



# Economic Growth and Human Development

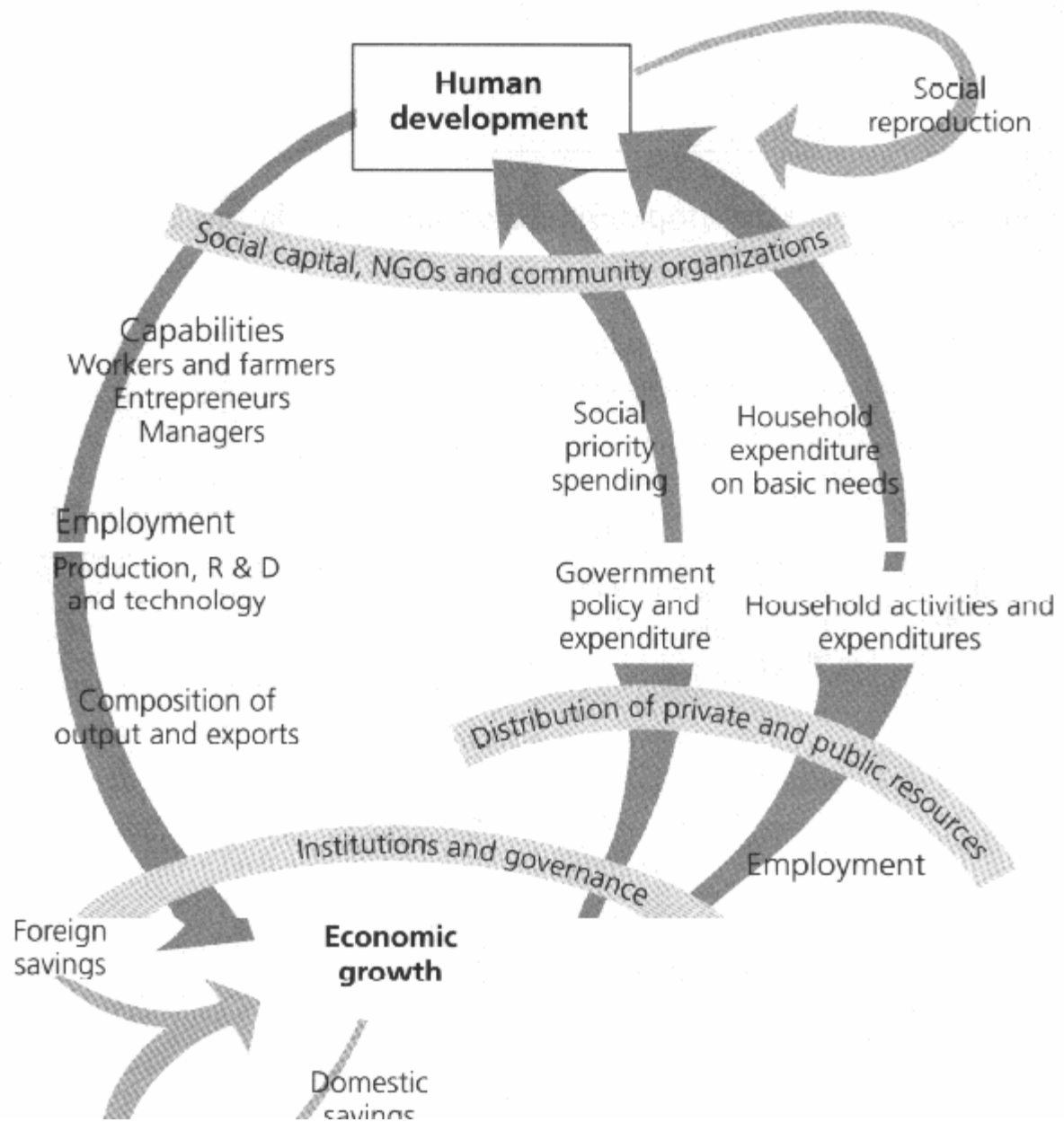
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Human Development Training Course

Oxford, September 2006

**From human development to growth—and back**





# Human Development Report 1996

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*"Human development is the end –  
economic growth is the means..."*

# After the lost decade for Latin America and Sub-Saharan Africa...

**Table 1.3** Income growth bands

Annual GDP per capita growth rate, 1990–2003 (%)

Region	Negative	0%–1%	1%–2%	More than 2%
<b>Arab States</b>				
Countries	5	4	2	5
Population (millions)	34	70	19	139
<b>East Asia &amp; Pacific</b>				
Countries	4	1	3	13
Population (millions)	3	6	81	1,814
<b>Latin America &amp; Caribbean</b>				
Countries	4	8	9	12
Population (millions)	43	74	345	79
<b>South Asia</b>				
Countries	0	0	1	7
Population (millions)	0	0	152	1,324
<b>Sub-Saharan Africa</b>				
Countries	18	8	8	11
Population (millions)	319	108	171	76
<b>Central &amp; Eastern Europe &amp; the CIS</b>				
Countries	10	5	1	11
Population (millions)	253	58	10	85
<b>High-income OECD<sup>a</sup></b>				
Countries	0	2	6	15
Population (millions)	0	135	224	510
<b>World</b>				
Countries	41	28	32	76
Population (millions)	653	450	1,081	4,030

a. Excludes the Republic of Korea, which is included in East Asia and Pacific.  
Source: Indicator tables 5 and 14.

# Where did all that growth go?

**Table 1.2** Decline in income poverty, 1981–2001

Share of people living on less than \$1 (PPP US\$) a day (%)

Region	1981	1984	1987	1990	1993	1996	1999	2001
East Asia & Pacific	56.7	38.8	28.0	29.5	24.9	15.9	15.3	14.3
Europe & Central Asia	0.8	0.6	0.4	0.5	3.7	4.4	6.3	3.5
Latin America & Caribbean	10.1	12.2	11.3	11.6	11.8	9.4	10.5	9.9
Middle East & North Africa	5.1	3.8	3.2	2.3	1.6	2.0	2.7	2.4
South Asia	51.5	46.8	45.0	41.3	40.1	36.7	32.8	31.9
Sub-Saharan Africa	41.6	46.3	46.9	44.5	44.1	46.1	45.7	46.4
World	40.4	33.0	28.5	27.9	26.3	22.3	21.5	20.7

Source: World Bank 2005d.



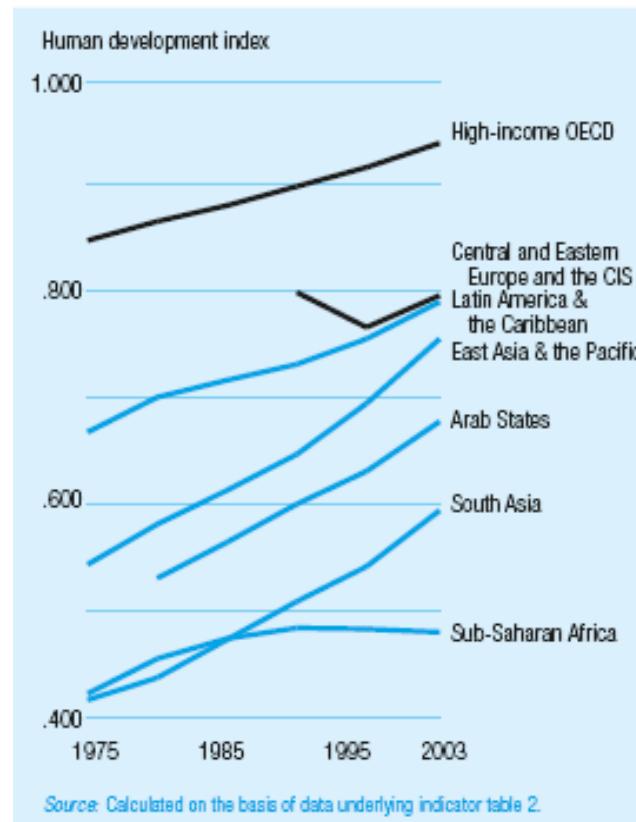
## Income poverty reduction slowed down in the 1990s

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- Poverty fell in the past decade at one-fifth the 1980-96 rate
- SSA has lower average incomes today than in 1990
- Real per capita incomes fell by over 10% in Kyrgyzstan, Russia, Ukraine; over 40% in Georgia, Moldova and Tajikistan.

# Human Development has improved in most regions except in Sub-Saharan Africa

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# Is growth reflected in Human Development achievements?

**Figure 1.13** Income growth and child mortality improvement diverge in India and China

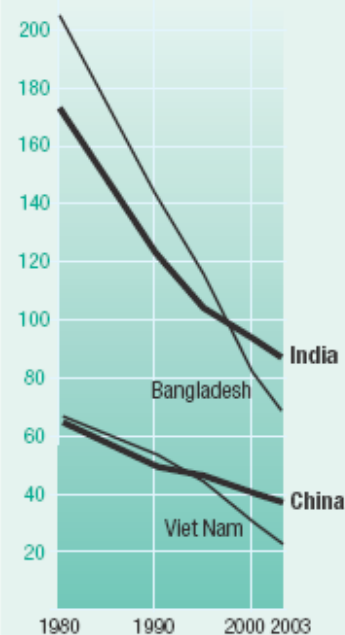
Change from 1980s average growth rates (percentage points)



Source: Calculated on the basis of data on child mortality from UNICEF 2006a and data on GDP per capita (2000 US\$) from World Bank 2006f.

**Figure 1.14** China and India fall behind in child mortality

Under-five mortality rate (per 1,000 live births)



Source: UN 2006b.

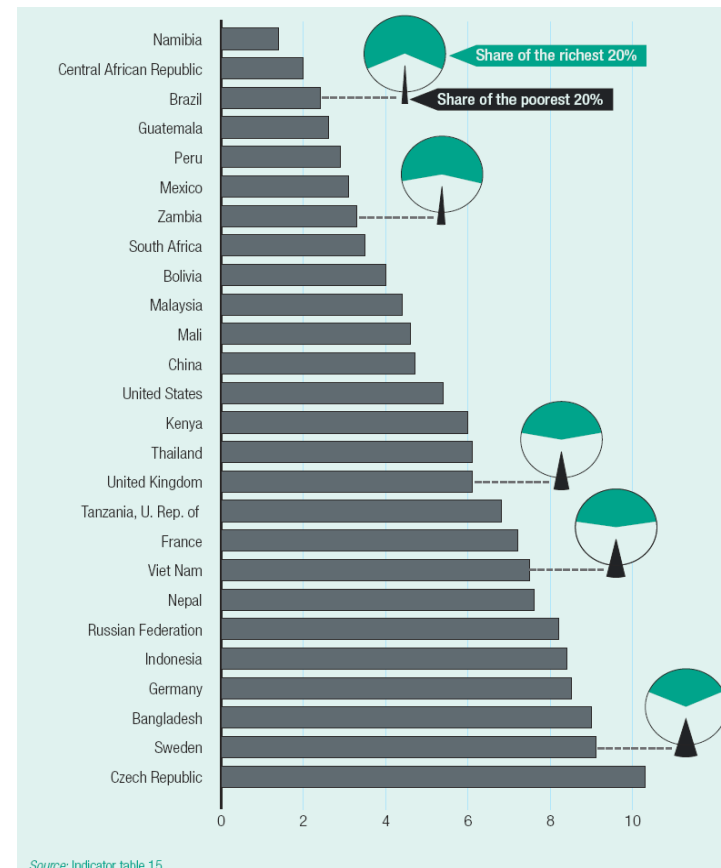
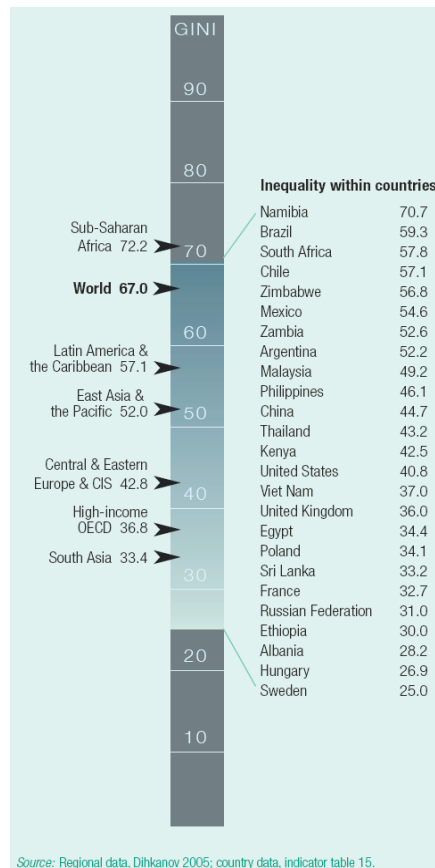


# Growth, inequality and poverty reduction

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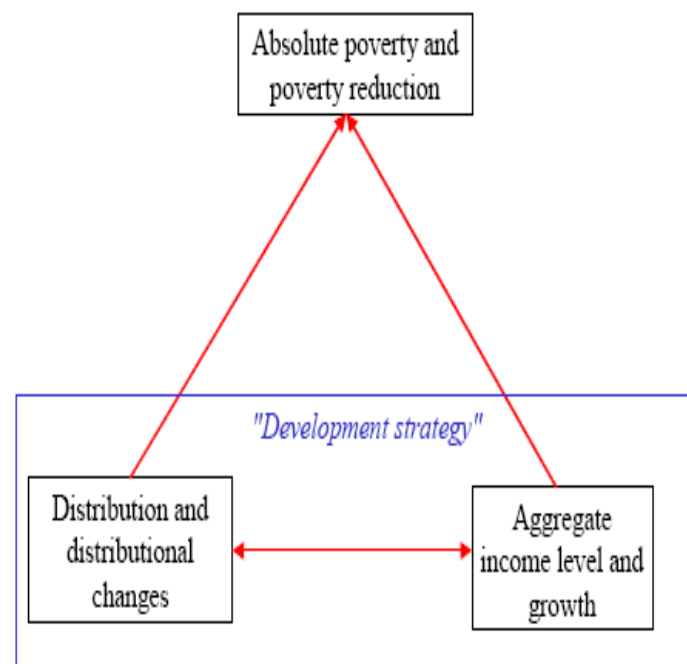
The state of the debate  
(The naïve, the skeptical and the sanguine)

# Inequality in income



# The Poverty-Growth-Inequality Triangle (PGI)

- “Poverty reduction in a country at any given time is fully determined by the rate of growth of the mean income and the change in the distribution of income.”
- “The real challenge when reducing poverty is not in the relation between poverty and growth and poverty and inequality but in the interaction between distribution and growth.”





“The reduction of absolute poverty necessarily calls for strongly country-specific combinations of growth *and* distribution policies”



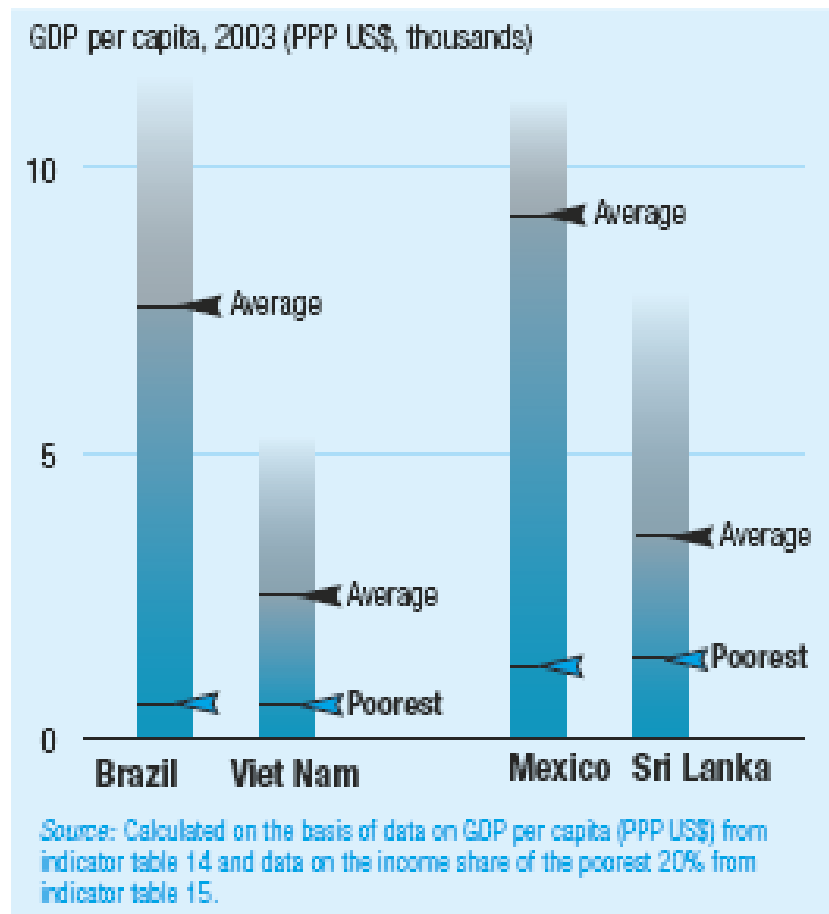
# Why inequality matters?

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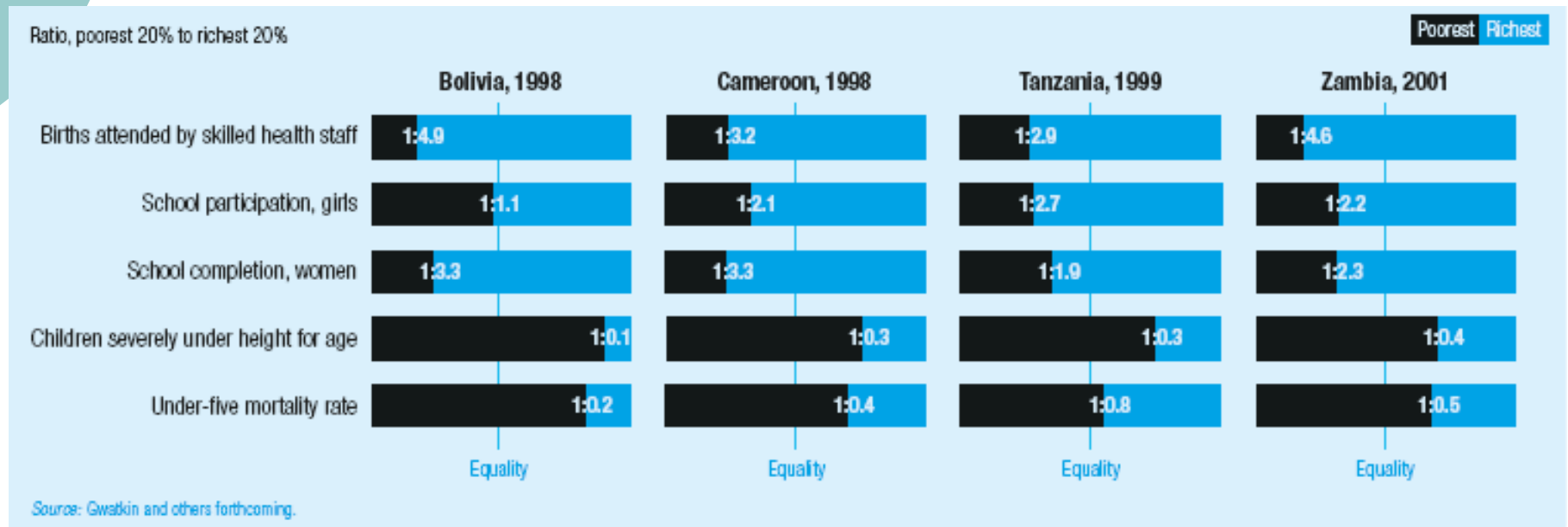
- Social justice
- Extreme inequality is bad for growth...
- And for poverty reduction
- Political legitimacy

*Intrinsic and instrumental reasons are mutually reinforcing*

# Average income matters, but so does inequality

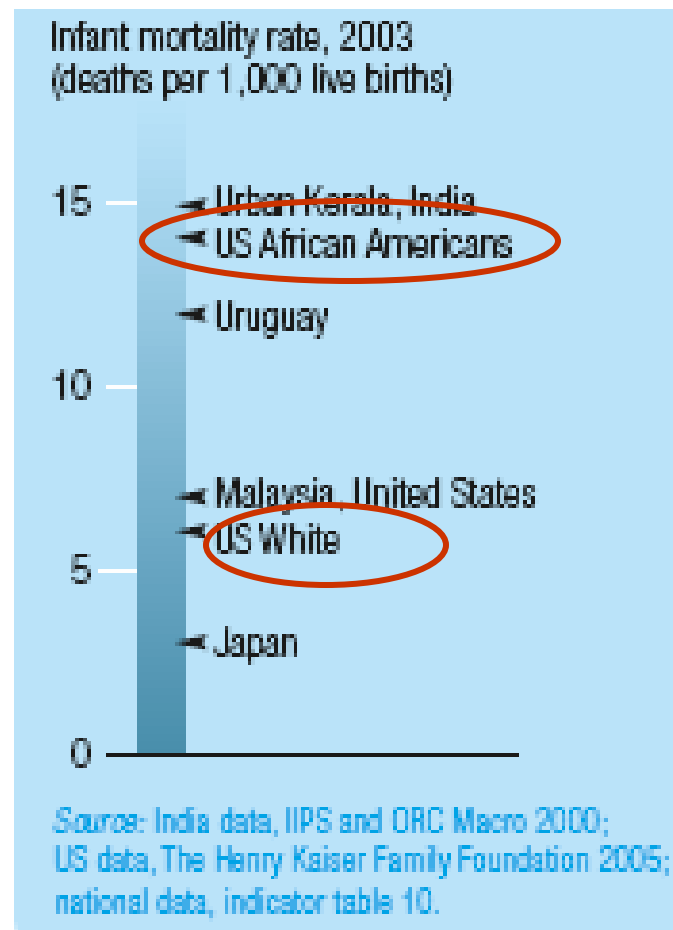


# Chains of disadvantage - income inequality effects human development for the poor

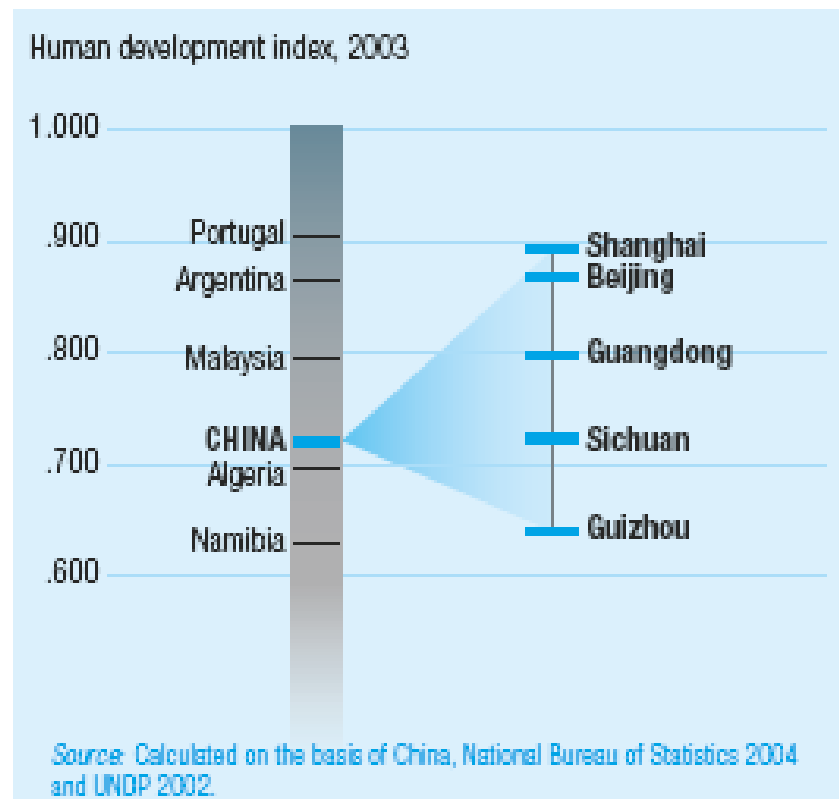


## The poor in rich countries fare no better

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# China: human development varies in the fastest growing economy





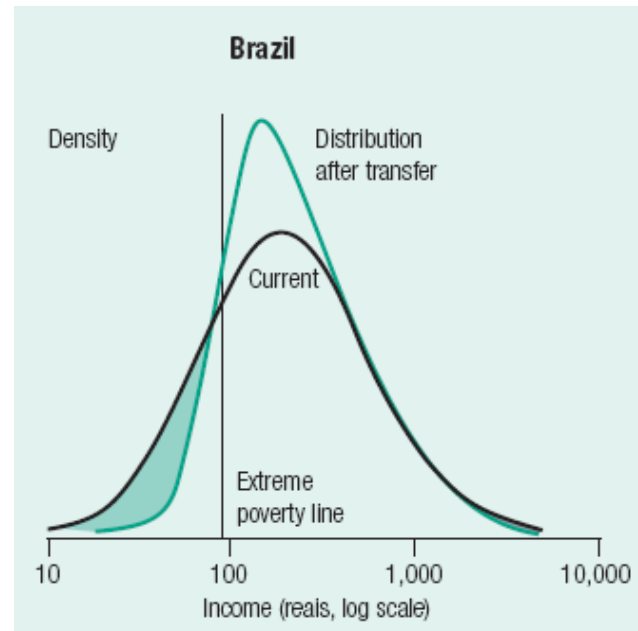
# From pro-growth to pro-poor growth

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# Improving the distribution of income in Brazil

**Figure 1** Doubling the income of the poor would take a small transfer from the rich

Income distribution before and after hypothetical wealth transfer



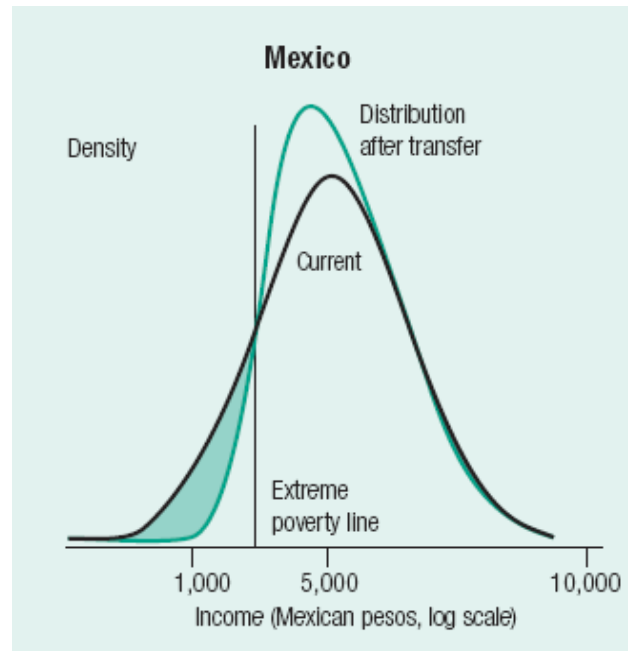
Note: The area under each curve represents 100% of people. The simulated distribution reflects a transfer proportionate to income from the richest 20% large enough to double the income of those below the poverty line. The size of the transfer received is inversely proportionate to income below the poverty line.

Source: Fuentes 2005.

# Improving the distribution of income in Mexico

**Figure 1** Doubling the income of the poor would take a small transfer from the rich

Income distribution before and after hypothetical wealth transfer



*Note:* The area under each curve represents 100% of people. The simulated distribution reflects a transfer proportionate to income from the richest 20% large enough to double the income of those below the poverty line. The size of the transfer received is inversely proportionate to income below the poverty line.

*Source:* Fuentes 2005.



- Shifting 5% of the income of the top 20% will lift large numbers of people out of poverty
- In Brazil about 26 million would be lifted above the \$2 a day poverty line, cutting the poverty rate from 22% to 7%
- In Mexico about 12 million people would be taken out of poverty reducing the poverty rate from 16% to 4%



## Pro-poor growth:

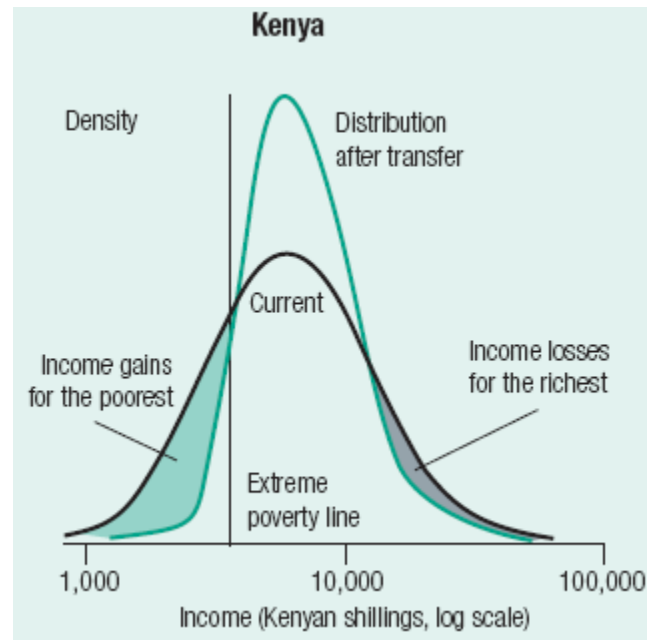
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- If the poorest 20% share in future growth will increase from 1 cent to 2 cents for every dollar
- For Brazil it shortens the time it takes the median household to cross the poverty line by 19 years.
- For Mexico it shortens the time by 15 years.

# Improving the distribution of income in Kenya

**Figure 1** Doubling the income of the poor would take a small transfer from the rich

Income distribution before and after hypothetical wealth transfer



*Note:* The area under each curve represents 100% of people. The simulated distribution reflects a transfer proportionate to income from the richest 20% large enough to double the income of those below the poverty line. The size of the transfer received is inversely proportionate to income below the poverty line.

*Source:* Fuentes 2005.



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- Distribution of growth also matters in low income countries
  - Poverty rate would decline from 23% to 4%
  - Pro-poor growth would reduce the time horizon for halving poverty in Kenya by 17 years.



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### Kenya 1997

#### *Doubling the income share of poor people: static transfer from the richest quintile*

Poverty rate decline	23% to 4%
People out of poverty (millions)	5
Transfer as share of total household income (%)	7.00
Transfer as share of richest quintile's income (%)	14.2

#### *Year median household is out of poverty under different growth patterns*

Simulation 1 (no change in distribution)	2030
Simulation 2 (pro-poor growth)	2013

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## Some effective steps to achieve pro-poor growth

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- Education for all increases efficiency and growth
- Reducing health inequalities increases productivity
- Income, employment and incentive-based fiscal transfer
- Public investment in rural infrastructure



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- Distribution should be put at the centre of strategies for human development.
  - Increasing poor's people share of growth should be a central part of that strategy.
  - The nature of growth is not neutral. Countries should put in place policies favoring progressive growth.

