

Pro-Poor Growth: Though a Contested Marriage, Still a Premature Divorce

by Terry McKinley, Acting Director,
 International Poverty Centre

Not so long ago, 'pro-poor growth' was ardently adopted as a premier development goal. But its twin objectives (both faster growth and greater equity) were always awkwardly aligned. A contested marriage, from the start, of divergent values. And for many, it appeared, the consummation of such a conjugal coupling proved exceedingly demanding.

Enthusiasm has more recently receded, as myriad adjectives jostle now to elbow 'pro-poor' aside. A parade of suitors, old and new: 'broad-based', 'shared' and 'inclusive'. But why now entertain divorce of equity and growth? Has 'pro-poor' failed to deliver on its promise? Is greater equity now *passé*?

Innumerable efforts were undertaken (to be sure) to define and measure 'pro-poor growth'. Some emphasized the role of growth in achieving *absolute* improvements. Others embraced equity, first and foremost—opting for narrowing differentials independently of absolute advance. This meant the poor should rise *relative* to the non-poor even if growth were slow, or negative. In fact, attaining greater equity across the total distribution was the encompassing intention.

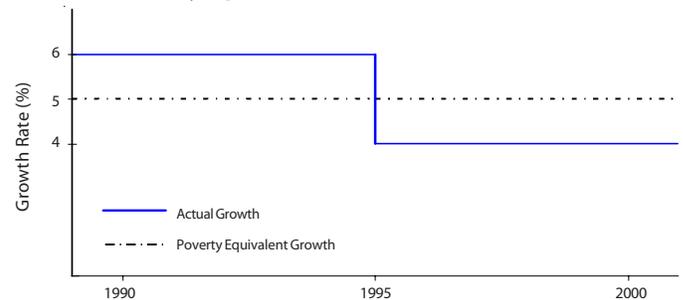
However, pragmatism divined a 'third way': mixing *both* the means to *maximize* poverty's reduction. Growth was thus no longer 'pro-poor' or 'anti-poor', just poverty-reducing 'more' or 'less'.

Equity advocates had entered such an analytical union with eyes widely shut. The goal, already pre-defined, had set the terms of the debate: poverty reduction as *absolute* uplift (moving people above a fixed poverty line). Greater equity was now merely *means* to such endeavour, no longer end in itself. And so the debate on 'pro-poor growth' had—without much pomp or circumstance—collapsed.

Pro-Poor Growth: Duelling Definitions?

1. The Kakwani, Khandker and Son Definition (2004):
The Poverty Equivalent Growth Rate = the actual growth rate x (the total poverty elasticity/the poverty elasticity of growth).
 Where the 'total poverty elasticity' includes 1) the elasticity of poverty with respect to a change in inequality and 2) the poverty elasticity of growth. So, if poverty decreases as inequality is reduced, the ratio of the last expression rises and the Poverty Equivalent Growth Rate exceeds the actual growth rate.
2. The Ravallion Definition (2004):
The Distribution-Corrected Growth Rate = the ordinary growth rate x (a constant x (1 - an inequality index)^η).
 Where an inequality index could be a measure such as a Gini coefficient. So, the distribution-corrected growth rate would rise as the Gini is reduced because the multiplicative term '(1-Gini)^η' would rise.

Actual versus Poverty Equivalent Growth



Some time before, differences had indeed seemed sharp. For instance, Nanak Kakwani had defined 'pro-poor growth' as a trend in which "the incomes of the poor grow faster than those of the non-poor". This standard, clearly relative, looked unequivocal.

In seeming contrast, Martin Ravallion had defined 'pro-poor' as a process of growth that was 'poverty-reducing'. Under such a banner, a rapidly growing economy, such as China's, could easily qualify—despite its rapidly rising inequality.

But such debated differences proved ephemeral. When one investigates the contestants' respective mathematics, such divergences disappear (Text Box).

From different starting-points, Kakwani and Ravallion had arrived at the same conclusion. The Figure illustrates their common challenge. Suppose that in Country X: 1) the actual growth rate during 1990-1995 was six per cent while the Poverty Equivalent Growth Rate (or the Distribution-Corrected Growth Rate) was five per cent and then 2) the actual growth rate during 1995-2000 declined to four per cent while the Poverty Equivalent Growth Rate remained at five per cent.

Which outcome is better? Faster growth but greater inequity in 1990-1995? Or slower growth but greater equity in 1995-2000? Poverty pragmatists could be indifferent (depending on the weight they place on inequality).

Growth champions might opt for 1990-1995 because of greater non-poor gains. Equity advocates might choose 1995-2000 because of lower inequality. Hopefully, growth's new wedding propositions—such as from the popular 'inclusive'—can help resolve such challenging disputes or clarify, at least, the central issues.

References:

- Nanak Kakwani, Shahid Khandker and Hun H. Son (2004). 'Pro-Poor Growth: Concepts and Measurement with Country Case Studies'. Working Paper #1 of the International Poverty Centre, Brasilia, August.
- Martin Ravallion (2004). 'Pro-Poor Growth: A Primer'. World Bank Research Working Paper #3242, March.