

Responding to Inequality

Tony Killick (Overseas Development Institute)

Inequality Briefing No's 1 and 2 have respectively discussed the meaning and measurement of inequality, and have discussed the relationships between inequality and the over-arching policy objective of the elimination of poverty. The purpose of this paper is to set out the range of policy options available to national governments wishing to reduce income disparities. As with the other papers, the focus is exclusively on inequalities within national boundaries. The international dimensions of the inequality problem are not discussed here but are clearly important.

The paper is structured around a distinction between *static* and *dynamic redistribution* (called *progressive growth*). The former, essentially a zero-sum endeavour, involves transfers of existing income and/or wealth from the rich to the poor, whereas progressive growth requires only that increments to income and wealth accrue to the poor in proportions which reduce inequalities over time. First, however, it must consider why policy interventions may be desirable in the first place.

1. The Case for Action

Even leaving aside the special case of the former communist states, there is evidence of notable increases in income inequality over the last two decades, internationally and within both OECD and developing countries, as described in Inequality Briefing No 1. Does this matter? Should we be concerned about large and/or growing inequalities, as distinct from rising poverty? To some, the existence of large inequalities is repugnant, an injustice demanding redress. For pragmatic development practitioners, there are other reasons for action. These have been discussed in Inequality Briefing No 2 and are only summarised here:

- Large inequalities impede economic growth and thereby diminish the possibilities of reducing poverty. This is particularly the case with wealth and other assets, where inequalities are especially large (World Bank, 2000; International Fund for Agricultural Development, 2001; Birdsall and Londono, 1997; and, Deininger and Olinto, 2000).
- Large initial inequalities impede the poverty reducing effects of a given growth rate. Even when initial inequalities are not exceptional, increasing income inequality over time also lessens the poverty reducing effects of growth. Much of Latin America's continuing poverty is explicable in terms of large inequalities rather than weak economic performance. In Africa much more weight needs to be attached to weak long-term growth but Inequality Briefing No 1 shows that here too the poverty problem is exacerbated by apparently rapidly widening inequalities.
- For other reasons, concern with poverty cannot be separated from distributional questions, for most measures of absolute poverty actually contain elements of relativity (Inequality Briefing No's 1 and 2), and because people's perceptions of their own condition are inseparable from their standing in society.
- Underlying skewed income or consumption distributions are

likely to be large differences on the basis of gender, ethnicity and region, with the latter two aspects acting as potential threats to political stability.

- At least in Africa, MDGs on poverty reduction cannot be achieved without reductions in inequality (Hanmer and Naschold, 2000).

The rest of this paper is thus premised on the desirability of countering large and/or growing inequalities. The discussion is necessarily general, for countries differ greatly in their economic and social structures, their resource bases and vulnerabilities, their political traditions and capabilities.

Turning, now, to consider the remaining policy options, we should acknowledge a difficulty in holding separate consideration of measures to deal with inequalities and with poverty. We here confine ourselves to measures that can be expected to be progressive, in the sense of raising the share of the poor in total incomes, rather than just raising their living standards in an absolute way. This confines us to a narrower range of options and tends to draw attention to difficulties, for it is harder to improve income distributions than it is to achieve some reduction in poverty. We start with measures intended to redistribute incomes (or wealth) at a moment in time before turning to more dynamic aspects.

2. Static Redistribution

2.1. Using the Budget

Using its fiscal powers – both of taxation and to transfer resources through the budget – is an important way in which a government can seek to achieve static redistribution. The key word here is progressivity: tax obligations which accrue at an increasing rate with the income of the taxpayer and benefits from government expenditures which rise inversely as a proportion of beneficiary incomes – ‘from each according to his ability, to each according to his need’.

2.1.1. Taxation

To start with tax systems, there are obstacles to achieving much overall progressivity in low income countries. Tax revenues, relative to GDP, tend to be lower than elsewhere, which means simply that they have less leverage on the way income and consumption are distributed in society. Moreover, the tax structure is generally unfavourable to redistribution, with a large proportionate reliance on indirect taxes. Lastly, the enforcement and distortionary costs of taxation mean that it cannot be taken for granted that the benefits of public spending outweigh the costs.

Personal income taxes are among the most progressive taxes. However, the scope here is limited by disincentives created by high and rising marginal rates: adverse incentives for work over leisure, for saving and investment, and for compliance. Progressivity creates

incentives for evasion everywhere but these are most serious where tax administrations are weak and/or corrupt. Taxes on corporate profits can also be progressive in effect but these too create disincentives. No less serious, much of the incidence of corporate taxes is nowadays seen as likely to fall on labour rather than capital – the opposite of what would be desired for a pro-poor growth path. This occurs because of the higher mobility of capital relative to labour, especially unskilled labour. High rates of corporate tax are likely to result in outflows of capital (or discouragement of inflows), depressing domestic investment, reducing the demand for labour and thus tending to reduce real wages over time (Harberger, 1998).

When applied uniformly, indirect taxes are regressive, because the poor consume a larger proportion of their income than the rich. This is the tendency with sales taxes and VAT – taxes which have typically contributed growing proportions of total tax revenues over the years. Such taxes do not have to be regressive, however. An element of progressivity can be imparted by exemptions and differential tax rates used to favour items important in the consumption patterns of the poor. But there are limits to what can be done. Too many exemptions reduce the revenue base. Multiple rates introduce distortions in relative prices. Information and enforcement costs are raised, and incentives created for evasion. Much the same can be said of import duties: in principle they can be designed to provide an element of progressivity but the costs of doing so can be high and the tendency has been toward more uniformity of rates.

More promising are wealth taxes, for example on land and other property holdings, but these are little used in most developing countries and rarely bring in significant revenues. Depending on country circumstances and the ability to establish and value ownership, there might well be scope for doing more here (also on the taxation of mineral concessions), particularly if confined to a manageable number of really large concentrations of taxable assets. But wealth taxes also generate costs and incentives for evasion, and make demands that may be too great for weak tax administrations.

The strengthening of tax administrations thus emerges as a potentially important weapon in any fiscally-based attempt at redistribution. One device for achieving this that has become popular in recent years has been the establishment of separate revenue authorities, substantially autonomous of Ministries of Finance and civil service regulations, and with budgets related to actual revenues collected. It has often proved difficult to sustain the political commitment necessary to make these work, but in some cases (for example, in Colombia, Tanzania and Uganda) major improvements in (probably progressive) revenue collections have been achieved.

2.1.2. Expenditure

It is easier to impart progressivity to the expenditure side of the budget – although how much can be achieved depends on the size of the revenue base. There is particular interest in what can be done via the social services and through transfer payments, safety nets and subsidies.

For poorer developing countries the type of transfer payments familiar in industrial countries – unemployment benefits, state pensions, income support schemes – are unaffordable, although the possibilities increase as economies develop. Even in poorer countries transfers are feasible, and have the potential for progressivity, to the extent that they can be targeted on the poorest. Some countries (for example, Jamaica and Sri Lanka) have experimented with food stamps and other food subsidy schemes. There may also be savings to be made by concentrating on the subsidisation of privately delivered services (water, power, other infrastructure, as well as education and health) rather than attempting full public-sector delivery.

Evidently, the more narrowly targeted on the most needy, the smaller the potential claim of such transfers on the fiscal system. But targeting is not costless (see Box 1), particularly when high proportions of the total population think of themselves as being among the needy, and there are bound to be questions about the sustainability of fiscally demanding schemes in poor countries (Devereux, 2001).

Box 1 Targeting the Poor

Those who would provide state services to raise the welfare of the poor, say through a subsidy, must choose between universal provision or targeting defined groups. There is a strong case in principle for targeting. Subsidising everyone may be prohibitively costly. Targeting sets boundaries around the extent of the government's commitment and safeguards against the capture by the relatively well-to-do of a disproportionate share of benefits.

But caution is needed. Targeting distorts incentives, encouraging the ineligible to misreport their incomes (or whatever other characteristic the benefit is targeted on), and can create a 'poverty trap,' discouraging people from actions that would raise them from the eligible to ineligible category. High administration costs are another factor; the narrower the target group the higher the per-beneficiary costs of executing and policing. There are also problems with the operational definition of target groups, not least by the often quite high short-term mobility of households in and out of poverty. A possible solution to some of these difficulties is to design schemes that are self-targeting, for example, to confine food subsidies to 'inferior' (but nutritious) goods or to offer only low wages in employment-creation schemes.

Political considerations also arise. Confining benefits to the poor may alienate the not-so-poor, breeding opposition, undermining willingness to pay taxes, distorting implementation and threatening sustainability. Particular difficulties may arise if the targeting is regionally based. If the opposition engendered is great enough, the end-result might actually be reduced support for the poor, as happened, for example, in Colombia and Sri Lanka.

So a careful balance has to be struck and it should not be taken for granted that there are net gains from targeting. Policies which have the greatest impact on inequality are not necessarily the most narrowly targeted ones. If most of the population are poor targeting is particularly problematical.

Turning now to expenditures on the social services, part of the task is to remedy past biases against the poor. A substantial number of benefit-incidence studies have been conducted which allocate receipts of specific social services across income groups. From these it is possible to judge the extent to which service delivery is (a) well-targeted, judged by estimating the distribution of benefits across the spectrum of income groups, and (b) progressive, in the sense of representing a higher proportion of the income of poor groups than their shares in total income. A recent survey found some clear patterns (Chu *et al*, 2000; see also de Janvry *et al* (2001) and Castro-Leal *et al*, 1999):

- On education, taking all levels together, delivery of schooling was progressive in 31 of 55 studies for developing countries but was poorly targeted in more than half. Sub-Saharan Africa stood out as the most inequalitarian, with the poorest income quintile receiving only 13% of benefits, against 32% for the top quintile.
- The position varied across levels of education, however. Primary schooling was everywhere progressive and relatively well targeted (although the African record was again poor). Secondary education was everywhere progressive and was well targeted on

the poor in Asia and Latin America but not in Africa or the Middle East. Tertiary education mostly benefited the richest quintile in all regions; in Africa the poorest quintile received under 5% of benefits, against 59% for the richest quintile. To a large extent, these results reflect differential enrolment rates at the various levels of education among the children of the rich and poor.

- As regards health, all studies found services to be progressive but they were well targeted in only a little over half of cases. Targeting was poor in transition economies and sub-Saharan Africa. Unfortunately, these results were not reported by service type.
- Studies of transfer payment schemes revealed progressivity but weak targeting in many countries. Targeting was best where some explicit mechanism had been put in place for this purpose (such as food stamps in Jamaica and Sri Lanka or self-targeted food subsidies in Tunisia).

There is nothing in these or other results to challenge the received wisdom that provisions of education and health are among the strongest instruments available to governments for achieving progressive growth. For example, inequalities in educational provision have been found among the prime factors explaining the position of the poor (Birdsall and Londono, 1997). Access to good quality and appropriate education improves health, increases ability to cope with risk and uncertainty, and facilitates greater social inclusion and empowerment. Above all, it improves employment prospects and earning power. Along with health, it is among the twice-blessed interventions. But note the qualifying clause: 'good quality and appropriate'. There are large variations in the quality of schooling provided (a factor not caught in benefit-incidence studies) and there is evidence that this too is highly skewed to the disadvantage of the poor (World Bank, 2000). Appropriateness also arises because of the need for education and training to be consistent with emerging patterns of demand for labour. Note too that education will only be fully effective in an expanding economy which can absorb the output of schools and colleges in jobs appropriate to educational attainment. In some of the more stagnant economies of Africa and elsewhere education is far from being a panacea for poverty or inequality.

The general principles here, as in health, are to concentrate on basic provision and to target them more so that the poor are not disadvantaged and their enrolment rates are raised. Enrolments and reforms that gave each quintile an equal share would, in many cases, transform the situation, but to achieve this would itself necessitate overt targeting of improved service deliveries on the poor (Harberger, 1998).

2.1.3. Overall Incidence of the Budget

If we take the overall incidence of the budget, the usual finding is that most progressivity in developing country (and OECD) fiscal systems is derived from the expenditure side rather than from taxes. A survey of tax incidence studies of developing and transition economies found that, overall, tax systems were progressive in just over a third of cases, about a fifth were regressive and the remainder broadly neutral (Chu *et al*, 2000). Although there is much less information on the overall incidence of government spending, the results of an estimate for the Philippines may be fairly typical: the tax system was roughly neutral, but expenditures were progressive and this imparted a moderate degree of net progressivity overall (Devarajan and Hossain, 1995). Illustrative models, based on plausible values for the distribution of income, tax/GDP ratios and achievable progressivity indicate that developing countries will rarely achieve major reductions in inequality through taxation, suggesting that the best strategy is to establish a broad tax base, which at least does not

widen disparities, in order to mobilise resources for progressive state spending.

2.2. Redistributing Assets

Among the various types of asset that influence people's shares in total income and wealth, land reform is the most discussed example of a policy for redistributing assets from rich to poor (de Janvry *et al*, 2001; Deininger and Olinto, 2000; and, International Fund for Agricultural Development, 2001). For the rural poor access to land is crucial: allowing them to transform their labour into food and cash, and providing an insurance against 'external' shocks. Transferring the control of land from large landowners to small farmers can, moreover, reduce inequalities whilst also promoting improved utilisation and higher productivities through more intensive cultivation.

There are indeed examples of just such results (Kenya, South Korea, Taiwan and Vietnam) but there are other cases of reforms failing because they are excessively state-centred, vulnerable to political 'capture', biased against the poorest, inadequately accompanied by supporting services and sometimes result in uncertain property rights. Indeed, reforms can actually increase rural poverty, particularly when intended beneficiaries are exposed to increased risks through requiring them to grow crops or utilise techniques with which they are unfamiliar and where the state fails to provide support oriented to smallholder needs. There are also questions about the long-term viability of small farms created by reforms (Ashley and Maxwell, 2001; and, Killick, 2001). The development of land-sale markets following reforms can also tell against the poor, providing an instrument through which the wealthy can buy up their holdings in times of stress.

The large fiscal cost of compensation payments to expropriated landowners is also a major disincentive, so land reform had fallen off the policy agenda until recently. It is back on now, partly in response to increased concern with poverty, partly because of the development of new approaches. There is interest now in measures which operate, for example, through the development of land-rental markets and through 'market-assisted' processes. The latter rely on voluntary land transfers based on negotiation between buyers and willing sellers, often mediated through local government or traditional authorities, with the role of central government confined to establishing a legal framework and providing part of the purchase price to eligible beneficiaries. Examples that have excited interest include Brazil, Colombia and South Africa. As ways of finding a way out of the cul-de-sac into which land reform had become stuck, these new approaches are promising, although it remains to be seen how much land might move from the rich by such means and whether screening processes for beneficiaries will not favour the less-poor rather than the poorest.

Privatisation also deserves a mention, both for negative and positive reasons. Evidently, privatisation of formerly publicly-owned enterprises, whatever its other merits, is likely to increase ownership inequalities. This is worst in cases of 'crony capitalism,' where divestiture is used to reward the government's friends, but even where transparency prevails it is obviously the rich who are best able to take advantage of the new investment possibilities. The poor may be disadvantaged in other ways too: through short-term job losses, through price increases and through stricter sanctions against non-payment, for example, for utilities. Transparency and a positive competition policy are among the safeguards against the worst dangers of privatisation. However, the inefficiency and under-investment often associated with past public ownership were not good news for the poor either and there are examples where privatisation has been used for their benefit, as with Bolivia's use of divestiture to fund a (small) flat pension for all citizens.

3. Progressive growth

Progressive growth (a.k.a. *redistribution with growth* or *pro-poor growth*) contrasts with static redistribution in that it refers to a process of change in which a chosen measure of (income) inequality diminishes over time but where no transfer from rich to poor is involved. In this sense, it can be thought of as a positive-sum process, from which all can gain, as compared with static redistribution (White and Anderson, 2001). We should, however, note the modesty of what is involved in progressive growth. Depending on the size of initial inequalities, the bulk of GDP growth can still accrue to the non-poor so long as the share of the poor is rising. In fact, growth is almost always marked by widening absolute gaps between the poorest quintiles and the rest of the population.

Progressive growth: A process in which the share of the poor in increments to income exceeds their pre-existing share.

How, in that case, might we differentiate progressive growth from an ordinary economic expansion from which the poor benefit in some degree? That there is a real difference is indicated by the result in a survey of over 140 growth episodes that only two-fifths met the above criterion for progressive growth (White and Anderson, 2001). Among the small number of countries for which there is a time-series of estimates, India emerges as a country that has achieved pro-poor growth. The policy interventions most likely to result in progressive growth are those that can be targeted on the poor, to the exclusion of the remainder of the population. Another feature is in a class of interventions that, like successful land reform, is 'doubly-blessed' (win-win) in the sense of both raising the relative position of the poor and promoting economic efficiency. Improving the access of the poor to education and preventative health fall into this category. The same is claimed for micro-credit schemes targeted on the poor. Actions to redress gender-based biases also qualify, for example in the provision of agricultural extension services, since research has indicated considerable output losses from this type of distortion (Tzannatos, 1999; and, World Bank, 1998)

By no means all actions fall into this happy category, of course. There are genuine trade-offs too. Shifting the distribution of income in favour of the poor, albeit incrementally, may result in lower aggregate levels of saving, investment and, therefore, growth although the evidence here is not decisive. The same may result from the relative expansion of social services, by diverting government revenues from economic services and infrastructural investments. The promotion of labour-intensive development, given existing technologies, may also result in some loss of total factor productivity. Targeting help on the poorest, including subsistence farmers in low potential areas, may yield low economic returns. Time is likely to be a consideration too: while targeting the poor may be beneficial in the medium-to-long term, there may well be shorter-term costs, as in the case of land reform.

One important consideration here is that some inequalities are instrumental, while others are redundant or dysfunctional. Inequalities are likely to arise in a market economy as a result of rewards to risk-taking, enterprise, skill acquisition and saving. These are instrumental, resulting from an incentive structure that also produces a dynamic economy which, in turn, raises the poor. Other sources of inequality do not have this saving grace, for example when they arise from political connections and other forms of discrimination, from a colonial legacy or from inherited wealth. Tradeoffs are most likely to occur when reducing inequality affects instrumental disparities. Other disparities are fair game.

3.1. Areas of Intervention

What, more specifically, can governments do to promote progressive growth? The distribution of income is profoundly affected by both

the overall policy environment within a country and by the structure of the economy and the way that structure changes over time. The overall policy framework conducive to progressive growth is familiar:

- agricultural and rural development;
- research and incentives to encourage labour-intensive investments;
- infrastructural investment to reduce the remoteness of many of the poorest;
- social policies to promote education, health and social capital;
- measures to eliminate biases against women as producers and consumers;
- improved access to capital through financial sector reforms and micro-credit schemes;
- the avoidance of macroeconomic crises.

3.1.1. Macroeconomic Management

The importance of macroeconomic management deserves a special mention. Evidence shows that instability and crises increase inequalities of income and assets, especially when accompanied by sharp currency depreciations, and the experience of Latin America during the 1970s and 1980s suggests that rises in inequality during recessions are not eliminated by subsequent recoveries. The evidence also suggests that inflation hits the poor hardest and is associated with worsening measures of inequality, at least in the shorter term (Easterly and Fischer, 2000; World Bank, 2001; and, Chu *et al*, 2000). Inflation is also frequently mentioned by the poor themselves as a prime preoccupation.

3.1.2. Agriculture and Rural Development

With most of the poorest living in the rural economy, policies towards agriculture and rural development are of obvious importance. One recent econometric study concludes that raising productivities in traditional agriculture may be the single most important way of reducing inequalities and poverty, to which might be added the development of rural non-farming sources of income and employment (Bourguignon and Morrisson, 1998; see also Ravallion and Datt, 1996 and 1999; and World Bank, 2000). Low income countries that have been most successful in achieving progressive growth, like Uganda and Vietnam, have done so on the basis of a thriving rural economy. An obvious starting point in agriculture is for governments to go further in dismantling the biases against this sector which linger on from earlier decades (Killick, 2001). Of interventions with a more explicitly progressive intent, measures to reduce the risks (often linked to uncertain water supplies) faced by smallholders deserve special mention, for farmers try to manage their risks through diversified but extremely small-scale food production, foregoing the benefits of greater specialisation. Depending on country circumstances, improved water management, development and propagation of minimum-tillage methods and drought-resistant varieties, improved access to credit and insurance, and investment in rural infrastructure all suggest themselves as potentially important contributors to progressive growth in agriculture (International Fund for Agricultural Development, 2001; and, Dixon *et al*, 2001). Such policies particularly commend themselves because agricultural development is neglected nowadays, by governments and donors alike.

3.1.3. Factor Markets

Another potential area of intervention for progressive growth relates to factor markets. The objective, of course, is to secure labour-intensive growth while simultaneously improving the access of the poor to credit and other financial services. As concerns labour-intensity, the pattern of rural development advocated above favours this. On the industrial side, the growth paths of the 'East Asian

'miracle' countries have generated much interest, holding out the possibility that other developing countries might replicate its successful model of export-led, labour-intensive industrialisation. There are difficulties involved in countries' wholesale replication of this model but, outside Africa, a good many have made substantial progress in the development of specific export oriented labour-intensive industries, on the basis of a policy set which encourages human capital formation, capital inflows, technological change and openness to trade. In earlier periods, growth in the 'miracle' countries was strongly progressive but income inequalities have tended to rise in East Asia in recent years, even though the underlying trend in poverty has remained favourable.

Attempts to generate employment through the manipulation of factor prices, raising the cost of capital relative to labour, have produced only muted responses. The evidence suggests that, with extant technologies, the elasticity of substitution between labour and capital is often rather small. In this case the distributional consequences are ambiguous: there will be a shift in the functional distribution of income in favour of capital and, while some new jobs will be created, this will be at the price of depressed real wages. It is as a result of this type of response that IMF programmes have been found to be associated with a redistribution of income away from labour in favour of capital – reinforcing the case for careful analysis of likely social impacts before such programmes are adopted. Another way of working through the market is for governments to subsidise new jobs but the revealed cost-effectiveness of this is unfavourable, while the practical difficulties are many.

Another possibility for labour-intensity are various employment-creation schemes: public works programmes, food-for-work and self-employment schemes. Here the record in practice has been mixed. Studies of such schemes in India, where there has been substantial experience, suggest that often the impact on beneficiaries has been minimal, with low incremental employment and little multiplier effect; with eligibility criteria frequently violated; and with leakages of funds. The poorest have often found themselves excluded, while many of the long-run benefits have gone to landowners (Narayana *et al*, 1988; and, Papola and Sharma, 1996). Self-selection is a possible response to some of these shortcomings, in which the wages payable are set below the going market wage in order to discourage any but the poor from taking advantage. Experiences in Argentina and Maharashtra State in India show that this is an effective form of targeting and can provide both significant net increases in income and greater economic security to large numbers of poor people (Ravallion, 1999).

In the area of financial markets, there has been much interest in the potential of micro-credit schemes, partly stimulated by the success of the Grameen Bank in Bangladesh. These can be seen as a response to the failure of financial markets to meet the credit needs of the poor and, as such, as having the potential of being 'twice-blessed' for progressive growth: raising welfare while promoting greater economic efficiency. The picture which is emerging, however, is that microcredit agencies are actually better at reaching the less-poor, which means that their distributional impact is ambiguous. Many such schemes rely upon peer-monitoring, which disadvantages the poorer, socially-excluded and more vulnerable. Agency staff incentives also sometimes tell against inclusion of the poorest. At the same time, there are things that could be done to improve the targeting of such schemes, mainly by making them more responsive to the particular needs of the very poor. Designing loan arrangements flexible enough to deal with the risks and vulnerabilities they experienced, and to meet their need for quasi-insurance arrangements to help them cope with uncertainty. Frequent but flexible repayment instalments and variable loan maturities are among the possibilities here (International Fund for Agricultural Development, 2001, pp. 206-14). What everyone agrees, of course, is that credit can only make an impact on inequality when combined with complementary

programmes and genuine economic opportunities, so that the money can be put to productive use.

Box 2 The Politics of Redistribution*

The political sensitivities of changing the distributions of income and wealth are considerable. This is why dynamic (positive-sum) redistribution is often a more promising approach than the static (zero-sum) variety. The basic equation is that wealth equals power (and too often power results in wealth). The rich are usually well placed to defend their privileges, while the poor are typically marginalised. This does not mean that reducing inequality is impossible, however. The advantages of the rich are less than impregnable for a number of reasons:

- They are not typically a homogenous class, for example encompassing traditional landowners and modern entrepreneurs, so their interests differ. The re-emergence of land reform on to the policy agenda can be related to a relative decline in the importance of landowners.
- Wealthy individuals' perceptions of their self-interests vary. In highly unequal societies, some may well favour reduced disparities as diminishing social unrest, political instability, communicable diseases and crime, and as benefiting worker productivity. Moreover, the poor are likely to have common interests with many in the more influential middle strata of society.
- Politics are not only driven by self-interest. There is scope too for persuasion and leadership.
- Wealth is not the only political resource. The sheer numbers of the poor, as compared with the small number of seriously rich, is itself a resource. Hence the importance of movements for 'empowerment' and local participation should not be underestimated. Political reforms, including decentralisation, participatory approaches and the increased accountability of the state, which narrow the gap between the large number of the poor and their influence on how they are governed are of fundamental importance here.

However, the situations and interests of the poor are not homogenous either. Within 'the poor' there is the urban-rural divide; those with land (or jobs) and those without; men and women; and, regional-ethnic differences.

The task for egalitarians, then, is to find ways of convincing people to join pro-reform coalitions which should include at least some of the elite. The feasibility of this varies greatly across countries and over time but experience shows it is by no means impossible.

*See Moore and Putzel (1999)

4. Conclusion

What, then, are the prospects for reducing inequalities? It is evidently not an easy task. Statistical measures of inequality normally change only rather slowly and some research suggests they are much less responsive to policy interventions than economic growth (Lundberg and Squire, 2000). Against this, measured poverty can be extremely sensitive to even modest changes in income distribution and that there are cases in which inequality has been reduced quite quickly in non-revolutionary contexts, for example, in Jamaica, Mauritius, Tunisia and Turkey (White and Anderson, 2001).

Part of the difficulty stems from what was earlier called the basic equation, wealth equals power. This illuminates the highly political nature of redistribution but Box 2 draws attention to reasons why there may be greater political scope for action than often assumed. The range of policies available to governments to reduce inequalities is also a problem. A substantial number of instruments have been identified above but none are new and not all are of great proven

potency. But it would be wrong to conclude that there is little that can be done, for there are many examples of diminishing income disparities.

Such success stories tend to point particularly to the importance of agricultural progress, rural development and, in some cases, land reform as crucially important ingredients of progressive growth. For example, comparisons of the growth records of the various States of India point to the centrality of rising agricultural productivities, as well as of literacy (Ravallion and Datt, 1996 and 1999). Uganda is another country which has achieved progressive growth by fully including agriculture in its economic recovery, just as policies to promote labour-intensive industrialisation have been important in East Asia and elsewhere (Appleton *et al*, 1999).

There are lessons here for aid donors:

- If donors want to conquer poverty they cannot afford to ignore inequality. The same is true if they merely want to promote growth.
- Many of the actions donors are taking are likely to help reduce disparities, especially the promotion of basic health and education.
- But the relative turning away from agriculture and rural development in recent years is much less benign and ought to be reconsidered.
- More generally, donors' policies are likely to impinge upon the distribution of income and wealth, whether by design or otherwise. It is therefore much better that donors should take a considered view of what they want to achieve in this area rather than allowing it to be an incidental by-product of policies designed for other purposes. Inequality matters! And it can be reduced.

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**For further details, contact the author, Tony Killick
(t.killick@odi.org.uk)**

Overseas Development Institute, 111 Westminster Bridge Road,
London, SE1 7JD.

Tel: +44(0)20 7922 0300 Fax: +44(0)20 7922 0399

www.odi.org.uk

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