

Pro-poor growth: finding the Holy Grail

by Alejandro Grinspun
International Poverty Centre

A lively debate followed the release of two IPC One Pagers that contrasted Ravallion's and Kakwani's definitions of 'pro-poor growth'. According to Ravallion (World Bank), 'pro-poor growth' is any growth in mean income that benefits poor people – a definition Kakwani (IPC) finds wanting as it would encompass the vast majority of growth episodes so long as poverty decreases, which it typically does. He proposes instead that growth is pro-poor if it benefits the poor proportionally more than the non-poor. In the exchange that followed, it became clear that what is considered 'pro-poor' depends, in part, on the choice of standards for gauging the distributional impact of a growth episode.

Ravallion's definition does not seem to pass a reasonable test of 'pro-poorness'. In the words of Howard White (Sussex), a growth episode that gives every rich person \$1 million and just 1 cent to a single poor person cannot possibly be deemed pro-poor – especially considering that, in most instances of rapid growth with rising inequality, the prices of basic needs items consumed by the poor tend to grow faster than the prices faced by the average person, as Dave Gordon (Bristol) noted. Alberto Minujin (Unicef) dismissed Ravallion's statement about the poverty-reducing impact of growth as merely an empirical observation, not a definition. Pro-poor growth does not just happen; it is the result of explicit policies – and this is as true for income poverty as for other dimensions of well-being. Citing a recent Unicef study, Minujin shows that disparities in child well-being – specifically in the reduction of U5MR – between rich and poor worsened during the 1990s in countries that failed to follow pro-poor policies. If they had, the consequences for child well-being could have been dramatic: the number of 'lives saved' would have doubled if every household had enjoyed the same U5MR reduction as those in the top quintile.

Michael Lipton (Sussex) prefers to call 'strongly pro-poor' that growth process in which incomes rise proportionally faster for the poor than the non-poor. But unlike Kakwani, he reserves the term 'weakly pro-poor' for those instances in which growth benefits the poor considerably, albeit less than the non-poor. Much of the disagreement concerning pro-poor growth would dissipate if one could establish empirically the tradeoffs between changes in absolute poverty and in inequality between rich and poor. For Lipton, it is not enough to say that 'inequality matters'. Distribution between the richest and second-richest deciles may not be relevant to whether growth is pro-poor; distribution between the poor and the non-poor is, and so is distribution around the poverty line.

Like Lipton, Siddiqur Osmani (Ulster) agrees with both Kakwani and Ravallion, though only up to a point. Simply reducing poverty cannot be a sufficient condition for growth to be pro-poor. There *has* to be a bias in favor of the poor. But Osmani questions some of the implications of

Kakwani's 'pro-poor' criterion. A country with high growth may reduce poverty more than one with sluggish growth, even if the poor reap proportionally fewer benefits than the non-poor in the former and more in the latter. Yet by Kakwani's definition, the country with the better record of poverty reduction would have a less pro-poor performance than the country with the weaker record. So while agreeing that the true test of 'pro-poorness' is the existence of a policy bias in favor of the poor, Osmani proposes that this bias be defined differently – not in relation to how well the non-poor do, but in relation to a country's past record of poverty reduction. He then defines 'pro-poor growth' as a growth process that reduces poverty *more* as compared to the 'benchmark' scenario. This will clearly vary across countries and over time so that what is pro-poor growth in one case may not be so in another.

Frances Stewart (Oxford) endorses Osmani's approach, but not his specific choice of benchmark. Osmani's criterion might, for instance, disqualify an egalitarian country with a good track record of poverty reduction if, in the future, it underperformed but still did reasonably well as compared to other countries. Stewart thus suggests an alternative approach that identifies, for each country, the growth rate that would halve poverty by 2015. In turn, Howard White proposes three different criteria of 'pro-poorness'. The first calls for the share of the poor in income growth to exceed their existing share. About half of all growth episodes qualify as pro-poor by this definition, which White considers weak as it may coexist with a growing absolute gap between rich and poor. A second criterion, which very few past growth episodes meet, requires that the poor's share in incremental growth surpass their share in population; in other words, the absolute gap between rich and poor should not widen during growth. The third and final accords with Stewart's in that the share of the poor in incremental growth exceeds some international norm. By this definition, about half of growth episodes are pro-poor, though not the same half as by the first criterion.

Finally, Quentin Wodon (World Bank) calls for more robust tests of pro-poor distributional changes. Simple average relationships between growth and summary poverty measures, such as headcount changes, are inadequate because they depend on the effect of growth on those closest to the poverty line, making judgements highly sensitive to the choice of poverty lines. Besides, growth may reduce the proportion of a country's poor, but with adverse impacts on the very poor. Thus, a key issue when assessing 'pro-poorness' is whether to give more weight to the poorer of the poor. Another issue is whether to use a relative or absolute standard for measuring distributional changes.

So after all is said and done, when can growth be deemed pro-poor? Well, the jury is out. Stay tuned for more.