

Poverty, inequality and growth: trends, policies and controversies

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2022 WIDER Development Conference
in partnership with UNIANDES

Reducing inequality – the great challenge of our time

5-7 October 2022, Bogotá, Colombia

KØBENHAVNS UNIVERSITET



Acknowledgment

- A study supported by the Novo Nordisk Foundation (NNF) under Grant NNF19SA0060072 for the project 'The impact of inequality on growth, human development and governance'

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Introduction

- Reducing **poverty** and **inequality** and promoting inclusive **growth** fundamental to achieving the UN Sustainable Development Goals (SDGs)
- Much has changed in the global economy in recent decades (e.g. increased migration, environmental degradation, etc.) and thus **perspectives** on socio-economic progress made **vary widely** (even more so in light of Covid-19 and now Ukraine)
- However, coming to grips in a meaningful manner with **existing trends** critical to evidence-based policy-making

Introduction (cont.)

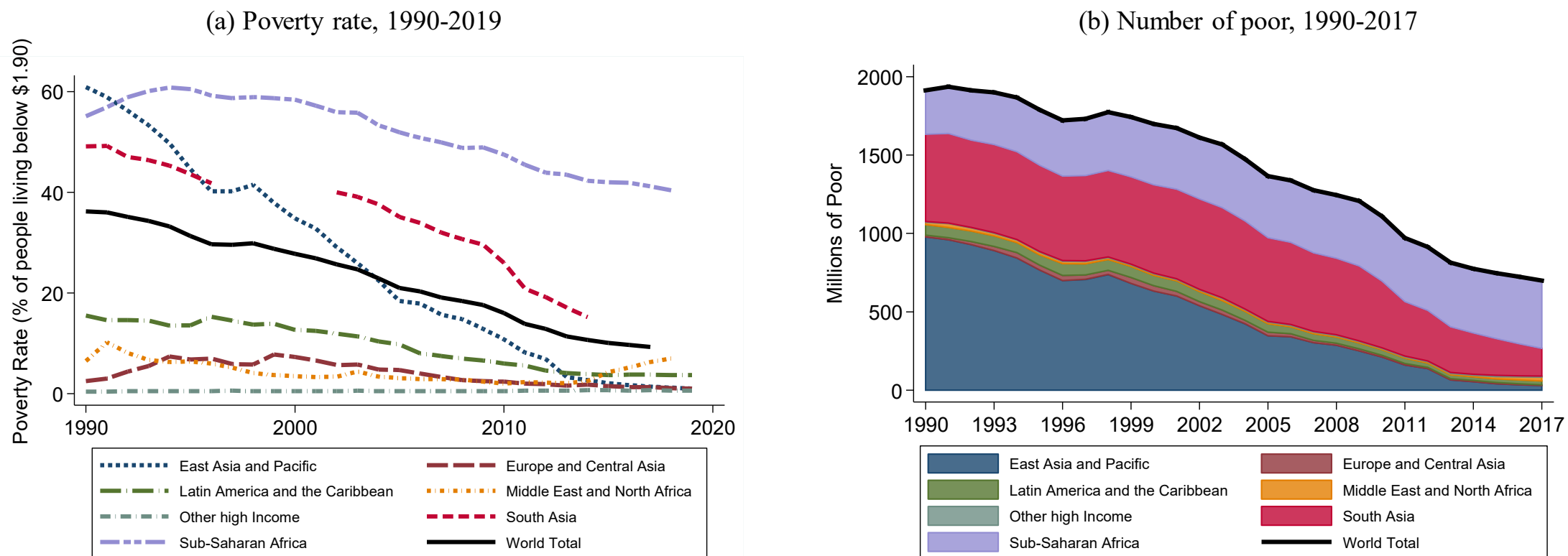
- **Goal:** provide an original review and evaluation of the **main stylized facts concerning poverty, inequality and growth**, taking as a reference point that these three concepts are linked and mutually interdependent (recall caveats!)
- Today: **summary of some key messages** drawn from the observed trends
 - See more details in the paper, as well as additional discussion on the basic concepts, the relation between growth, inequality, and poverty, and implications for policy responses

Trends in poverty

- Global and regional trends in poverty are far more **heterogeneous** than often assumed in the public debate.
- The portrait of reality that one ends up with **depends** heavily on underlying **conceptual** and **measurement issues**:
 - Poverty rates or the absolute number of poor people (Figure 1), choice of cut-off (i.e. poverty line), concept of absolute or relative poverty

For example, it matters greatly whether the focus is on poverty rates or on the absolute number of poor people, particularly when it comes to SSA.

Figure 1. The poverty rate and number of poor, by region.



Source: Authors' elaboration based on PovcalNet (World Bank, n.d.).

Note: The global and regional poverty rates and the global and regional number of poor people have been estimated at the international poverty line of \$1.90 per person per day. The international poverty line of \$1.90 per person per day provided by PovcalNet is measured in 2011 purchasing power parities (PPPs) to adjust for price differences across countries. Panel a shows the poverty rate at regional level (dashed and dotted lines) and at global level (solid line). Panel b shows the cumulated number of poor, by region, with the world total displayed as a solid line. The two regions that contribute the most to the global number of poor are Sub-Saharan Africa and South Asia, respectively.

Trends in poverty (cont.)

- **China** alone accounts for 2/3 of reduction in poverty rate from the 1980s (1.90\$ poverty line) (Sumner et al., 2022).
- Decreasing numbers of absolute poor at \$1.90 line developing world (except for SSA) accompanied by **increasing** numbers of poor according to living standards of the country where they live.
- While data remains scarce, clear that the **Covid-19 pandemic** and the consequent economic recession have had a dramatic impact on poverty reduction globally: **increase in the global poverty rate** for the first time in decades; estimated increases clearly worse if combined with an assumed increase in inequality.

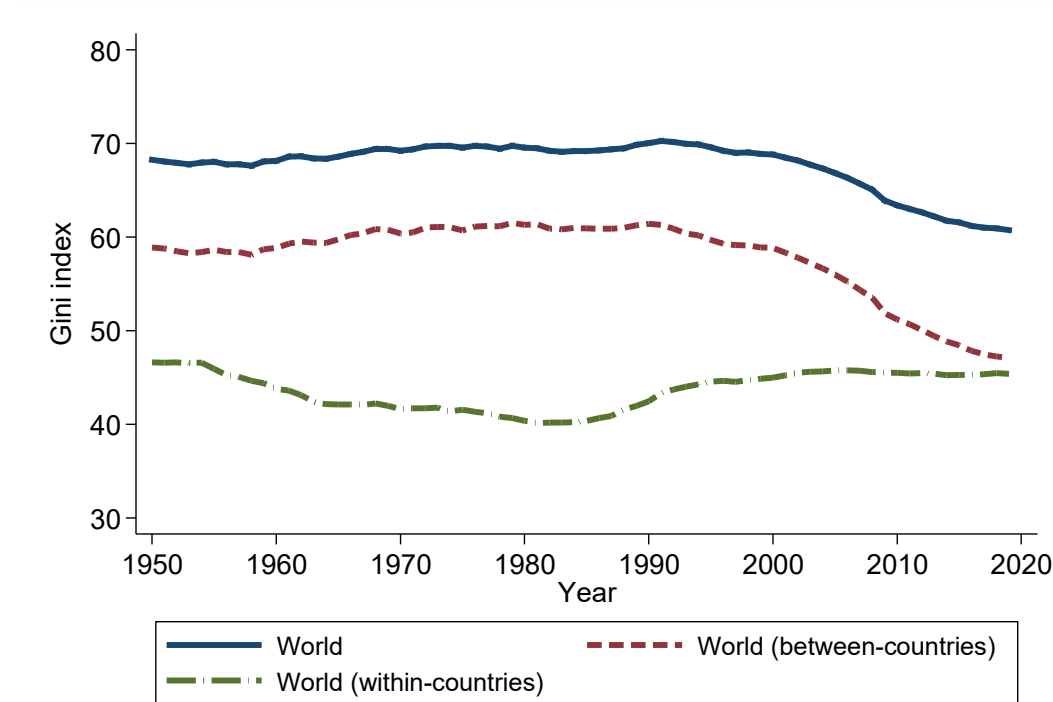
Trends in inequality

- Even if **global** relative inequality (measured by the Gini) has trended downwards for several decades, this reflects only to a certain extent the variability in **regional trends**.
- While using income and wealth shares suggests a similar global trend, clear that **wealth is far more unequally distributed** than income.
- **Measurement** of inequality: great care needed when making statements about what has happened to global inequality over time and across regions and income deciles (in line with Ravallion, 2021)
 - Within- and between-country inequalities; relative and absolute measures of inequality

The **decline in global inequality** (using the most widely used relative measures) in recent decades driven by falling between-country inequality; within-country inequality either constant or slightly increasing.

Figure 2. Overall global income inequality, between-country and within-country inequality.

(a) Gini index (WIID), 1950-2019

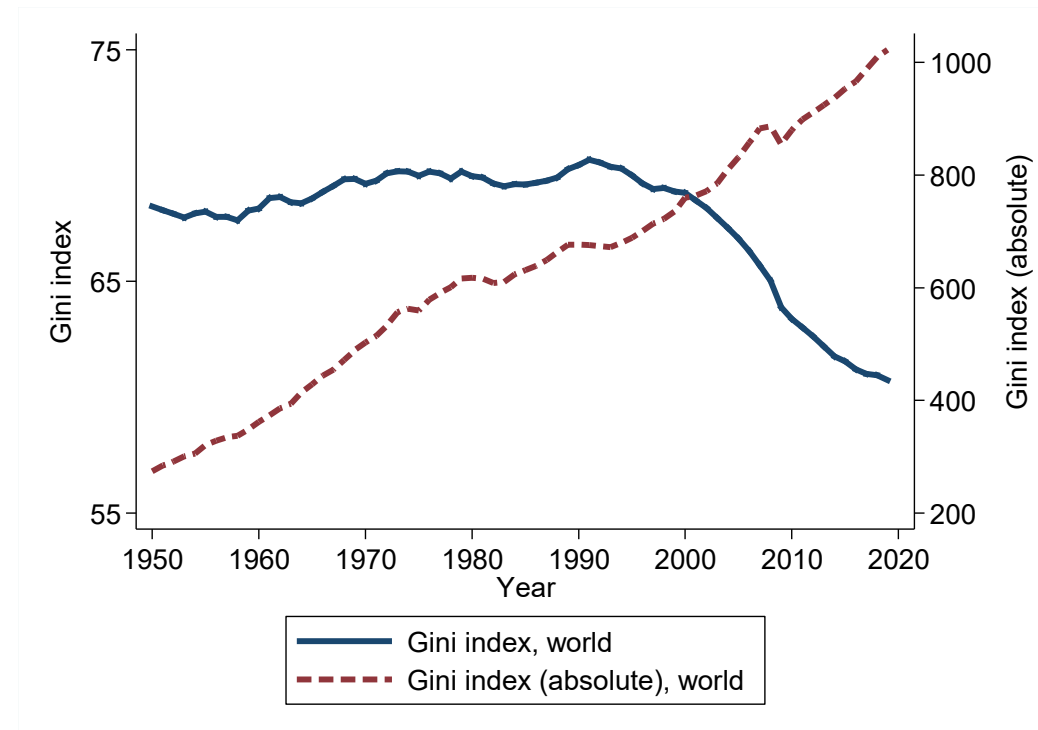


Source: Authors' elaboration based on WIID (UNU-WIDER, 2021) and Gradín (2021a).

Notes: The inequality measure is computed using the income aggregates contained in the WIID database, which are estimated based on available survey information. Incomes are expressed in constant 2017 PPP USD. Between-country inequality is computed by removing all within-country inequalities, which is pursued by replacing the income of all percentiles in every country by the country mean. Within-country inequality is computed by removing all inequality between countries, which is achieved by rescaling all country percentiles to have the same representative income (the global mean income).

However, when global inequality measured in absolute terms, a highly dramatic **increase** stand out.

Figure 3. Relative and absolute inequality, global level, 1950-2019.



Source: Authors' elaboration based on WIID (UNU-WIDER, 2021) and Gradín (2021a).

Notes: The standard and absolute Gini indexes presented in the figure are computed using the income aggregates contained in the WIID database, which are estimated based on available survey information. Incomes are expressed in constant 2017 PPP USD. In the standard (relative) case, the countries' GDPs are weighted by their respective population and the Gini index is then computed for each year, based on countries' population-weighted GDPs. The absolute Gini index is then computed as: standard Gini x GDP/1000.

Trends in inequality (cont.)

- Many hypotheses about the impact of the **Covid-19** pandemic on inequality. Assessments vary reflecting the distinct lack of hard data.
- The pandemic probably led to some **increase in relative inequality** (and a decrease in absolute inequality). Still, great **caution** recommended, for example, in light of the observations made by Deaton (2021), which point in the other direction.
- Important impact of Covid-19 on **growth**, and the **dynamic and medium-to-longer term effects** on poverty and inequality. Likely harmful for poor and vulnerable members of society in developing countries, unless quick and robust recovery of global economic progress assured.

Trends in growth

- Analysis of relative and absolute **growth incidence curves**: effect of economic growth on the global income distribution
 - **“Elephant chart”** (Lakner and Milanovic, 2016): the very top of the global income distribution gained significantly from economic growth 1988-2008.
 - **“Serpent” graph** (Ravallion, 2018) - absolute perspective: very richest percentiles of income distribution gained enormously from growth 1988-2008, and poor and middle class in developing world actually gained very little.
 - **Updated** with more recent data (along the lines of Gradín, 2021): the **“serpent” continues to emerge**, while the **“elephant” pattern has faded**, reflecting in large measure the economic rise of China; the “updated serpent” suggests that the poor also gained in absolute terms during the period prior to the Covid-19 pandemic.

Implications for policy responses

- While links between poverty, inequality, and growth complex, available estimates agree, in a short period of time, the Covid-19 shock **reversed** years of successful fighting against poverty, making it harder than expected to **achieve the SDGs**.
- **Social protection policies** (e.g. social transfers, job protection) moving up the policy agenda (alongside the awareness that the labour market is key for how the income of the poor develops). Hopefully, same will happen for support for **food** production and the protection of food supply chains.
- Restrictions imposed during the pandemic have highlighted once more the **need to build resilience**, especially among the poor and vulnerable. Arguably the most effective way to make constructive use of the relationships inherent in the 'poverty-inequality-growth' triangle.

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INEQUALITY IN THE DEVELOPING WORLD

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Thank you for your attention