Abstract

The World Development Report makes the case for redistribution but then fails to give adequate focus to redistributive policies as the core of anti-poverty strategies. Simple calculations show the power that small amounts of redistribution can have to reduce poverty at both the global and national levels. Mechanisms for global redistribution, through aid, trade, technology and immigration are inadequately utilised. National level policies should encompass the full range of assets and go beyond incremental redistribution. The capacity of the fiscal system to provide safety nets is also important.

1. Introduction

The 2000/1 *World Development Report (WDR)* proves the case for redistribution. Promoting greater equality delivers a ‘double whammy’ to poverty. First, if income is more equally distributed then growth is more rapidly turned into lower poverty. Second, there is no adverse link from redistribution from growth. Indeed, it is argued in the *WDR* that lower inequality actually enhances growth, and so poverty reduction. Given these arguments, one might have expected to find redistribution promoted as a central pillar of poverty reduction strategies. But there is no chapter devoted solely to issues of redistribution. And some major channels for redistribution, notably through the fiscal system, are missing. The *WDR* thus waters down the need to focus on distribution, the issue becoming further diluted by the time it reaches World Bank policy advice to developing countries. Moreover, the report pays little attention to the scope for global redistribution.

* The author would like to thanks Andrew Masters for research assistance in preparing this paper.

1 See the paper by Maxwell in this volume for an elaboration of these arguments.
This paper does two things. First, it lays out the simple ‘numerical case for redistribution’. If the overarching objective of our development efforts is poverty reduction then redistribution seems to be the Big Idea we are looking for. Large amounts of poverty reduction can be achieved with remarkably small degrees of redistribution. Second, the paper discusses redistributive policies. The political constraints to redistribution are not to be downplayed. But the possibilities for reducing inequality are enhanced by keeping redistribution on the agenda and considering the possibilities as to how this may be done. Part 2 considers international issues and Part 3 those at the national level. Part 4 concludes.

2. International inequality

International inequality is of staggering proportions. Differences in average income per capita are large and have increased over time. The WDR reports the ratio of mean income (PPP GDP per person) in the richest 20 countries to that in the poorest 20. In 1960 this ratio was 18. By 1995 it had more than doubled to 37. The UK White Paper reports similar data, though suggests that this divergence has been modestly reversed in recent years (DFID, 2000: 17). But this measure of international inequality masks the true extent of world inequality. And the only available data show world inequality to be increasing.

Most international comparisons, including those cited in the previous paragraph, are measures of international inequality. That is, they implicitly assume that all citizens of a country receive that country’s mean income. We know this is not true, and so the true extent of world inequality is under-stated. If intra-country inequality is increasing, trends in international inequality will also mis-represent trends in world inequality. Inequality has increased very substantially in economies in transition, of which China also accounts for one fifth of the world’s population. So we may well expect that world inequality would show a different picture to that for international inequality.

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2 In China the Gini coefficient is estimated to have risen from 0.39 to 0.45 between 1988 and 1995 (McKinley and Brenner, 1999); another source gives 0.30 for 1985 and 0.38 for 1995 (Ahuja et al., 1997).
To calculate world inequality comparable data are required for each household in the world. The results of such a massive undertaking are reported in Milanovic’s (1999) study utilising household income and expenditure surveys for 1987 and 1993. This paper has a number of remarkable findings, most of which are not mentioned in the WDR (despite the paper being a product of the World Bank’s research department and drawing heavily on World Bank data sources). The paper shows that differences between countries are responsible for the bulk of world inequality, that world inequality has increased over time, and that the real income of the poor fell from 1988 to 1993. Let us explore each of these in a bit more detail.

The Gini coefficient for world inequality in 1993 was 0.66. The Gini coefficient can be decomposed into inequality within and between groups (plus a residual). Performing this calculation shows that 88 per cent of inequality is a result of inequality between countries. That within countries only accounts for around 2 per cent of total inequality.

The value of 0.66 compares with 0.63 in 1988. Inequality has risen in Africa, Asia and, very substantially, in Eastern Europe/FSU (Table 1). The Theil index has also risen from 0.77 to 0.87. These findings are consistent with a long-run upward trend in world inequality reported by Bourguignon and Morrisson (1999), who find the Theil index to have risen from just over 0.5 in the 1820s to close to 0.8 today. As shown by the large share of world inequality accounted for by differences between countries, this growth in inequality has come about as some countries have grown more rapidly than others.

<table>
<thead>
<tr>
<th>Region</th>
<th>1988</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>0.43</td>
<td>0.47</td>
</tr>
<tr>
<td>Asia</td>
<td>0.56</td>
<td>0.62</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>0.57</td>
<td>0.56</td>
</tr>
<tr>
<td>Eastern Europe/FSU</td>
<td>0.26</td>
<td>0.46</td>
</tr>
<tr>
<td>Developed countries</td>
<td>0.37</td>
<td>0.37</td>
</tr>
<tr>
<td>World</td>
<td>0.63</td>
<td>0.66</td>
</tr>
</tbody>
</table>

Source: Milanovic (1999)

The data are of course survey data so do not have each household in the world but a representative sample from each country included.

Bourguignon and Morrisson apply income shares to GDP to estimate world income distribution.
The focus on inequality is often criticised on the grounds that it is real income that matters. So what if inequality is rising so long as income growth is sufficient to ensure that the incomes of the poor are also rising? But the most striking finding of all reported by Milanovic is that the real income of the bottom 80 per cent of the world’s population fell from 1988-93. Income gains were only recorded by the richest fifth. Indeed, as Figure 1 shows, income gain above this level was proportional to initial income – so the highest gain (of 18 per cent) was recorded by the richest one per cent. One might have thought that such an astounding finding would have caught the headlines and led to deep reflections as to what is wrong with the prevailing model of development. But apparently not. Indeed, the finding is not mentioned in the WDR, which consequently endorses the policies already being promoted when this appalling record was achieved.
Figure 1  Change in real income by income group (1988-93)

Source: Milanovic (1999)
A closer look at these results shows that only in developed countries have the benefits of growth been spread across the population so that everyone is better off. In Eastern Europe everyone other than the very rich was worse off in 1993 than in 1988. In Africa the bottom 55 per cent of the population were worse off in 1993 than in 1988, and in Latin America the bottom decile became worse off. Of developing regions, only in Asia were real incomes of the poor preserved.

A simple calculation shows what can be achieved through international redistribution. Suppose there were to be a tax on all rich countries of one per cent of GDP and that the resulting revenue were divided between all low income countries. The results of this calculation are summarised in Table 2. Though this back of the envelope calculation inevitably involves somewhat arbitrary assumptions, the aggregates are close enough to those reported elsewhere to give confidence. Taking just one per cent from rich countries – that is, a penny in the pound – reduces the number of poor from 1.3 billion to 1.1 billion. 200 million people are lifted out of poverty as a result of this modest transfer. There has been much talk about achieving a one half reduction in the percentage of people living in poverty between 1990 and 2015 – and even that this may not be achieved (e.g. IFAD, 2001). But the one per cent redistribution achieves one third of the target just like that.

Table 2  Effect of a one per cent global redistribution on dollar a day poverty (data from mid-90s)

<table>
<thead>
<tr>
<th></th>
<th>Number of poor (millions)</th>
<th>Headcount (per cent)</th>
<th>Gini coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before redistribution</td>
<td>1,305</td>
<td>24</td>
<td>0.54</td>
</tr>
<tr>
<td>After redistribution</td>
<td>1,101</td>
<td>20</td>
<td>0.52</td>
</tr>
</tbody>
</table>

A final result to note from Table 2 is that the international Gini coefficient falls, though not by that much. Small changes in redistribution can register large reductions in poverty. This same point will re-emerge at the national level.

5 The calculation was as follows. One per cent of total income was taken from each high-income country and the proceeds shared between low income countries with an equal allocation per capita. The resulting national incomes were converted to PPP GDP per capita. The increase in per capita GDP in low income countries was used to calculate the reduction in the poverty headcount assuming elasticities in the range –0.6 to –1.5 with the lower elasticities assumed for the poorest countries. Poverty headcounts were not available for all countries. Missing data were estimated from the regression of the headcount on PPP GDP and the infant mortality rate. (The R² from this regression was 0.55). The
What are the mechanisms for international inequality and to what extent are they being utilised? Existing mechanisms are those of aid, trade and technology transfer, though each falls far short of realising its potential. With regard to the latter, greater liberalisation by developed (rather than developing) countries is needed. Developed countries have also pushed for the liberalisation of capital markets, but have maintained or increased those on labour markets. Greater labour mobility is a largely unrealised channel for increasing international transfers.

Aid represents the main channel for transferring developmental resources to poor countries. Although aid was dwarfed by private flows over the last decade, the latter have been heavily concentrated in East Asia and parts of Latin America. Little has gone to the poor countries of South Asia and sub-Saharan Africa. Econometric analysis suggests that such countries have very restricted access to international capital markets (Lensink and White, 1998) and so a continued reliance on aid to finance trade deficits and debt payments.

**Figure 2 Net aid as a per cent of GNP, 1964-98**

Source: DAC database.

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number of poor before and after redistribution were calculated from the headcount before and after redistribution. Clearly it is being assumed that the effect of the transfer is simply additive.
But aid has failed the poor in terms of both quantity and quality. Nearly all DAC countries have committed themselves to the target that ODA should be 0.7 per cent of their GNP. But, as Figure 2 shows, they have moved away from this target over time, not toward it – the DAC average in the 1990s was less that 0.3 per cent of GNP compared with over 0.4 per cent in the 1960s.⁶ In the US aid is now a dismal one tenth of a cent for every dollar. Moreover, although aid from bilateral donors is now largely grant aid that from the World Bank and IMF remains loans, albeit on highly concessional terms. The mechanisms of structural adjustment force countries to borrow to “get out of debt”, so debt stocks remain stubbornly high. It would be a small cost to the rich countries, and a great benefit to the poor ones, to convert these loans into grants.

But the real challenge is to increase the level of aid flows. One way which has been suggested is by an international tax which would remove the arbitrary element by which each country can chose how much aid it gives. The UNDP’s *Human Development Report* (1992) provided an example of a simple progressive tax scheme. Alternatively, taxes may be raised specifically for this purpose. The Tobin tax – that is a tax on international financial flows - is the obvious candidate. Such a tax is less discussed than it was a few years ago, although the need for it is more evident since the East Asian crisis (see Raffer, 1998, for further discussion).

Aid is widely regarded to have failed at poverty reduction (see White, 2001). This fact is recognised in the *WDR* which has a chapter entitled ‘Reforming development co-operation to attack poverty’. The authors strongly endorse ‘the new aid agenda’ which is one largely concerned with aid management issues.⁷ The new emphasis on partnership means that old-style conditionality is meant to be gone, though aid will be focused on like-minded recipients (‘selectivity’), thus helping to breed ownership. Accordingly, development strategy will be shaped through the Comprehensive Development Framework (CDF) and Poverty Reduction Strategy (PRS), with donors sloting into these in various sector programmes. There are two problems with this vision. The first is the rather large gap between rhetoric and reality. On the ground,

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⁶ The *World Development Report* notes this trend, but only over the 1990s which masks the true extent of the decline.
⁷ See White (2001) for an elaboration of the argument here.
there has been little move away from donor-driven projects, and it is not clear that proponents of the new approach are engaging in the political battles at home which need to be fought if such a shift is to take place. The problems in aid have stemmed in large part from political and commercial pressures on the aid programme, and these need to be explicitly acknowledged and engaged. The second problem is that the new aid agenda does not address all of aid’s failings. The main one has been that the vast majority of aid has failed to benefit the poor. Whilst there are good arguments for aid assisting poverty reduction both directly and indirectly, any objective view must be that the amount going to directly benefit the poor (which is around 15 per cent) is pitifully small and should be increased.

The WDR also fully recognises the barriers to poverty reduction from developed country protectionism. Developed country agricultural markets are particularly strongly protected. In 1995 the average tariff faced by developing country exports of agricultural products was 16.4 per cent, double that on their manufactured exports (Hertel et al., 1999). The EU’s highest barrier is a staggering 826 per cent for meat products (World Bank, 2001: 180). The irony is that the arguments promoted by the World Bank in of the benefits of unilateral trade liberalisation are sometimes of dubious validity in developing countries but clearly do apply to developed country agricultural markets. The welfare gains to developed countries from liberalising these markets are enormous: $63 billion a year from removing agricultural protection alone – enough to double the aid budget and still have change to compensate farmers.

Technology transfer also offers great potential for reducing poverty – as the experience of the Green Revolution shows and, controversially, GM crops may yet do so. But the question is whether the poor have access to this technology. The same question arises in relation to pharmaceutical research. Will there be an affordable AIDS vaccine or will sufficient attention be paid to malaria? Currently only 10 per cent of research concerns the diseases which affect 90 per cent of the world’s population (World Bank, 2000: 183). The WDR speaks of global public goods, which includes agricultural and pharmaceutical research and discusses possible market-based schemes to encourage research of interest to poor people. However, agricultural research has been dramatically under-funded. Attempts to generate finance for global public goods through the Global Environment Facility have fared poorly. So whilst
the *WDR* makes valid points here it is not clear how we move beyond the current *impasse*.

Whilst promoting international trade in goods and services and strongly encouraging developing countries to open up their economies to foreign capital, the World Bank is silent on the impact which opening up developed country economies to foreign labour would have on poverty. Foreign workers send substantial amounts of money as remittances. For countries supplying labour to the Gulf, such as Pakistan and Sri Lanka, the value of these remittances has amounted to several per cent of GDP. Moreover, presumably as the money goes directly into the hands of poor people, remittances have, in contrast to aid, been found to be strongly related to investment and improved economic well-being.\(^8\) But the *WDR* does not mention this issue.\(^9\) Two policies will help promote the necessary redistribution of global income to reduce poverty. First, more open immigration policies in developed countries. Second, minimum wage legislation. Foreign workers are concentrated in low-paying jobs, so that a minimum wage will increase their earnings. It will also prevent the inflow of labour reducing pay to nationals at the bottom end of the income scale. (It may reduce income of others, but that in the end is what redistribution is about).

### 3. National inequality

The case for national redistribution is made by the *WDR* (sketched in the introduction to this paper and in more detail in Maxwell’s contribution to this volume). Again, some numbers reinforce this case.\(^10\)

It has been common to state that income needs to grow at around 8 per cent a year if the target of halving world poverty is to be met. This is about double the rate most African countries seem likely to achieve. Now, it is of course the growth in the income of the poor which matters for poverty reduction. Increases in income for the

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\(^8\) For a discussion of the contrast between aid and remittances see White (1999).

\(^9\) The recent UK White Paper *Making Globalisation Work for the Poor* uses the word immigration just once – to say that developing countries need to have more open immigration policies to encourage foreign investment (DFID, 2000). With respect to the UK, the paper notes the dangers of encouraging a brain drain of skilled labour from developing countries so that the UK government will restrict recruitment of people with skills likely to be scarce in their home countries.

\(^10\) The examples given here come from White and Anderson (2001) which presents the arguments in more detail.
non-poor have no direct impact on poverty. Suppose the share of the bottom 20 per cent in national income is 6 per cent (around the median level). A redistribution of just one quarter of a per cent of national income (just 0.25 per cent, which would barely register a change in the Gini) would increase their income share to 6.25 per cent – that’s an increase in income of about 4 per cent. So if the economy is growing at just 4 per cent a year, accompanying that growth by a small redistribution of 0.25 per cent will double the income growth of the poor to 8 per cent – the level required to achieve the poverty reduction target.

The case for redistribution is thus clear, and strongly endorsed by the evidence put forward in the *WDR*. Whilst the *WDR* does not take the obvious step of placing redistribution at the heart of anti-poverty strategies, it does devote some attention to the issue. The half chapter called ‘tackling inequalities’ proposes three principles: (1) using the power of the state to direct assets to the poor, by which is largely meant reorienting public spending, (2) reforming institutions to improve the quality of service delivery; and (3) increasing participation of the poor. The discussion of these issues focuses on health and education with some mention also of infrastructure.

There are two possible problems in the approach mentioned here. The first is that it is overwhelmingly incremental redistribution. That is, the poor are to get a larger share of assets than their current share, so their share of assets (and therefore presumably measures of wellbeing) rises. It is not a form of redistribution which takes from the rich to give to the poor (with the exception of land reform, but this is meant to be market-based). Incremental redistribution may well be more politically feasible but imposes severe limits on the nature and of extent of redistribution which may be considered.

Second, a number of items are missing from the list. Capital is nowadays broadly conceived to include financial, physical, human, social, political and environmental. Several of these are mentioned in the *WDR*, including the need to intervene in credit markets which fail the poor to ensure access to capital. But many are not. Historical trends of market-based development have, with assistance of the state, tended to restrict access to environmental capital – from enclosures in England and the Highland clearances in Scotland to the creation of Crown Lands in British colonies.
There is ample evidence that these trends are still present and impose a real threat to the livelihoods of many groups such as pastoralists. The forms of land reform promoted by donors may in the end reinforce these trends. The restricted access of the poor to social capital is captured in the concept of social exclusion (see Maxwell in this volume). The poor clearly lack access to political capital, and questions have been raised as to the ability of ‘participation’ promoted by external agencies to redress this situation. Poor countries and poor people in particular lack access to knowledge and modern technology.

Another missing area is the scope for redistribution through the fiscal system. It has always been the case that the World Bank and IMF have paid scant attention to the distribution impact of the macro-policies they promote. Whilst they have produced some models of a fairly general nature there has been virtually no empirical work. It is routinely argued that inflation is particularly bad for the poor, but there is no body of evidence in support of this statement. Tax reforms have been pursued (e.g. replacing sales tax with VAT) without analysis of the distributional consequences. And the possibilities for automatic safety nets is regarded as irrelevant for low income countries.

There is a very clear link between government’s role in fiscal redistribution and inequality. As a crude indicator, it can be observed that the four developed countries with the lowest Gini coefficients (0.25 and below) have an average tax to GDP ratio of 38 per cent, whereas the four countries with the highest Gini (0.35 and above) have an average of just 28 per cent. Atkinson (1999) presents a more careful analysis of the contribution of fiscal redistribution to overall inequality – showing in particular how the sharp rise in inequality in the UK from the mid-80s was in large part a consequence of the reduced progressivity of taxation and cut backs in social benefits (1999: 18). Whilst poorer countries may not be in a position to put in place generalised social security systems, much more could be done to create safety nets which work. The failure of famine early warning systems has not been a technical failure of these systems but the lack of response of governments and donors to the data they provide (Buchanan-Smith and Davies, 1995). African countries, most notably Botswana, which have taken seriously the need to respond have avoided famine. The argument was made above that more donor finance should go directly to
the poor. Financing of more widespread public works is one obvious mechanism for this.

4. Conclusions
The target to reduce poverty is seen as a great challenge for the international community. But there is a fast track to poverty reduction using redistribution. Simple calculations at both the international and national levels show that relatively small amounts of redistribution can have a big impact on poverty. It is thus surprising that redistribution has not been put at the heart of anti-poverty strategies. The lack of research into feasible redistribution means that it is just discounted as being politically impossible and otherwise impractical. This paper has sketched very briefly possible channels for redistribution, finding that they are mostly under-utilised. Emphasis on these issues by the international and research communities is necessary to promote the cause of redistribution for poverty reduction.

References


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