

Introduction to Week 2: Economic Growth and Poverty reduction

Dan Banik

Twitter: @danbanik

In this lecture, I will briefly highlight some successes and overarching trends related to the domain of economic growth and poverty reduction. If we focus on economic growth defined as “GDP per capita”, then there are numerous success stories from all over the world. The most widely cited example is, of course, the four Asian Tigers – Singapore, Taiwan, Hong Kong and South Korea – which witnessed exceptionally high rates of growth starting in the 1960s that propelled them into high-income economies. In the past couple of years, several countries have regularly made it into the list of the fastest-growing economies in the world. These include countries that you may not easily associate with rapid GDP growth such as Ghana, Laos, Angola, Mozambique, Ethiopia and Rwanda. However, unlike the Asian Tigers, which were successfully able to use growth to eradicate poverty, many of these countries that I just mentioned continue to face challenges in distributing the benefits of growth within their countries.

The international development community, including multilateral institutions, governments, scholars, and aid organizations, often use a poverty line measure of \$1.25 a day of income to define ‘extreme poverty’. Using this measure, Shaohua Chen and Martin Ravallion (2008: 23) estimate that in the period 1981-2005, the number of poor fell by slightly over 500 million people, and the percentage of people in the developing world living on less than \$1.25 per day was halved, falling from 52% to 25%. China’s success in poverty eradication has played a very important role in the overall global progress. Based on the \$1.25 a day measure, poverty in China declined from 835 million to 212 million between 1981 and 2005 (Chen and Ravallion 2012: 5). Now, if one were to apply a more stringent poverty line of \$2 a day, poverty in China actually declined from 972 million to 482 million during the same period (Ibid: 6).

Thus, there is general consensus that within a period of 25 years, China has lifted at least 500 million people out of poverty. Poverty reduction is, however, not just limited to East Asia. For example, between 2005 and 2008, the number and

percentage of people living below \$1.25 a day declined in all six regions of the world, including South Asia and Sub-Saharan Africa (Ibid: 2). While we ought to appreciate these impressive poverty reduction statistics, we must not forget the fact that large numbers of people all over the world – almost one billion according to some estimates – continue to live in extreme poverty and are highly vulnerable to economic and climate-related shocks. Those hundreds of millions of people in the world who were lifted out of extreme poverty between 1981-2008, continue to be poor, not just by the standards of rich countries, but also according to the standards of middle-income developing countries (Ibid: 3).

Economic growth does not automatically translate into effective poverty reduction unless there is sustained political commitment, well-formulated social policies and a focus on successful implementation of anti-poverty policy. For many decades now, scholars have enjoyed comparing the two Asian giants, China and India, which have both experienced substantial reduction in poverty in the past 25 years. Despite starting their development process at similar points of time (1947 for India and 1949 for China), China is far ahead of India on most indicators of development, including per capita income, literacy rates, and access to healthcare. What explains China's success?

Some scholars argue that the agricultural sector, which China has consistently prioritised, has been more important for poverty reduction than in India, where the sector has not enjoyed the same status. At the same time, however, one finds greater unevenness and variability of poverty reduction trends across Chinese provinces than in Indian states. And while several coastal provinces in China now exhibit high levels of economic development, many provinces in the central and western parts of the country lag behind. Thus, growth appears more evenly spread out in India than in China (Ravallion 2010). However, even within India there are considerable differences. The state of Kerala, in southern India, has become widely known all over the world for promoting the so-called “social justice model” of

development. The emphasis here has been on universal literacy, meaningful land reforms, easy access to primary health care, rural electrification, a decentralised form of governance and high level of civic organisation. These achievements have facilitated effective public dialogue and powerful social movements that have strengthened the rights of the poor. But the greatest success India has experienced in relation to China has been its ability to prevent famines.

The Nobel laureate Amartya Sen has famously claimed that no famine has ever occurred in a democratic country. In contrast to China, which experienced the worst famine in recorded history in 1958-61, India has successfully prevented famine since independence in 1947. This success, Sen argues, is primarily due to India's democratic political structure, which allows for a free press, opposition parties and the freedom for civil society to organise and advocate. Indeed, India's achievement is all the more impressive when one considers that famines were prevented despite large-scale poverty, undernutrition and the production of less food per capita than the famine-hit countries of Africa in the 1970s and 1980s. And together with impressive economic growth, the country has also made substantial progress in promoting human development in the past five decades – life expectancy has doubled, child mortality has fallen by more than fifty percent, and fertility has declined by more than two-fifths.

However, the success in preventing famine has not been replicated in the field of chronic hunger, which remains a major concern and affects large groups in the population (Banik 2007; 2011). Many countries in the developing world are witnessing rapid and high levels of economic growth. The challenge for them is to convert the benefits of this growth into effective poverty reduction. The success that many East Asian countries have experienced in reducing poverty offers numerous lessons for others in the developing world. And in the ensuing lectures, you will hear my colleagues speak about some efforts that are currently underway in Asia, Latin America and Sub-Saharan Africa that are already making a difference.