverty Centre, One Pager Number Four, UNDP, Brasilia.

[9] Kakwani, Nanak, Shahid Khandker and Hyun H. Son, "Pro-Poor Growth Strategies in Africa," op. cit. p.4; Kakwani, Nanak, Shaidur Khandker and Hyun H. Son, "Pro-Poor Growth: Concepts and Measurement with Country Case Studies," International Poverty Centre, UNDP, Brasilia, 2004, p. 1.

[10] Kakwani, Nanak, Shahid Khandker and Hyun H. Son, " Pro-Poor Growth Strategies in Africa," op. cit., p. 32,

[11] The discussion of poverty in this paper is based on the headcount ratio of poverty also known as the poverty rate which is defined as percentage of the population living below the national poverty line.

Sustained improvements in the conditions of the poor need to be underpinned by sustained growth of income. Continued growth of national income provides the basis for a sustained increase in personal incomes of the poor, and simultaneously ensures a revenue base that can be used to channel a sustained flow of finances for assisting the poor, protecting the vulnerable and integrating the excluded. In short for pro-poor growth, growth is the necessary condition for poverty alleviation; while redistribution is its sufficient condition**.**

2.3 Empirical Evidence

In a paper on the subject, Rizwanul Islam of ILO acknowledges that there is wide recognition that sustained high growth is only a necessary condition of poverty reduction.[12] However, he goes on to assert that there is ample empirical evidence confirming: that poverty is not automatically reduced with growth;[13] that the variation in the responsiveness of poverty to growth is wide;[14] that similar growth rates can be associated with different outcomes on poverty reduction;[15] and that growth can even be accompanied by increase in poverty.[16]

[12] Islam, Rizwanul, "The Nexus of Economic Growth, Employment and Poverty Reduction: An Empirical Analysis," ILO, Discussion Paper, Geneva 2004, p. 17; Ravallion, Martin. "Growth and Poverty: Evidence for developing countries in the 1980s." Economics Letters 48, World Bank, Washington, 1995, p.416.) 411-417

[13] Ibid, p. 17

[14] McKay, Andy and Andy Sumner. "Economic Growth, Inequality and Poverty Reduction: Does Pro-Poor Growth Matter?" Institute of Development Studies In Focus, Issue 03, March 2008, p. 1.

[15] Islam, Rizwanul, "The Nexus of Economic Growth, Employment and Poverty Reduction: An Empirical Analysis," op.cit. p.22; Ravallion, Martin. "Growth and Poverty: Evidence for developing countries in the 1980s." Economics Letters 48, World Bank, Washington, 1995, p. 416411-417

[15] Islam, Rizwanul, "The Nexus of Economic Growth, Employment and Poverty Reduction: An Empirical Analysis," op.cit. p. 17

[16] McKay, Andy and Andy Sumner. "Economic Growth, Inequality and Poverty Reduction: Does Pro-Poor Growth Matter?" Institute of Development Studies In Focus,Issue 03, March 2008, p. 1

One of the reasons for the variant relationship between growth and poverty lies in the path that inequality follows through time. It is true that the much quoted work of Dollar and Kraay shows that growth is equity neutral, i.e. distribution of income remains stable as income grows.[17] If that holds true universally then reduction in poverty requires only a rate of income growth exceeding rate of population growth, i.e. growth in per capita income. However, Ravallion emphasizes that when "looking beyond averages" one would discover that history is replete with cases of aberrations from this pattern. [18] Empirical evidence shows that inequality can go either direction with growth. There are certainly plenty of cases of inequality rising with growth. "Developing countries with a tendency of rising inequality since the late 1980's include Bangladesh, China, Colombia, India, the Philippines and Vietnam."[19] Furthermore, a later work of Ravallion asserts that poverty falls among growing economies at a higher rate when inequality is shrinking, i.e. poverty falls at a higher rate when growth is combined with falling inequality.[20]

3. Key Elements of A Strategy for Pro-poor Growth[21]

Based on the above, for growth to be truly pro-poor it has to embrace both growth and redistribution/inequality reduction. Yet this statement opens the space for two vital questions, which are basically how to guarantee a) that growth does take place in a self-sustaining and balanced manner; and b) that it is accompanied with tangible improvements in the incomes and living conditions of the poor. This section attempts at elaborating viable road maps to these two challenges.

[17] Dollar, David and Aart Kraay, "Growth is Good for the Poor," Policy Research Working Papers, World Bank 2002.
[18] Ravallion, Martin, "Growth, Inequality and Poverty: Looking Beyond Averages," Policy Research Working Papers, World Bank 2001, p. 10.
[19] Ibid p. 10
[20] Martin Ravallion, " Inequality is Bad for the Poor," op. cit., p. 14
[21] The strategy outlined in this section might not be viable for small developing economies. In the Closing remarks, section it is proposed that such countries can circumvent this constraint by rallying with other countries in common markets.

3.1 Triggering and Sustaining Balanced Growth

An effective strategy for pro-poor growth must ensure that growth first that is triggered in a meaningful way. This strategy must also contain the proper measures that ensure this growth process possesses the proper structures: a) for ensuring its sustainability, and b) for warranting that the expanding demand for the various components of the poor's consumption basket is adequately and timely satisfied.

3.1.1 Triggering Pro-Poor Growth

Since growth is a necessary condition for the continued improvements in the conditions of the poor, triggering growth emerges as the starting point of any viable long run strategy for poverty reduction. For developing countries, growth, need to be, out of necessity, investment led. In these countries, productive capacity is still, at best, modest in size; and productivity is generally low, particularly in the sectors and activities which host sizeable proportions of the poor population. Investment-led growth has the advantage over other types of growth of boosting aggregate demand and income through the multiplier effect leading to higher utilization of existing productive capacity and employment in the short run, while simultaneously providing the means for regenerating itself in the long run by expanding productive capacity and propagating/disseminating new more productive techniques of production. It is never superfluous or mundane to keep emphasizing the significance of rapid expansion of physical productive capacity in rapidly upgrading production methods and in introducing new vintages of embodied technical progress into the country's production network.

In contrast, a consumption-led growth is not sustainable simply because it would soon crash against the barrier of domestic supply, i.e. it will rapidly face the constraint imposed by the modest productive capacities of developing economies. Given the wavering and timid propensity to invest of the private sector, such growth strategy will ultimately lead to the dissipation of scarce foreign exchange into imports of consumption goods.

An exports-led growth is as disappointing as a consumption-led growth. With the exception of oil and other commodity producing countries, export potential of the developing countries is even more cramped by both capacity constraint, ineptness in international marketing, and limited external demand, in inducing a sustainable and rapid growth.

Thanks to Harrod-Domar, we now know that having a higher growth rate requires a higher rate of investment.[22] Given that and the benign effects of embodied technical progress on productivity, one can understand why high growth rates in developing countries are usually associated with high investment rates. As a case in point, between 1990 and 2001 China's GDP grew by 10 percent and Vietnam's by 7.7 percent; in China, the ratio of gross capital formation to GDP was 35 percent and 38 percent in the years 1990 and 2001 respectively; and in Vietnam the this ratio went up from only 13 percent in 1990 to 31 percent in 2001.[23]As a conclusion of the above, stepping up the investment rate must be endorsed as a binding cornerstone of any pro-poor strategy.

3.1.2 Cornerstones of self-sustaining growth

The poverty-growth nexus implies that sustainability of poverty reduction must draw its strength from a pattern of growth that is self-sustaining. That investment produces growth has become a stylised fact in economic doctrine. But what has become a tradition to forget in the last thirty years - or to be more exact since the Structural Adjustment Programmes (SAPs) came to dominate the economic policy terrain – is that for growth to be self-sustaining, the structure of investment is as, if not more, important than its rate; an issue that was a key concern of development economics in the 1960's and 1970's, and which is now surfacing to prominence again thanks partly to worldwide acknowledgment of the failure of SAPs to deliver meaningful developmental outcomes. Two key points are often neglected in current literature when discussing sustainability of

[22] The Harrod-Domar equation stipulates that rate of growth of GDP equals rate of investment divided by the capital output ratio.

[23] Mackinley, Terry "The Macroeconomics of Transition: The Comparative Experience of Seven Transition Economies" op. cit., pp. 10 and 12.

growth and the concomitant structural transformation: the build-up of dense production systems and of machine goods sectors.

3.1.2.1 Density of domestic production systems and self-sustaining growth

Rapid capital accumulation is not only required to expand capacity as such, but more importantly to increase the ability of the country to expand the domestic component of locally produced goods. It is believed that most, if not all, of developing economies have highly porous production systems (or loosely-knit production networks) in the sense that the bulk of cells of the production system/network, as represented by an input-output table, are void of any domestically produced inputs; thus exposing the fragility of these systems and their high dependence on imports for the consummation of their production processes.[24]

Any meaningful developmental investment plan must concentrate on filling the pores and in building up a densely intertwined production networks in these countries. Piling up new projects without paying due attention to this fact would eventually lead to increasing the number and space of pores in the domestic production network at a more rapid rate than growth of output itself. In other words, if the additional productive capacities lead to adding products to the list of domestic output that depend highly for their production on imported inputs, then the area that the pores, as defined above, occupy in the domestic production system might increase at higher rate than domestic production, thereby making the economy even more fragile, i.e. more sensitive to supply

[24]Degree of looseness or strength of linkages of a production system of any economy is revealed by analysing its input-output tables. But still, most Arab countries do not include compilation of input-output tables in the work agenda of their statistical organisations; and those few who do, do not include them in their publications roster or make them readily available for researchers, and are hence left in most cases not adequately analysed and made use of for policy purposes.

and prices changes in the external markets and increasingly vulnerable to the conditionalities and bargaining power of external players.[25]

In contrast, production networks of developed countries are dense and tightly knit. A very interesting study points out that around two thirds of manufacturing output, in industrialized countries, consists of intermediate goods, sold by one firm to another.[26] The author goes on to emphasize that "the presence of a rich network of manufacturing firms provides a positive externality for each firm in the system, allowing it to acquire inputs locally, thus reducing the costs of transport, of coordination, of monitoring and of contracting."[27] Specifically, the externality that any firm enjoys "depends on the degree to which this firm can reduce its costs through buying and selling intermediate goods (materials, components and sub-assemblies) from local firms as opposed to firms operating in the region."[28] Any firm stands to gain from any improvement in the capability of any other firm in the system that supplies it directly or indirectly with inputs. In other words, the improvement in the capability of any firm depends on improvement in its own capability as well as on the improvements in the capability of all other firms with which it is linked directly and indirectly, in particular that of basic good industries, "in the Sraffian sense,"[29] i.e. industries whose products enter directly or indirectly in the production of all other goods. Naturally improvements in a firm's or an industry's capability depend not only on progress in production techniques (technical progress in all its forms) but also on improvements in the quality of the workforce and in institutional knowledge. The above analysis clearly implies that comparative advantage

[25] As a case in point, the rapid collapse of the Iraqi economy - the non-oil economy in Iraq to be more precise - upon the introduction of UN sanctions in 1990 owes much to the failure of its development pattern to weave a closely-knit and dense production system/network.
[26] Sutton, John, "Rich Trades, Scarce capabilities: Industrial Development Revisited", Suntory and Toyota International Centres for Economics and Related Disciplines, London School of Economics, London 2000, p. 3
[27] Ibid, p. 3.
[28] Ibid p. 14
[29] Sraffa, Pierro, *Production of Commodities By Means of Commodities*, Cambridge University Press, Cambridge1960.

of an economy is affected by the richness/intensity of its production network. It also follows from this analysis, that the technological and capability trajectory of a production system is determined by the advances made in any one of its components.

An important corollary ensuing from the above analysis is that any point on the production possibility frontier represents a whole production network. In the short run at least, it is the density of production networks[30] and not the "theoretically hypothetical" malleability of physical capital that determines the degree of flexibility-of a country's production system as a whole in responding to changes in relative prices and demand structure, i.e. the elasticity of supply of the whole production system. In other words, a diversified and dense production network enhances greatly its supply elasticity, i.e. the flexibility of the production system in changing rapidly its output structure in response to changes in structure of demand as well as in generating new products. It must be conceded, however, that such structural transformations assume the articulation and implementation of effective industrial development policies, the space for which, as many professionals believe, has been seriously curtailed by WTO agreement and the Structural Adjustment Programmes of the International Financial Institutions.[31]

3.1.2.2 Machine goods sector as a guarantor of self-sustaining growth

Reproduction of a production system (at the same or expanded scale) assumes the existence of a sizeable and vibrant sector for the production of capital goods. In a closed economy, working at full capacity, it is not possible to scale up capital accumulation rate or to reap the benefits of embodied technical progress without expanding the productive capacity of the capital goods sector, (that is the productive capacity of the sectors

[30] It must be also said that joint production, a normal/regular trait of modern industrial production systems, bestows a greater flexibility on a dense production system.
[31] Wade, Robert Hunter. "Strategies Are Viable for Developing Countries Today? The World Trade Organization and the Shrinking of 'Development Space'," in Gallagher, Kevin P. *Putting Development First*, Zed Books Ltd, London 2003 pp, 83-1-1 ; Chang, Ha-Joon, Kicking Away the Ladder: Development Strategy in Historical Perspective. Anthem Press, London 2003.

producing machines as well as the construction sector)[32]. The fact that embodied technical progress is a major determinant of productivity gives additional weight to the instrumentality for any economy of possessing a dynamic capital goods sector. Embodied technological advances assume the existence of a vibrant capital goods sector capable of producing new vintages of capital goods. Open economies that lack a vibrant and well developed capital goods sector, as is the case in almost all developing economies albeit with varying degrees, are left with no option but to depend on the outside world (i.e. imports) to translate its savings into investments; and to share with external producers the full blue prints of most of its inventions and innovations in order to secure their embodiment in a new generation of capital goods. In other words, the existence of a vibrant capital goods sector in the economy allows the cycle of translating its demand for investment goods into actual increments to the existing capital stock, and of producing newer vintages of capital goods, to be completed internally by depending on its own internal production capabilities.

3.1.3 Balanced pro-poor growth and structure of growth

For prices of goods to remain stable at any point of time, quantities supplied must match quantities demanded at the existing set of prices. A supply shortage prompts prices to rise and would lead to queues and bottlenecks if prices are forced to remain at their original levels; while a surplus in supply would result in accumulation of stocks and downward pressure on prices. These mismatches, if they persist, would eventually initiate a reallocation of resources to restore equilibrium.

As is well known, need if not backed by purchasing power does not constitute demand. This fact implies that the structure of demand is shaped by how income is distributed between households and individuals. Hence, the structure of demand emanating from a particular income distribution needs to be accompanied by a matching structure of

[32] Increasing the share of the capital goods sector in total investment leads to a rising growth rate. See Dobb, Maurice, *An Essay on Economic Growth and Planning*, Routledge and Kegan Paul, London 1969, pp. 65-75

supply if queues and bottlenecks, or surpluses and overstocks, are to be avoided. Thus, for growth to be in a balanced state, income distribution and the production structure need to be compatible with each other. In a free market economy, a pro-rich income distribution, if it persists, will ultimately tilt the allocation of resources, and subsequently the structure of production, in favour of goods demanded by the rich and away from the needs of the poor. Conversely a pro-poor, i.e. an equitable, income distribution, if it persists, will eventually drive the allocation of resources towards reshaping the structure of production towards the satisfaction of the poor's needs.

It follows from the above paragraph, that any strategy for redistributing income that does not include measures to promote and expedite the emergence of a structure of production matching the new structure of demand can thus be abortive and self-defeating. Endorsing a strategy for reducing poverty and narrowing income disparities requires the simultaneous adoption of measures that will expedite the process of resource allocation towards the emergence of a production structure capable of satisfying the structure of demand emerging from the pro-poor income distribution. It is quite evident that capacities for producing the consumption basket of the poor figure out prominently in this plan of action.

A balanced pro-poor growth path assumes, therefore, the adoption of an investment strategy that will lead to the emergence of a structure of production capable of meeting the growing demand of the poor for consumption goods as poverty rates decline. Such a production structure is able to supply the consumption basket of the poor in adequate amounts and more importantly to satisfy the structure of demand emerging from pro-poor growth and its specific pro-poor income re-distribution measures.

3.2 Redistribution and Poverty

As reiterated several times previously, pro-poor growth is not concerned with improving averages (specifically average per capita income) as much as in ensuring that such improvements is translated on the ground in meaningful reduction in poverty and noticeable expansion of inclusion space. That being the case, the gamut of redistribution channels emerges as the second cornerstone of any strategy for guaranteeing the improvement of living conditions of the poor and for ensuring the reduction of exclusions. Redistribution channels and tools provide the means that can ensure a meaningful drop in the poverty rate, a reduction in income inequality and an expansion of the inclusion space. Distribution policies do not only contribute in defining the type of relationship between growth and poverty (positive or negative) but also in shaping the intensity of the linkages between the two and in defining the direction and slope of the path that poverty follows as income grows.

For growth to succeed in ensuring reduction of poverty there must be ways and means for guaranteeing its flowing down to the poor in a meaningful manner . It is argued that "growth is pro-poor, if it uses the assets that the poor own[33], if it favours the sectors where the poor work, and if it occurs in areas where the poor live."[34] However, labour power in its concrete form is the main, and in most cases the only, income-earning asset that the poor have. To quote R. S. Osman, "The poor rely mainly on the use of their labour power - whether as wage-labour or in self-employment - for earning their livelihood".[35]

It is true that asset ownership (primarily labour power) secures the poor a share in the cake. However, it is distribution parameters and policies that determine the size of the share and its accessibility. It does so by working on a) improving the returns to the assets of the poor; b) enlarging the asset base of the poor, c) expanding the returns to the

[33] The World Development Report 2000/2001 identifies five types of assets: (a) human assets (e.g., capacity for basic labour, good health and skills); (b) natural assets (e.g., land) (c) physical assets (e.g., physical capital and access to infrastructure); (d) financial assets (e.g., savings and access to credit); and (e) social assets (e.g., informal or formal social security and power) World Bank, World Development Report 2000/2001, Oxford University Press, New York, 2000, p. 34.
[34] Vandemoortele, Jan, "The MDGs and Pro-Poor Policies: Related But Not Synonymous," International Poverty Centre, UNDP, Brasilia 2004, p.9.
[35] Osmani, R. S., "The Employment Nexus Between Growth And Poverty: An Asian Perspective," UNDP, New York 2004, p. 2

produce of the poor, d) upgrading the economic and social conditions at the locations where the poor live, and e) expanding inclusion of the excluded and bolstering protection of the vulnerable. In other words, or to phrase it in more familiar jargon, or to use the distribution literature terminology this share and its accessibility is the resultant of the interaction of the various distribution mechanisms and processes at work in society, basically: a) distribution of personal income and wealth, b) functional distribution of income, c) geographic/spatial distribution of income, and d) distribution of income between sectors - terms of trade and real return of the products of labour, e) distribution of income between different regions and provinces, and f) share of social provisions in national expenditure. As will be explained below the first distributive mechanism determines the returns of the poor from all the assets they own while the second determines the return of poor from their main asset, i.e. their labour power. The third and fourth mechanisms direct income to the sectors where the poor work and live. The fifth on the other hand deals with the funds allocated for the enhancing social inclusion and protection.

3.2.1 Distribution of personal income.

Needless to say, there exist several tools for reducing inequality in income distribution. The experience of developed countries provides ample proof that the tax system could be an effective and efficient tool for redressing imbalances in the distribution of personal income. One need to concede, however, that reduction of inequality through taxation does not by itself lead to a reduction in poverty if taxation-generated funds are not channelled to funding poverty reduction schemes, e.g. to create job opportunities for the unemployed poor or to bolster social provisioning. Cash transfers from public coffers and voluntary private transfers can also be resorted to scale up the share of the lower percentiles in total disposable income.

A more equitable distribution of personal income can also be attained through expanding the poor's base of income-earning assets. Distributing land for farming purposes or expanding accessibility of the poor to investment finance or allowing employees to become shareholders or generously subsidizing pro-poor housing schemes.

are all means of arriving at a more equitable income distribution through expanding the poor's asset base and share in wealth. But since labour power is the main income earning asset that the poor possess, investment in human capital remains the first and foremost channel to expand the poor's asset base.

3.2.2 Functional distribution of income

While income earning opportunities are opened up through growth, it is the functional distribution of income (i.e. distribution of income between labour and capital) that determines how much of the generated income would flow down to wage earners. Whatever theory one believes in or feels comfortable with – classical, neo-classical or any other - to explain the functional distribution of income in logical/theoretical time, the share of the employed/labour in historical time -i.e. in real life- is not automatically determined by an invisible hand. Usually, it is to be bargained or campaigned for. Presence of effective and committed workers' associations supported by appropriate institutional and legal frameworks facilitate honouring the right of the worker to a fair share of the income generated by his output and to decent working conditions and standards. Central to these arrangements in any meaningful poverty mitigation strategy is the setting of, and strict adherence to, a minimum wage that guarantees the employee a decent standard of living.

3.2.3 Terms of trade and returns of the products of labour

Purchasing power of any product is determined by its price relative to the price of other products**.** Real value of income generated in anyone economic sector depends not only on the quantity produced but also on the terms of trade of that sector's output, i.e. by price of this sector's output relative to the prices of other sectors' outputs. Thus in self-employment, real return to one's labour is determined not only by his productivity but also by the terms of trade of his products. In many developing countries, poverty has a rural attribute. Many of the poor are self-employed small landholders. This makes terms of trade of farm products/agricultural sector of special importance in any poverty eradication plan for the rural poor. Historical evidence confirm that favourable terms of trade have been an important factor in the progress of agriculture in many countries;

favourable terms of trade have acted as an effective stimulant of, and incentive for scaling up, agricultural production and investment. As a matter of fact, some economists single out improved terms of trade for agriculture as a major factor behind the sharp decline in poverty witnessed by China during the periods 1979-1984 and 1993-1996.[36] Not ignoring the fact that the heavy weight of agricultural products in the wage basket makes its price an important determinant of the real wage, although the money wage and the share of wages in the income generated through labour's work is determined by a different mechanism, as indicated in section 3.2.2 above.

3.2.4 Geographic distribution of income

As indicated earlier, there are some wide intranational socio-economic disparities. Most developing countries suffer from large differences in poverty rates figures of their different regions and provinces. Generally speaking, concentration of poverty is usually higher in the more impoverished regions of the developing country. A pro-poor growth and resource allocation strategy should have as a priority reducing poverty rates and improving rewarding job opportunities in the more impoverished regions. Reduction of regional disparities needs to be considered as a critical component of a policy framework for improving averages. An instrumental element for any long-run strategy for reducing intranational disparities in income distribution is the re-allocation of resources in favour of the less developed regions.

3.2.5 Social Provisioning

Social provisioning is simply the term used to designate the process of providing social protection. Social protection in its turn stands for the "set of public measures that support society's poorest and most vulnerable members and help individuals, households and communities better manage risks."[37] "The 'public' character of this response may be governmental or non-governmental, or may involve a combination of

[36] Abu Ismail, Khalid "The Syrian Economic Challenge," in UNDP-Syria, *Macroeconomic Policies for Poverty Reduction: The Case of Syria*," op. cit., p. 36-37.

[37] The World Bank. "The Contribution of Social Protection to the Millennium Development Goals." The World Bank, Washington DC, 2003, pp. 2-3.

institutions from both sectors."[38] In other words social protection covers "all interventions from government, private and voluntary organisations and informal networks "to support communities, households and individuals in their efforts to prevent, manage and overcome risks and vulnerabilities."[39]

Social provisioning can be regarded as an additional mechanism for mitigating and preventing poverty as well as for narrowing inequalities. It supports the former mechanisms by focusing on reaching the unreached, integrating the marginalised and the excluded and protecting the vulnerable. Key programmatic areas of social protection include: labour market interventions (such as decent work agenda, employment protection regulations, programmes and wage setting rules), contribution financed social insurance programmes (such as pensions, unemployment insurance, family benefits, sick pay) non-contributory publicly funded social assistance programmes (public works, safety nets, and free basic social services).

Social provisioning is thus the mechanism endorsed by society at large to transfer part of its income through governmental and non-governmental organisations to support the poor, protect the vulnerable and embrace the excluded. Setting the share of social provisioning in national income is thus an important component of any redistribution package aiming at reducing poverty..

4. Closing Remarks

Poverty is a serious social failure that can be likened to a ticking time bomb. If left unattended, poverty can seriously put at risk social integration and the ongoing nation building process of any developing country. In a 2004 paper, Nasser Saidi warned Iraqi authorities that "Poverty, unemployment and the deterioration in social conditions can

[38] Norton, Andy, Tim Conway and Mick Foster. "Social Protection Concepts And Approaches: Implications For Policy And Practice In International Development.", p.7.
[39] Shepherd, Andrew, Rachel Marcus, Armando Barrientos. "Policy Paper on Social Protection." DFID, Overseas Development Institute, London, 2004, p 8.

foster violence and prove fertile ground for dissension and insurgency."[40] Unfortunately, the course of events revealed that this warning proved to be prophetic not only for Iraq but also for a number of other countries, Arab and non-Arab.

This paper attempted to draw a broad outline of a road map for reducing poverty over time and thus prevent the social disruptions that can result from its persistence. It is felt, however, that the coherence of this outline would well benefit from the following supplementary remarks:

- The paper stressed that the state of self-sustaining growth requires:
  - An investment pattern that focuses on building up a dense production network, i.e. a production network rich in vertical and horizontal linkages.
  - An investment structure that ensures a high growth rate of the machine goods sector.

It is often argued, and correctly so, that few developing countries are capable of following such an investment plan. The size of the internal market would discourage many developing countries from following a development strategy that embraces these two conditions. Small markets prevent many industries from reaping benefits of economies of scale associated with techniques of production of high productivity. This implies that following a development strategy that embraces these two conditions would slow down growth, would make any growth rate more costly in terms of the required resources, and would require a much higher investment rate for any given growth rate. However, countries can circumvent this hurdle through congregating with other countries of the region in common markets.

- It has been argued that growth by itself does not guarantee the fall in poverty rates. For a pro-poor growth strategy to be effective, it needs definitely to resort to re-

[40] Saidi, Nasser, "Labour & Employment in Reconstruction and Development: Iraq in Transition, Liberalization and Reform," International Employment Conference: Jobs for the Future of Iraq, Amman Jordan, Dec. 2004, p.4.

distribution mechanisms and tools. Pivotal aims of the re-distribution mechanisms and tools include improving the returns of the assets of the poor and expanding their asset base. This implies that specific measures have to be undertaken to ensure expanding the use of the assets of the poor and the returns of these assets. Without this assumption distribution mechanisms and tools become to a large extent meaningless. Labour power in its concrete form is the main, and in most cases the only, income-earning asset that the poor own. Thus both growth and re-distribution mechanisms find their main route to poverty reduction through gainful employment. In other words, employment is the main and most effective channel through which growth and redistribution can reduce poverty. A poor household remains in poverty simply because the income it obtains does not enable it to cross over the poverty line. However, income of that a poor household earn from employment depends on both the number employed of its members and the average remuneration per employed member. Escape of a household from poverty depends therefore on the participation of its working-age members in economic activity and the earned income of each and every single one of these participants. Hence, growth need to be accompanied by substantive expansion of rewarding employment opportunities.

➢ It is apt to highlight the fact that increasing supply of remunerative work opportunities is only one side of the coin. The poor can benefit properly from the growth process as active players only if they are able to integrate properly in the ongoing economic activities and can access the rewarding job opportunities that growth opens up. Proper measures need to be taken that would adequately empower the poor to benefit from the created income earning opportunities. Since labour power forms their key asset, the poor need to have the required skills and the educational levels as well enjoy a good state of health. Investment in human capital does not only minimise the mismatch between job opportunities that are opened up and the structure of capabilities possessed by the poor, but also contributes to improving labour productivity independently of changes in capital intensity and techniques of production. Illiteracy eradication, informal education and all forms of training might prove to be not less important than formal education, for many developing countries, in reducing the imbalance between the demand and supply of skills. Good infrastructure, especially transport and housing, and improved employment services would greatly improve labour mobility and hence accessibility of emerging job opportunities by the poor.

➢ The strategy should aim at attaining a high rate of growth in gainful job opportunities for the poor. Low earning capacity of the region's poor owes itself primarily to high unemployment rates coupled high underemployment rates of the employed with low participation rates of females in economic activity. Since labour power is the major earning asset of the poor in the region, a pro-poor pattern of growth ought to be characterised by the following:

- A high employment elasticity of growth
- Low underemployment rates
- Expanded participation of the females in the labour force.
- Scaling up of investment in the human capital of the poor

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