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BACKGROUND PAPER

Equity and Inclusive Growth from a Development Perspective

A.K. Shiva Kumar

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About the author

A.K. Shiva Kumar, PhD, a development economist, is policy adviser to UNICEF India and Co-Chair of the Global Learning Initiative to Stop Violence against Boys and Girls. He is also a Visiting Professor at the Indian School of Business in Hyderabad and teaches economics and public policy at Harvard University's John F. Kennedy School of Government. His research has focused on poverty and human development, health and basic education, social policy evaluation, and the impact of development policies on children and women. He has served as a member of India's National Advisory Council appointed by the Prime Minister's Office to provide social policy and legislative inputs for furthering the rights of disadvantaged groups. He has been a regular contributor to UNDP's global and national Human Development Reports. Dr. Shiva Kumar earned his M.A. in Economics from Bangalore University and his Post-Graduate Diploma in Management from Indian Institute of Management, Ahmedabad. He also has a Masters in Public Administration and a PhD in Political Economy and Government, both from Harvard University. Dr. Shiva Kumar lives in New Delhi.

About The Rockefeller Foundation

For more than 100 years, The Rockefeller Foundation's mission has been to promote the well-being of humanity throughout the world. Today, The Rockefeller Foundation pursues this mission through dual goals: advancing inclusive economies that expand opportunities for more broadly shared prosperity, and building resilience by helping people, communities, and institutions prepare for, withstand, and emerge stronger from acute shocks and chronic stresses.

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Table of Contents

Acronyms

CIDA	Canadian International Development Agency
GDP	Gross domestic product
GII	Gender Inequality Index
GNI	Gross national income
GNP	Gross national product
HDI	Human Development Index
HDR	Human Development Report
IHDI	Inequality-adjusted Human Development Index
MPI	Multidimensional Poverty Index
NGO	Non-governmental organization
PPP	Purchasing power parity
PQLI	Physical Quality of Life Index
RWG	Redistribution with growth

Preface

As The Rockefeller Foundation enters its second century of promoting the well-being of humanity, it continues to tackle some of the world's most pressing problems. Globalization has increased access to global markets, expanding productive potential and new opportunities for shared prosperity. However, we remain mindful that the persistence of disparities in development outcomes is stark evidence that the benefits of globalization are not always realized, particularly by poor and vulnerable populations.

With support from the Foundation, this report, *Equity and Inclusive Growth from a Development Perspective,* was written by development economist A.K. Shiva Kumar in 2013, at a time when the Foundation was trying to more fully define and operationalize its goals of what were then called Equitable Growth and Resilience (now called Inclusive Economies and Resilience).

The intent of this report was two-fold: to assist staff and grantees in better understanding the evolution of thinking on equity over past decades, and to situate how the perception of growth has evolved in the last century to where it is today.

Through a series of workshops and dialogues with Foundation staff and grantees in 2012 and 2013, Dr. Kumar assisted the Foundation in sharpening our knowledge and awareness of the key dimensions of equity that are important to consider in designing, implementing, monitoring and evaluating its work.

Dr. Kumar's work continues to provide valuable guidance in defining and measuring equity and inclusive growth. This report has been widely requested and distributed since it was first produced in 2013 and, as a result of its continued relevance to the Foundation's work and new Inclusive Economies and Resilience goals, it is being reissued in 2016.

Looking to the future, building the capacity of the Foundation and its grantees to use and apply these concepts, frameworks, and measures in the context of their work will enable the Foundation to better define and measure the impact and outcomes it seeks with its target populations.

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1

Concepts of Growth, Development and Well-Being

1.1 Economic growth: evolution in thinking

Economic growth, which refers to the annual growth rate of a country's gross domestic product (GDP), has remained central to discussions on development for over half a century. In these discussions, GDP is defined as the total market value of all final goods and services produced by a nation during a given year or, in some cases, to the growth rate of per capita GDP.

Why is economic growth important?

There are at least four good reasons.

- Low incomes cannot sustain reasonable living standards – even with extensive income distribution.
- Economic growth can help solve problems of public debt and deficit.
- Economic growth generates public revenues that can be used for advancing well-being through, for example, enhanced investments in health, education, or nutrition.
- A growing GDP is evidence of a society getting its collective act together. According to the Commission on Growth and Development's *Growth Report* (1960), as its economy grows, a society becomes more tightly organized, more densely interwoven. A growing economy is one in which energies are better directed, resources better deployed, techniques mastered and then advanced. It is not just about making money.

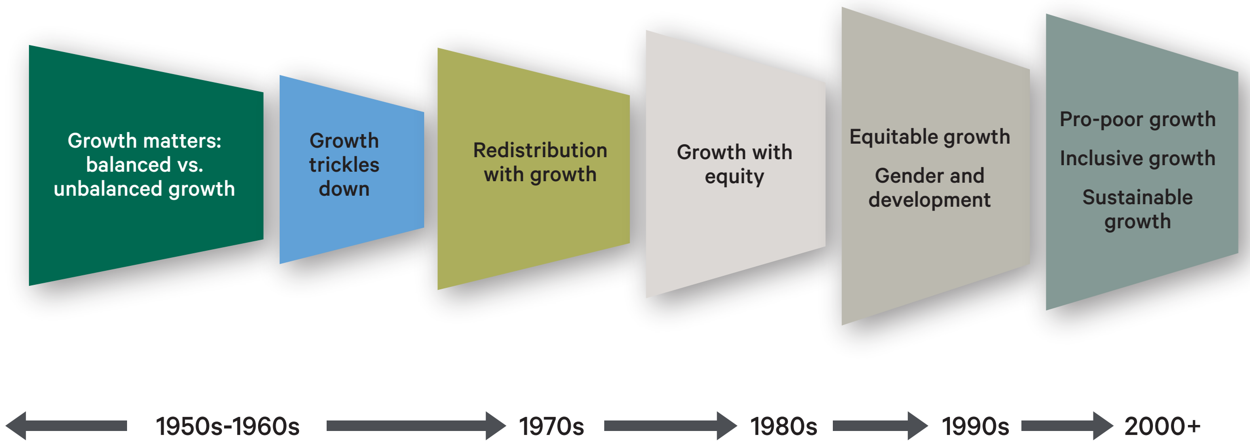
There has been a gradual evolution in thinking on economic growth over the past decades.

Growth matters. Early neo-classical development economists underscored the primacy of economic growth for underdeveloped countries and propounded different theories of economic growth. For example, Walt Whitman Rostow (1960) identified five stages of growth: i) the traditional society, ii) the pre-conditions for take-off, iii) the take-off, iv) the drive to maturity, and v) the age of high mass consumption. He argued that all developed countries had passed the stage of take-off into self-sustaining growth. Yet, developing countries remained in the traditional society or pre-conditions stage – largely because of inadequate investments.

Many other economists also propounded theories of growth, such as the following.

- The Harrod-Domar Growth model – developed independently by Roy F. Harrod (1939) and Evsey Domar (1946) – postulated that the rate of economic growth is determined jointly by the ability

FIGURE 1: Economic growth has remained central to economic thinking



of the economy to save (savings ratio) and the capital-output ratio.

- Economists, including W. Arthur Lewis (1954), Ragnar Nurkse (1953), and Gustav Ranis and John C.H. Fei (1964), developed models to explain how industry and agriculture in a typically surplus-labour underdeveloped economy can contribute to growth. For instance, the Lewis development model focused on the process of transfer of surplus labor and the growth of output in the modern sector. Lewis postulated that the process of self-sustaining growth and employment expansion continues in the modern sector until all of the surplus labor is absorbed, and that a structural transformation of the economy takes place with the growth of the modern industry. Discussions also centered on different patterns of growth that a nation could pursue.

Balanced growth. The balanced growth doctrine, advocated by Ragnar Nurkse (1953) and Paul Rosenstein-Rodan (1943), among others, maintained that countries have to develop a wide range of industries simultaneously if they are to achieve sustained growth. What happens if you do not pursue balanced growth?

Demand side. Take the case of a hypothetical country that begins development by building a soap factory. Land is acquired, the factory is built, equipment is put in place, workers are employed, and production starts. In the process, workers' incomes rise, and the factory workers might buy more soap. But they certainly won't be able to buy all the soap that is manufactured. If the rest of the population consists of poor farmers whose incomes have not risen, then soap will remain unsold. The factory will not be able to carry on profitable operations – it will have to shut down and the development effort that was initiated will fail. The solution is to build a number of factories at the same time. For example, if the country begins to produce and sell shirts, cars, biscuits, and so on, simultaneously, then this will keep all factories afloat – as enough demand could be generated by the rising incomes of factory workers.

Supply side. The case for balanced growth on the supply side refers to the need to build a number of industries simultaneously to prevent supply bottlenecks. For example, it is important to ensure that an automobile factory has adequate access (via imports or domestic production) to a variety of inputs (steel and aluminum, steering wheels, tires, seat covers, horns, etc.) for it to operate. The balanced growth strategy is often referred to as "walking on two legs" – a phrase attributed to the Chinese strategy of simultaneously pushing industry and agriculture. It has now come to refer to balanced development of small and large enterprises, pure sciences, and applied technologies, and so on.

Unbalanced growth. Notable economists, such as Albert O. Hirschman (1958), have argued in favor of unbalanced growth. Countries may not be able to devote their limited energy and resources to developing all sectors simultaneously. On the contrary, it would be to their advantage to concentrate their energies on a few sectors during the early stages of development. In most cases, given the huge backlog of demand, there was little danger of producing more shoes than could be sold domestically or exported. Hirschman developed the unbalanced growth idea into a general interpretation of how development ought to proceed. To him, linkages, backward and forward, are what matter. Industries with backward linkages make use of inputs produced by other industries. Conversely, industries with forward linkages produce goods that then become inputs into other industries. Rather than begin with automobiles, countries might begin by setting up a steel factory. Both forward and backward linkages exert pressure for the creation of new industries. Though nations might have to make choices between the two options in the early stages of development, in many ways, the notion of unbalanced growth is compatible with that of balanced growth. Hirschman also recognized that extreme imbalances will set up pressures that will force a country back to a more balanced path of development.

Growth first. Discussions on theories of economic growth dominated the development economics literature in the 1950s and 1960s. More recently, Paul Collier, by taking countries as the unit of observation, called for *growth first*. His position on growth, poverty, and inequality, excerpted from *IDS* in Focus (2008), are summarized in the following paragraphs.

> "The arguments in *The Bottom Billion* can be reduced to two key positions:
>
> - Growth matters and has been neglected. Growth should be our central concern.
> - Growth is generally good for poor people.
>   The quantity of growth (or lack of it) is the problem – not the quality of growth.
>
> … In sum, Collier does 'not share the discomfort about growth' felt by many people concerned about development. He argues that the problem of the Bottom Billion is that 'they have not had any growth', rather than the 'wrong type of growth' and he claims that 'growth usually does benefit ordinary people' (Collier, 2007). His diagnosis is clear: 'The failure of the growth process in these societies simply has to be our core concern, and curing it the core challenge of development'.
>
> In other work, notably his review of the *World Development Report 2006* on inequality, Collier suggests that development policy has been distracted by poverty and inequality from a key focus on raising incomes for societies as a whole (Collier and Dercon, 2006). Policymakers should worry about growth first and have faith that, generally, poverty reduction will follow."

Collier (2007) also identifies poverty traps that keep many countries poor.[1]

- *Conflict* – Of the world's poorest 1 billion people, some 73 percent are either involved in or recovering from civil war. Conflict destroys infrastructure and scares away investors, civil wars cause poverty, low incomes cause tensions, low growth means high unemployment and the high joblessness leads to anger and frustration.

[1] For critical reviews, see Samuel Grove "The Bottom of the Barrel: A Review of Paul Collier's *The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done about It*" accessible at http://mrzine.monthlyreview.org/2008/grove150808.html; and Niall Ferugson, "The Least Among Us" The New York Times, July 1, 2007 accessible at http://www.nytimes.com/2007/07/01/books/review/Ferguson-t.html?pagewanted=all

- *Natural resources* – Although natural resources are the real wealth of a nation, they can also become a poverty trap. Consider Sudan, Angola, and Zimbabwe, where people languish in poverty despite large oil or mineral reserves. This happens when revenues are siphoned off by corrupt leaders into private bank accounts, or when the excessive focus on one sector draws attention, capital and skills from all the other sectors of the economy.
- *Landlocked countries* – The geographical trap is especially serious if a country is landlocked with bad neighbors. Close to 38 percent of the world's poorest 1 billion people and 30 percent of Africa's population live in landlocked countries.
- *Bad governance* – Three-quarters of the world's poorest 1 billion live in countries that are either failing or recently failed states. This includes countries such as Somalia, Haiti, Sudan, and Zimbabwe.

Growth trickles down. The trickle-down theory posits that wealth created at the top trickles down to the bottom of the ladder. However, this theory has been questioned because the trickle down effects have proven negligible, with those at the top earning more and more while those at the bottom earn less and less.

Grow first then redistribute. Many economists, such as Simon Kuznets (1966), believed that inequality will first increase and later diminish as development occurs. The so-called "*Kuznets curve*" illustrates this relationship between growth and inequality. A U-shaped curve, it indicates that returns to investors will multiply in the early stages of development, while wages are likely to be held down by the availability of cheap rural labor. With industrialization and urbanization, the rural-urban inequality gap is also likely to widen. However, inequality could be expected to decrease when a certain level of average income is reached and the benefits of industrialization trickle down to the rural populations.

Redistribute first then grow. This is the radical model, epitomized by the experience of the Asian socialist economies, particularly China. Development began by expropriating properties from capitalists and landlords, and then subdividing them among small-scale producers. With the confiscation of property, income distribution is affected – it becomes more equal. Productivity of assets can improve and enhance incomes of small producers. This leads to more equitable growth.

Redistribution with growth (RWG). A term coined by the World Bank, the basic idea of RWG is that government policies should influence the pattern of development in such a way that low-income producers (located primarily in agriculture and small-scale urban enterprises) will see improved earning opportunities and simultaneously receive the resources necessary to take advantage of them. According to the World Bank, seven types of policy instruments could be employed to this end:

- measures to alter the prices of labor and capital to encourage employment of unskilled workers
- "dynamic" redistribution of assets by directing investments to areas in which the poor may be owners of assets, such as land or small shops
- greater education to improve literacy, skills, and access to the modern economy
- more progressive taxation
- public provision of consumption goods such as basic foods to the poor
- intervention in commodity markets to aid poor producers and consumers
- development of new technologies that will make low-income workers more productive.

Growth with equity. In the early days of the "growth with equity" debate, the term "equity" mainly referred to a reduction in relative inequality through redistributive policies. In later years, particularly since the 1970s, the equity aspect has been viewed mainly in terms of a reduction in absolute poverty rather than income inequality. The term "growth with equity" has come to refer to a broad-based strategy of development that does not leave the poor behind.

Equitable growth. The pattern of growth matters for both poverty reduction and equity. However, the link between economic growth and poverty reduction is not always strong. Depending upon the quality and pace of growth, Martin Ravallion (2004) found, for example, that a 1 percent increase in per capita income could reduce income poverty by anywhere from less than 1 percent up to 4 percent, depending on the country and the time period. The translation of growth into benefits for the poor is also contingent upon inadequacy of access to key markets as well as upon the terms of trade. Wiggins and Higgins (2008) identified the following elements that influence outcomes for the poor.

- *Physical access* – some people are effectively unable to take advantage of opportunities owing to the costs of reaching the market.
- *Market failure* – the poor cannot obtain the resources needed to invest and innovate, particularly in the cases of finance, land, and labor.
- *Lack of human capital of the poor* – low levels of basic education and vocational skills, as well as bouts of ill health, often keep poor people from getting better paid jobs.
- *Exclusion* – discrimination on the grounds of race and ethnicity, language, religion, caste, and gender results in people being excluded from jobs and public services.

Pro-poor growth. Pro-poor growth is intended to be growth that is good for the poor. But what exactly does this mean? From recent literature and policy-oriented discussions, Ravallion (2004) identified two definitions of pro-poor growth.

1. Poverty falls more than it would have if all incomes had grown at the same rate.
2. Growth reduces poverty.

Explaining further, Ravallion determined: "The first definition focuses on the distributional shifts during the growth process; roughly speaking, for growth to be deemed "pro-poor" by Definition 1 the incomes of the poor should grow at a higher rate than those of the nonpoor. A concern with this definition is that rising inequality during a period of overall economic expansion may come with large absolute gains to the poor yet this is not deemed to be 'pro-poor growth'. (Similarly, a recession will be deemed pro-poor if poor people lose proportionately less than others, even though they are in fact worse off.) Definition 2 avoids this problem by focusing instead on what happens to poverty. The extent to which growth is pro-poor then depends on how much a chosen measure of poverty changes. Naturally this will depend in part on what happens to distribution, but only in part – it will also depend on what happens to average living standards."

Inclusive growth. Inclusive growth refers to a growth process that ensures equal access to opportunities for all segments of society regardless of their individual circumstances. Thus, inclusive growth is about providing the poor with a starting point that can enable them to enjoy the fruitfulness of economic growth. Inclusive growth seeks to eliminate inequalities in outcomes, in order to ensure that the benefits of growth are equally distributed across the population.

It is important to understand the meaning of inclusiveness before assessing whether growth is inclusive or not. Economists have identified certain attributes of inclusive growth.

- *Opportunity* – Is the economy generating more opportunities for people to lead decent and secure lives?
- *Capability* – Is the economy enhancing capabilities?
- *Access* – Is the economy improving access to opportunities, especially that of poor and vulnerable communities?
- *Security* – Is the economy protecting people from various forms of insecurities and vulnerabilities?

Sustainable growth. According to the Canadian International Development Agency (CIDA, 2011), sustainable economic growth means "an increase over time in the output of an economy that integrates economic, social, and environmental considerations and that is supported by efficient institutions and sound policies. This growth must also enable the poor to participate in economic opportunities and enjoy their benefits." Sustainable economic growth an also be defined as a rate of growth that can be maintained without creating other significant economic problems, especially for future generations. There is clearly a trade-off between rapid economic growth today and growth in the future. Rapid growth today may exhaust resources and create environmental problems for future generations, including the depletion of oil and fish stocks, and global warming.

1.2 Critiques of growth

A number of scholars have questioned the excessive reliance on GDP as a measure of well-being, and economic growth as a measure of progress.

Deficiencies in GDP definition. Even before we assess how good GDP is as a measure of well-being, it is important to recognize some problems with the definition and computation of GDP.

- GDP in its computation includes not just "goods" but also a number of "bads". For example, if the production of cigarettes goes up, so will GDP. If the manufacture of dangerous weapons increases, so will GDP.
- Goods and services are valued at the market price. But is the market price truly reflective of the real value of the commodity? Take the case of water. The price paid for water does not capture all external environmental costs.
- GDP includes only formal market activities. That is, it counts only the value of goods and services traded in the market for a price and excludes non-market activities. This means much of women's work, which is unrecognized, is not adequately counted in GDP.
- GDP does not include the value of natural or cultural resources.
- The moral significance of GDP has been questioned by ethicists, who point out that, with GDP measurement, a packet of cigarettes (so harmful to life) is valued many times more than a loaf of bread or a liter of milk.

US Senator Robert F. Kennedy also presented a view of GDP, speaking in March 1968:

> "Too much and too long, we seem to have surrendered community excellence and community values in the mere accumulation of material things. Our gross national product … if we should judge America by that – counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for those who break them. It counts the destruction of our redwoods and the loss of our natural wonder in chaotic sprawl. It counts napalm and the cost of a nuclear warhead, and armored cars for police who fight riots in our streets. It counts Whitman's rifle and Speck's knife, and the television programs which glorify violence in order to sell toys to our children.
>
> Yet the gross national product does not allow for the health of our children, the quality of their education, or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages; the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage; neither our wisdom nor our learning; neither our compassion nor our devotion to our country; it measures everything, in short, except that which makes life worthwhile. And it tells us everything about America except why we are proud that we are Americans."

Why is economic growth not a good measure of well-being?[2] Even if we accept the flaws in the definition and measurement, GDP is not considered a satisfactory measure of well-being, nor is economic growth considered a satisfactory measure of progress. Why?

Income has only an instrumental significance. Income does not have any intrinsic importance; it has only an instrumental value. In other words, GDP or its expansion

[2] The Sarkozy Commission Report discussed shortcomings of material indicators and calls for using both objective and subjective measures of well-being. See *Report of the Commission on the Measurement of Economic Performance and Social Progress*, 2009: authored by Joseph E. Stiglitz, Amartya Sen and Jean-Paul Fitoussi, accessible at: http://www.stiglitz-sen-fitoussi.fr/documents/rapport_anglais.pdf

cannot be valued for its own sake. According to Amartya Sen (1984):

> "It is not uncommon to think of economic development as an expansion of the availability of goods and services in the country in question. The focus on the growth of GNP per head is an especially simple version of that general approach. It is, for example, a good antidote to the temptation to build castles in the air – overlooking the commodity basis of prosperity. ... But while goods and services are valuable, they are not valuable in themselves. Their value rests on what they can do for people, or rather, what people can do with these goods and services."

Higher incomes do not always mean improvements in well-being. This could be for a number of reasons.

- Higher incomes need not always be associated with aspects of life that people value and cherish. For instance, capital cities in most countries tend to be the richest in terms of per capita incomes, but they are also typically the worst in terms of traffic congestion, pollution, and crime.
- The conversion of income into well-being is not automatic. It is intermediated, for instance, by the provision of essential services by the state. A farmer owning hundreds of acres of land in a remote village might be "wealthy" or "rich", but this wealth is of limited value if there is no school in the village for his children to attend, or there is no health center to access in case of need, or there is no access to safe drinking water and proper sanitation facilities. Conversion of income into well-being is also mediated by a number of other factors including gender, race, and ethnicity. Of what use is the wealth of the rich farmer to his wife if she is denied her freedoms and not allowed, as in parts of South Asia, to go out of the house, pursue her interests or even invite friends over?

A higher per capita GDP need not necessarily mean higher incomes for all. There are at least three reasons (Gillis, *et al.*, 1983).

- Governments sometimes promote growth not just to improve the welfare of people but also to augment the power and glory of the state and its rulers. Most of the wealth of ancient Egypt was invested in pyramids!
- Resources may be heavily invested in further growth, so significant consumption gains are put off to a later date. If the process continues indefinitely, the later date never arrives. For instance, the military junta in Myanmar continued to invest in the army which kept resources from flowing into sectors that could more directly benefit people.
- Income and consumption may increase, but those who are already relatively well-off may get all or most of the benefits. The rich get richer and the poor get poorer.

An increase in per capita GDP may not adequately capture some phenomena, which have an increasing impact on the well-being of citizens. The *2009 Report of the Commission on the Measurement of Economic Performance and Social Progress* (Stiglitz, *et al.*, 2009) notes that traffic jams that increase the use of gasoline may improve GDP, but obviously not quality of life. Moreover, if citizens are concerned about the quality of air, and air pollution is increasing, then statistical measures which ignore air pollution will provide an inaccurate estimate of what is happening to citizens' well-being. Or a tendency to measure gradual change may be inadequate to capture risks of abrupt alterations in the environment such as climate change.

There is no automatic link between economic growth and improvements in well-being. The *1996 Human Development Report* (UNDP, 1996) argued that growth does not automatically translate into improved well-being. Determined efforts are needed to avoid growth that is jobless, ruthless, voiceless, rootless, and futureless.

- *Jobless growth* – the overall economy grows but does not expand the opportunities for employment.

- *Ruthless growth* – the fruits of economic growth mostly benefit the rich, leaving millions of people struggling in ever-deepening poverty.
- *Voiceless growth* – growth in the economy is not accompanied by an extension of democracy or empowerment. Political repression and authoritarian controls have silenced alternative voices and stifled demands for greater social and economic participation. Voiceless growth can also be growth that gives women only a minor role in an economy's management and direction. As shown in the *1995 Human Development Report* (UNDP, 1995), if human development is not engendered, it is endangered.
- *Rootless growth* – causes people's cultural identities to wither. Of the estimated 10,000 distinct cultures known, many risk being marginalized or eliminated. In some cases, minority cultures are being swamped by dominant cultures whose power has been amplified as a result of growth. In other cases, governments have deliberately imposed uniformity in the pursuit of nation-building by, for example, instituting a national language. This can be dangerous.
- *Futureless growth* – the present generation squanders resources needed by future generations. Rampant and uncontrolled economic growth in many countries is laying waste to forests, polluting rivers, destroying biodiversity, and depleting natural resources. This damage and destruction is increasing, driven overwhelmingly by demand in the rich countries, inadequate conservation in the developing countries and the pressure of poor people pushed onto marginal lands in poor countries. In sum, any development that perpetuates today's inequalities is neither sustainable nor worth sustaining.

The world's experience informs us that economic growth is not an end in itself. Growth may be necessary, but is not sufficient for increasing the potential of individuals to be productive and creative. A high rate of economic growth does not guarantee more participation, better security, greater equality, or safer environments. We need better policies and interventions to ensure growth that is fair, equitable, pro-poor, inclusive, and sustainable. Equitable growth does not happen spontaneously. It requires long-term political leadership and commitment – a commitment backed by patience, perseverance, and pragmatism.

The question then remains: if pursuit of more and more income (economic growth) should not be the goal of development, what should be?

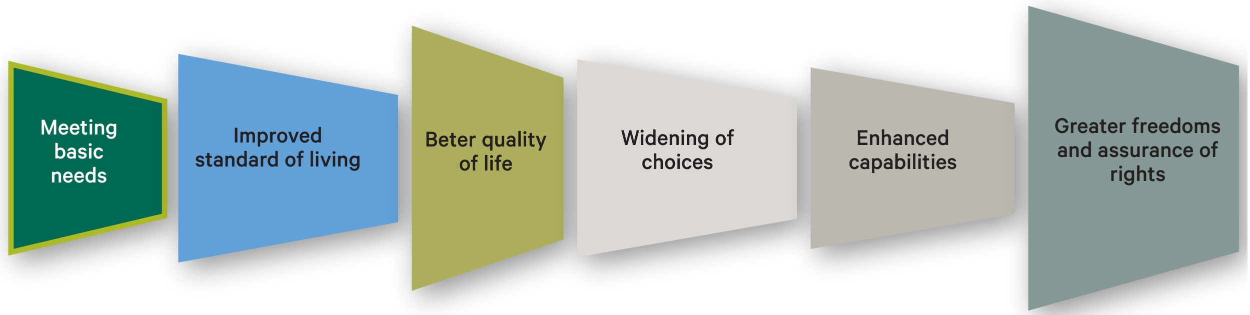
1.3 On assessing well-being

Means versus ends. In assessing well-being, we need to distinguish between means and ends. Goods and services are means; they have instrumental significance. Commodities are valuable only to the extent that they can contribute to enriching people's lives. The same is true for income. Income does not have any intrinsic significance; it is only a means with instrumental significance. Income is useful only to the extent that it can be used to buy goods and services which, in turn, can contribute to decent living.

If GDP and its growth rates are means (and have only an instrumental significance), then what are the ends of development? Thinking on the ends of development has evolved over the years.

Development as capability expansion. Amartya Sen has argued that the ends of development ought to be defined as an enhancement of human capabilities. This approach focuses on what people can do or can be, and development is seen as a process of emancipation from the enforced necessity to "live less or be less" (Sen, 1984). It draws attention to what a person can or cannot be. The focus is therefore on the capability to lead a long and healthy life, the capability to be well-nourished, the capability to be educated, and so on. Capabilities, according to Sen, are directly valuable in a way that the possession of primary goods cannot be, since they evidently are means to some human ends. A capability is a feature of a person in relation to goods. Sen (1984a) has identified four different notions that need distinction in this context.

FIGURE 2: The ends of development



> "There is the notion of a *good* (in this case rice); that of a *characteristic* of a good (e.g. giving calories and nutrition); that of *functioning* of a person (in this case, living without calorie deficiency); that of *utility* (in this case, the pleasure of desire fulfillment from the functioning in question, or some other functioning related to the characteristic of rice.) ... The distinctions involved in the four-fold classification are obvious enough, but they are sometimes confused, and perhaps the contrast between characteristics and functioning is worth a further remark. Characteristics represent, of course, an abstraction from goods, but they relate to goods rather than persons. Functioning is, however, personal features; they tell us what a person is doing. Capability to function reflects what a person *can* do. Of course, characteristics of goods owned by a person do *relate* to the capabilities of persons, because a person achieves these capabilities through the use of those goods, among other things, but still capabilities of persons are quite different from the characteristics of goods possessed. Valuing one has implications on favouring the other, but valuing one is not the same thing as the other."

To recap, the purpose of development is to improve human lives by expanding the range of things that a person can be and do, such as to be healthy and well nourished, to be knowledgeable, and to participate in community life. Seen from this viewpoint, development is about removing the obstacles to what a person can do in life, obstacles such as illiteracy, ill health, lack of access to resources, or lack of civil and political freedoms. It is important to emphasize that the human development approach contains two central theses about people and development, and to distinguish between them. They are what Sen calls the "evaluative aspect" and the "agency aspect".

- *Evaluative aspect* – is concerned with evaluating improvements in human lives as an explicit development objective and using human achievements as key indicators of progress. This contrasts with paradigms that focus on economic performance.
- *Agency aspect* – is concerned with what human beings can do to achieve such improvements, particularly through policy and political changes. The agency aspect is less widely appreciated.

The capabilities approach, according to Sen, relates to, but differs from, characterizing development as i) expansion of goods and services, ii) increase in utilities or iii) meeting of basic needs.

Commodities and capabilities. The capability of a person cannot be linked directly to the possession of goods and services. Sen (1984) used the example of food and nutrition.

> "Take the case of food and nutrition. The nutrition of people depends not merely on the availability

of food per head in the community, but also on distribution considerations, on the one hand, and on the other on factors such as (i) the person's age and sex (and if a woman, whether pregnant or lactating); (ii) metabolic rates and body size; (iii) activity levels; (iv) medical conditions (including presence or absence of stomach parasites); (v) climatic conditions; (vi) the social needs of entertainment and communal relations (including offering and partaking of food); and in particular knowledge of nutritional and health matters; (viii) access to medical services and the ability to use them, and so on. The capability of a person to be well-nourished cannot be identified or linked in a straightforward way with the national supply of food, or even with his or her own individual access to food...To focus on food as such without looking beyond would be a mistake. The same applies to commodities in general. Development is not a matter, ultimately, of expanding supplies of commodities, but of enhancing the capabilities of people. The former has importance only in an instrumental and strongly contingent way, traceable to the real importance of the latter."

Capabilities and utility. If not goods and services, it might be tempting to focus on the utility (or happiness or desire-fulfillment) derived by an individual. However, according to Sen, there are several conceptual and practical problems of depending on utility or satisfaction as measures of well-being.

- Focusing only on happiness is a very narrow way of looking at human life. Desire-fulfillment is only one dimension of human existence.
- Hunger, starvation, and famines are awful social phenomena, but not just because they cause disutility. Removal of starvation, poverty, and injustices is seen as unimportant in itself and rendered important only to the extent there is a net utility gain through their removal.
- One cannot rely on revealed levels of happiness. As Sen (1984) explained: "Judging importance by the mental metric of happiness or desire-fulfillment can take a deeply biased form due to the fact that the mental reactions often reflect defeatist compromises with harsh reality induced by hopelessness. The insecure sharecropper, the exploited landless labourer, the overworked domestic servant, the subordinate housewife, may all come to terms with their respective predicaments in such a way that grievance and discontent are submerged in cheerful endurance by the necessity of uneventful survival."

Capabilities and basic needs. The concept of basic needs has played an important role in shaping development thinking. It draws attention to the importance of providing health, nutrition, shelter, water and sanitation, education, and other essentials to citizens. "As noted by Paul Streeten (1981): 'the basic needs concept is a reminder that the objective of the development effort is to provide all human beings with the opportunity for a full life." According to Sen, by underscoring the importance of opportunity, the basic needs approach rejects both the "utility-based welfare economics and commodity-based growth calculus." While Sen agrees that the basic needs approach has many things in common with the capabilities approach which he advocates, he also has identified a number of key differences.

- Basic needs are still defined in terms of commodities, as "particular goods and services required to achieve certain results." The focus remains on commodities even though there is an acknowledgement that different people may require different sets of commodities to achieve the same ends.
- Due to social interdependence, the commodity requirements for specific capabilities may not be independently decidable for each person, e.g. capabilities such as the ability to appear in public without shame or taking part in the life of the community.
- Basic needs are specified in terms of minimum quantities of essential goods and services. A focus on just the minimum requirements may lead to a softening of the opposition to inequality in general.
- Needs is a more passive concept than "capability".

Capabilities and standards of living. As with basic needs, standards of living have a commodity-focus. They typically refer to the levels of wealth or income, comfort, material goods and necessities available to a particular socioeconomic class in a certain geographic area. This definition of standards of living is silent on people's access to opportunities, their state of health and nutrition, or their other capabilities.

Human capital and human capability. There is an important distinction between accumulation of human capital and the expansion of human capabilities.

- *Human capital* – focuses on the agency of human beings. Investing in people's health, education, and skills increases their productivity and augments production.
- *Human capability* – focuses on the ability of human beings to lead lives they have reason to value and to enhance the substantive choices they have.

It is therefore wrong to argue that human development simply implies human resource development – increasing human capital (Streeten, *et al.*, 1981). This reflects confusion between means and ends. Bestowing value to human life only to the extent that it produces profits – the human capital approach – has obvious dangers. In its extreme form, it can lead to slave labor camps, forced child labor and the exploitation of workers by management. People are not merely instruments for producing commodities. Human development rejects the exclusive concentration on people as human capital. It however accepts the central role of human capital in enhancing productivity. And the purpose of development is not merely to produce more value added irrespective of its use. The quality of human life is the end.

Development and quality of life. Assessing development as improvements in the quality of life brings us closer to viewing development as an expansion of capabilities. The Overseas Development Council, in the late 1980s, developed the Physical Quality of Life Index (PQLI) (Grant, 1978) – an aggregation of three indicators: life expectancy at age 1 year, the infant mortality rate and the rate of literacy. The Index was used to argue rightly that mere increases in per capita incomes may not lead to better health, improved child survival, or more education. Although the PQLI was designed as a minimal measure of social performance and partly as an antidote to undue emphasis on gross national product (GNP) per capita, it has been criticized for i) counting health twice, as infant mortality and life expectancy at age 1 year are highly correlated, and ii) omitting the material side of the quality of life.

Assessments of the quality of life tend to combine both objective (tangible) and subjective (intangible) elements. Thus, it is not sufficient to say that school enrollment has become universal as a result of the state building more schools and appointing more teachers. The real question to ask is whether the quality of education has improved. Similarly, it is not enough to say that society has progressed with the production of more automobiles. The real question to ask is whether the quality of the environment has improved. Again, society should be tracking improvements in the quality of health care and not merely people's physical access to health services.

At a conceptual level, it is possible, for instance, to include many factors listed in the United Nations' Universal Declaration of Human Rights for evaluating quality of life such as freedom from slavery and torture, equal protection of the law, freedom from discrimination, freedom of movement, freedom of residence within one's home country, presumption of innocence unless proved guilty, right to marry, right to have a family, free choice of employment, right to fair pay, equal pay for equal work, right to vote, right to rest and leisure, right to education, and right to human dignity. In practice, however, measurement poses several challenges.

For instance, the Quality of Life in New Zealand Cities[3] project includes 68 key quality of life indicators that encompass 186 individual measures across 11 domain areas: i) people, ii) knowledge and skills, iii) economic

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3 See website accessible at http://www.qualityoflifeproject.govt.nz/indicators.htm

standard of living, iv) economic development, v) housing, vi) health, vii) natural environment, viii) built environment, ix) safety, x) social connectedness, and xi) civil and political rights. Data for these indicators and measures are drawn from two main sources: i) biennial quality of life surveys which measure residents' perceptions of health and well-being, their community, crime and safety, education and work, the environment, culture and identity, and ii) secondary data sources, such as government agencies and non-governmental organizations (NGOs). It is, however, acknowledged that data gaps still exist, particularly in the areas of cultural well-being and the natural environment.

Development as widening of choices. The *Human Development Reports,* which draw on the writings of Amartya Sen,[4] define human development as a process of enlarging people's choices. Using choice is important for judging well-being. For instance, a survey might show that two individuals did not eat dinner the previous night. Can we therefore conclude that both of them are at the same level of well-being? No. One person may not have had dinner because he was dieting. The other person may not have had dinner because she was starving. Their condition is very different as one had the choice not to eat dinner, the other did not. Similarly, we cannot comment on the state of well-being by observing that two individuals earn the same income of, say, $100 per month. In one instance, it might be that that individual is well-qualified but is happy to do volunteer work for a modest stipend. In another case, it might be that the woman is very poor, and has been abandoned by her husband, lives in a slum, has five children, and works as a domestic help from morning till night to earn this meager income with which she can barely support the family. The situation of the two individuals is very different. The man has the choice, the poor woman has no option – though they both earn the same amount every month.

[4] See readings in Sakiko Fukuda-Parr and A.K. Shiva Kumar, Handbook of Human Development: Concepts, Measures, and Policies, Oxford University Press, New Delhi, 2009.

By focusing on the enhancement of capabilities and a widening of choices, the human development paradigm has drawn attention to a number of important features of development (UNDP, 1990).

- Income is a means, not an end. It can be used for essential medicines or narcotic drugs. Well-being depends upon the uses to which income is put, not on the levels of income.
- Present income of a country may offer little guidance to its future growth prospects. If it has already been invested in its people, its potential income may be much higher than what its current income level shows, and vice versa.
- Many fast growing countries are discovering that their high GNP growth rates may have failed to reduce socioeconomic deprivation of substantial sections of the population.
- Countries do not have to become rich in order to ensure a decent quality of life for their people. It is possible to do so even at relatively low levels of per capita income
- Human development is an end in itself that needs no further justification. For example, improving levels of education is important in itself and does not need justification on the grounds that it will lead to increased productivity.

Development as freedoms. Building on the capabilities approach, Sen (1999) defined development as an expansion of freedoms:

> "Development can be seen … as a process of expanding the real freedoms that people enjoy. Focusing on human freedoms contrasts with the narrower views of development, such as identifying development with the growth of gross national product, or with the rise in personal incomes, or with industrialization, or with technological advance, or with social modernization. Growth in GNP or of individual incomes can, of course, be very important as means to expanding the freedoms enjoyed by the members of the society. Freedoms depend also on other determinants, such as social and economic arrangements (for example, facilities for education and health care)

> as well as political and civil rights (for example, the liberty to participate in public discussion and scrutiny) … Viewing development in terms of expanding substantive freedoms directs attention to the ends that make development important, rather than merely to some of the means that, inter alia, play a prominent role in the process." Sen goes on to state: "Development requires the removal of major sources of unfreedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or overactivity of repressive states."

Poverty and inequality. Just as life is multidimensional, so is poverty. Poverty within the human development framework is not viewed narrowly as income deprivation, but as a denial of freedoms – economic, social, cultural, and political.

A single measure of income poverty cannot capture all forms of deprivation. Similarly, the discussion is not limited to inequality of incomes and wealth, but to inadequacies and inequalities in the distribution of opportunities – between women and men, across regions, between rural and urban areas, and within communities.

To focus merely on income poverty is not helpful in understanding what needs to be done to reduce poverty. For example, if a country defines the poverty line as $100 a month, and we find that an individual is earning $80, then one way of enabling this person to overcome poverty is to do a monthly cash transfer of $20. But this is not likely to help much. After all, income is an outcome. It is important to understand why this person was able to earn only $80 a month in the first place. It is likely that this person did not have access to equal opportunities – of going to a decent school and getting quality education, of having access to information about employment options, of having access to health care, and so on. Only by examining access to a whole range of opportunities can we arrive at any conclusions on how best to support such individuals in rising above the poverty line.

The *World Development Report 2007,* "Development and the Next Generation", discussed three strategic directions for reform that offer promise to young people.

- *Opportunities* – broaden the opportunities for developing human capital by expanding access to and improving the quality of education and health services, by facilitating the start to a working life, and by giving young people a voice to articulate the kind of assistance they want and a chance to participate in delivering it.
- *Capabilities* – develop young people's capabilities to choose well among these opportunities by recognizing them as decision-making agents and by helping ensure that their decisions are well informed, adequately resourced, and judicious.
- *Second chances* – provide an effective system of second chances through targeted programs that give young people the hope and the incentive to catch up from bad luck – or bad choices.

Human rights and human development. The idea of human development has been considerably enriched by the human rights discourse that has highlighted the importance of both moral consensus and legal obligations. Human rights and human development "share a common vision and a common purpose – to secure the freedom, well-being and dignity of all people everywhere" (UNDP, 1994). From a rights perspective, the state is principally responsible for assuring universal rights. It is the state's business to create the enabling environment and provide sufficient resources for ensuring universal access to basic social and other services. Poverty represents a denial of basic entitlements – to education, health, nutrition, and other constituents of decent living. Therefore, a rapid and equitable expansion of freedoms is crucial for ending human poverty. At the same time, by highlighting the importance of accountability, transparency, and the rule of law, the human rights perspective lends support to processes that encourage participation, protection, and empowerment of the poor.

1.4 Policy perspectives on growth

There is no basic conflict between i) regarding economic growth as very important and ii) regarding it as an insufficient basis for human development, because:

- growth is not an end in itself
- growth by itself is not necessarily sufficient – it needs to be sustainable, sustained, and inclusive
- nations should shift attention from expansion of commodities to expansion of capabilities
- policymakers are often mesmerized by the quantity of growth – they need to be more concerned with its structure and quality
- policy should address poverty of opportunities, not poverty of incomes – and should promote equality of opportunities, not equality of incomes.

Countries across the world have followed different strategies using growth as an instrument of development. Dreze and Sen (1989) distinguished between two contrasting approaches to human development.

- *Growth-mediated security* – promote economic growth and make the best use of growth, released by greater general affluence – to expand private incomes and also enhance human capabilities more directly (as in Hong Kong, Singapore, South Korea).
- *Support-led security* – resort directly to wide-ranging public support in domains such as employment provision, income redistribution, health care, education, and social assistance in order to remove destitution without waiting for a transformation in the level of general affluence (as in Chile, Cuba, Costa Rica, China, Jamaica).

Dreze and Sen also pointed out that the possibility of success through either approach is credible enough in principle. They also discussed the possibility of adopting a strategy of unaimed opulence. For example, rare as they may be, countries might be crudely pursuing economic expansion (and maximizing economic growth) without paying any direct attention to the conversion of greater opulence into better living conditions. Unaimed opulence, according to Dreze and Sen, is a roundabout, undependable, and wasteful way of improving the living standards of the poor (as in Brazil, Kuwait and United Arab Emirates).

The *Growth Report* (2008), also known as the *Spence Report,* examined strategies for sustained growth and inclusive development, reaching the following three main conclusions.

- Growth is not an end in itself, but it makes it possible to achieve other objectives of importance to individuals and societies. It can spare people *en masse* from poverty and drudgery. Nothing else ever has.
- Growth is a necessary, if not sufficient, condition for broader development, enlarging the scope for individuals to be productive and creative.
- Fast, sustained growth does not happen spontaneously. It requires a long-term commitment by a country's political leaders, a commitment pursued with patience, perseverance, and pragmatism.

It also identified distinctive characteristics of high-growth economies, asking how other developing countries can emulate them.

- Growth of 7 percent a year, sustained over 25 years, was unheard of before the latter half of the twentieth century. It has become possible only because the world economy is now more open and integrated, which allows fast-growing economies to import ideas, technologies, and knowhow from the rest of the world.
- Successful growth scenarios have in common an increasingly capable, credible, and committed government. Growth at such a quick pace, over such a long period, requires strong political leadership. Such leadership requires patience, a

long planning horizon and an unwavering focus on the goal of inclusive growth.

- No country has sustained rapid growth without also keeping up impressive rates of public investment – in infrastructure, education, and health. Far from crowding *out* private investment, this spending crowds it *in*. It paves the way for new industries to emerge and raises the return to any private venture that benefits from healthy, educated workers, passable roads, and reliable electricity.
- Growth strategies cannot succeed without a commitment to equality of opportunity, giving everyone a fair chance to enjoy the fruits of growth. But equal opportunities are no guarantee of equal outcomes.
- Countries embarking on a high-growth strategy today must overcome some global trends their predecessors did not face. These include global warming; the falling relative price of manufactured goods and rising relative price of commodities, including energy; swelling discontent with globalization in advanced and some developing economies; the aging of the world's population, even as poorer countries struggle to cope with a "youth bulge"; and a growing mismatch among global problems – in economics, health, climate change, and other areas – and weakly coordinated international responses.

There are two practical policy implications of adopting a human development approach to assessing development – evaluative questions and assessing human development at the sub-national level.

Evaluative questions. The evaluative questions to judge progress cannot be confined to examining growth rates in GDP. From an economic perspective, this key indicator could be complemented by examining trends in fiscal deficit, balance of payments, investments, inflation rates, unemployment rates, and so on. However, from a human development perspective, progress will need to be assessed more broadly in terms of the extent to which social and economic opportunities have expanded, participation, and democracy have increased, the environment has been protected, and peace and security have been achieved.

Some of the more critical questions to answer are:

- Has growth improved the quality of people's lives?
- Has the quality of education improved?
- Has the quality of environment improved?
- Are people getting better access to quality health care?
- Are people feeling safer and more secure?
- Has growth reduced domestic violence?
- Has growth reduced discrimination in society?
- Has growth contributed to improving public participation and deepening democracy?

Given the focus on people, the human development approach also calls for conducting disaggregated and differentiated analysis:

- How have interventions benefited different groups in society?
- Have some groups gained more at the expense of others? How have women and men benefited? Why so?
- Are poor and disadvantaged communities feeling more empowered?

Assessing human development at the sub-national level. Using income growth as a measure of progress at the sub-national level has specific practical limitations. Economic growth is a macro concept that can be measured at global, regional, or country levels. However, while national accounts provide estimates of GDP for a country, obtaining estimates of income at sub-national levels is not easy.

- *State domestic products* – most developing countries do not have reliable sub-national estimates of state domestic products because income levels are difficult to estimate given the large informal economy.
- *Household-level income estimates* – determining household-level income estimates from surveys is not easy. Most rural families have irregular and

multiple sources of income – both in cash and in kind.

- *National income disaggregation* – other levels of disaggregation of national income are also challenging. For instance, it is not easy to assess how much women and men earn. It is equally difficult to find out the average earnings of different communities in society. Using household expenditures as a surrogate is better than income estimates, yet there are also several practical problems with estimating weekly, monthly, and annual expenditures based on individual recall. Recognizing this, it is sometimes easier to measure gains in health, education, and so on. Disaggregated data can be collected to reflect the specific situations of women, men, and children, and of communities belonging to different ethnic groups. Such disaggregation and focus on people is important for evaluating the impact of development interventions.

2

Poverty: Concepts and Measures

The Rockefeller Foundation focuses on improving the well-being of poor or vulnerable people through its work across the three pathways of intervention, influence, and innovation. This makes understanding of poverty concepts an important part of effective program strategy, implementation, monitoring, and evaluation.

Why measure poverty? According to Jonathan Haughton and Shaihdur R. Khandekar (2009), there are at least four reasons to measure poverty:

- to keep poor people on the agenda
- to be able to identify poor people and thus target appropriate interventions
- to monitor and evaluate projects and policy interventions geared to poor people
- to evaluate the effectiveness of institutions with goals of helping poor people.

2.1 Poverty concepts

Concepts of poverty have evolved based on ideas of subsistence, basic needs, and relative deprivation. Broadly speaking, there are seven clusters of poverty meanings.

Income poverty. Poverty debates through the 1960s were confined largely to the issue of income deprivation. Economists often use the term poverty to mean income poverty. People can be said to be poor (or more strictly income poor) when they are deprived of income and other resources needed to maintain a decent standard of living. Definitions of what constitutes a "decent" standard of living also have varied. In some countries, it refers to income that can buy an individual a sufficient amount of food to ensure the minimum necessary calorie intake. In others, it refers to the income level needed to obtain basic necessities of life including food, shelter, basic amenities, and services. Defining an income poverty line, however scientifically it may be specified, is also controversial. Even within a country, the use of a common poverty line is beset with problems, due to, e.g. the different consumption baskets in rural and urban areas, different prices of the same commodity in different parts of the country and varying rates of inflation. Once specified, however, people below this threshold of income are defined as being deprived or poor.

Two notions of impoverishment – absolute and relative poverty are commonly used.

Absolute poverty. People are absolutely impoverished if the minimum amounts of food, clothing, and shelter necessary for their survival absorb all or most of their income, and they lead fairly deprived lives.

Relative poverty. People are relatively impoverished if the customary (average) standard of living in their society requires more spending than the income they have available. This standard changes as a society becomes more prosperous.

Getting information on household-level income is often problematic, especially in countries where a large majority of the population works in the informal sector. In such societies, rural household family members may have several different sources of income, some seasonal. Some could even be self-employed. There is also the element of self-consumption especially by farmers. Given these difficulties in obtaining data on incomes, most analysts argue that consumption data (obtained from detailed household surveys) is a better indicator for poverty measurement than income, for the following reasons.[5]

- *Consumption is a better outcome indicator than income*. Actual consumption is more closely related to a person's well-being in the sense of having enough to meet current basic needs. Income is only one of the elements which will allow consumption of goods – others include questions of access, availability, etc.
- *Consumption may be more reliably measured than income*. In poor agrarian economies and in urban economies with large informal sectors, income flows may be erratic and fluctuate during the year. Estimating farmers' income has the added difficulty of excluding the inputs purchased for agricultural production from the farmer's revenues. In addition, if households consume their own production or exchange it for some other goods, then the income is not monetized, and it becomes difficult to price the value of the consumed or traded consumption. Estimating consumption has its own difficulties, but it may be more reliable if the consumption module in the household survey has been well designed.
- *Consumption may better reflect a household's ability to meet basic needs*. Consumption expenditures reflect not only the goods and services that a household can command based on its current income, but also whether that household can access credit markets or household savings at times when current income is low or even negative, due perhaps to seasonal variation or harvest failure. This means consumption can provide a better picture of actual standards of living than current income, especially when income fluctuates a lot.

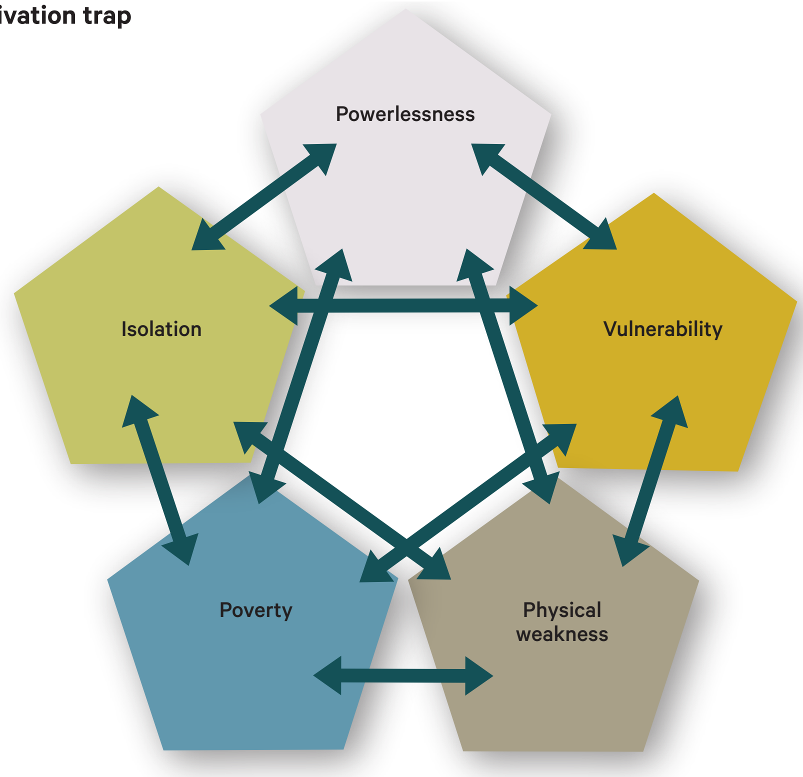
Non-monetary poverty. The poverty debates in the 1970s and 1980s evolved to include non-monetary aspects in the definition of poverty. Besides income deprivation (which refers to low or limited wealth and income), poverty could also imply insufficient access to basic goods and services needed for decent living – such as housing, clothing, personal means of transport, radios, or television. The idea of including basic services such as access to safe drinking water and proper sanitation as "basic needs" grew from this notion of material shortfalls.

The 1980s saw additional aspects of non-monetary poverty such as powerlessness, vulnerability, and isolation entering the definition of poverty. Robert Chambers (1983) referred to the idea of poverty as a multidimensional issue, reflecting clusters of disadvantage. He identified five dimensions of poverty which could make an individual or household poor on their own or together. As shown in Figure 4, these included poverty proper, physical weakness, isolation, vulnerability, and powerlessness. Each of these aspects of poverty is itself a cluster of disadvantage which can act as a deprivation trap locking people into poverty.

- *Poverty proper or "income poverty"* often refers to the World Bank definition which sees poverty as being "an inability to maintain the minimum standard of living in terms of consumption and of the income needed to support consumption."
- *Physical weakness* refers to ill health, disability or under-nutrition, all of which can reduce the capacity of individuals to work and earn an income. They also create dependency issues when having to care for sick relatives prevents family members from finding work.

[5] The World Bank accessible at: http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,,contentMDK:20242876~menuPK:435055~pagePK:148956~piPK:216618~theSitePK:430367~isCURL:Y~isCURL:Y,00.html

FIGURE 3: The deprivation trap



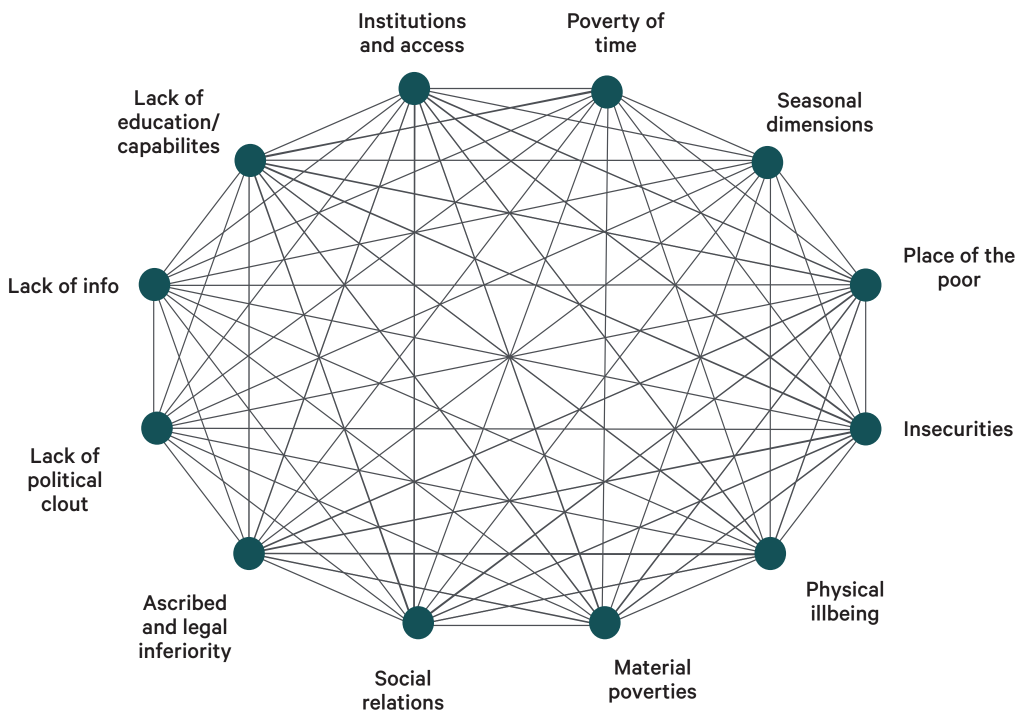
Source: Rural Development, Robert Chambers

- *Isolation* relates to physical and social isolation or exclusion. People can be physically isolated by the remote locations they live in. In addition to lacking electricity and phone connections, many rural settings in the developing world lack adequate road and rail links, which leaves areas difficult to reach or even cut off from the outside world. Isolation can also occur within communities, e.g. women are often excluded from accessing goods and services, or from access to education and information, which leads to illiteracy and ignorance.
- *Vulnerability* looks at the idea of people being vulnerable to shocks, emergencies, or unanticipated events, such as floods, drought, crop failure, famine, deaths, or illness. An individual's or household's ability to deal with these shocks can be the difference between falling into poverty and survival.
- *Powerlessness* refers to individuals or groups that have no say on all or some aspects of their lives. This leaves them at the mercy of existing social, economic or political structures and can result in the weaker groups or individuals becoming dependent on more powerful groups to allow them access to goods and services.

The multidimensional view of deprivation continued to evolve in the 1990s. One expression of this, the web of poverty's disadvantage (Figure 4), has 12 dimensions, each of which can potentially have an impact on all of the others, and vice versa – which emphasizes the interdependence of the dimensions of poverty as we see them (Chambers, 2001).

These dimensions have been elicited in many contexts, most extensively in the World Bank's participatory research program, Voices of the Poor, which convened over 20,000 poor women and men from some 47 countries in small, facilitated groups to analyze and express their realities (Narayan, *et al.*, 1999).

FIGURE 4: The web of poverty's disadvantages



Source: Chambers, 2006

Ill-being as poverty. The 1990s also saw the emergence of the idea that well-being" signified the absence of poverty. Normally, we refer to "the poor" as those who are in a "bad" condition – the poor, marginalized, vulnerable, excluded or deprived.

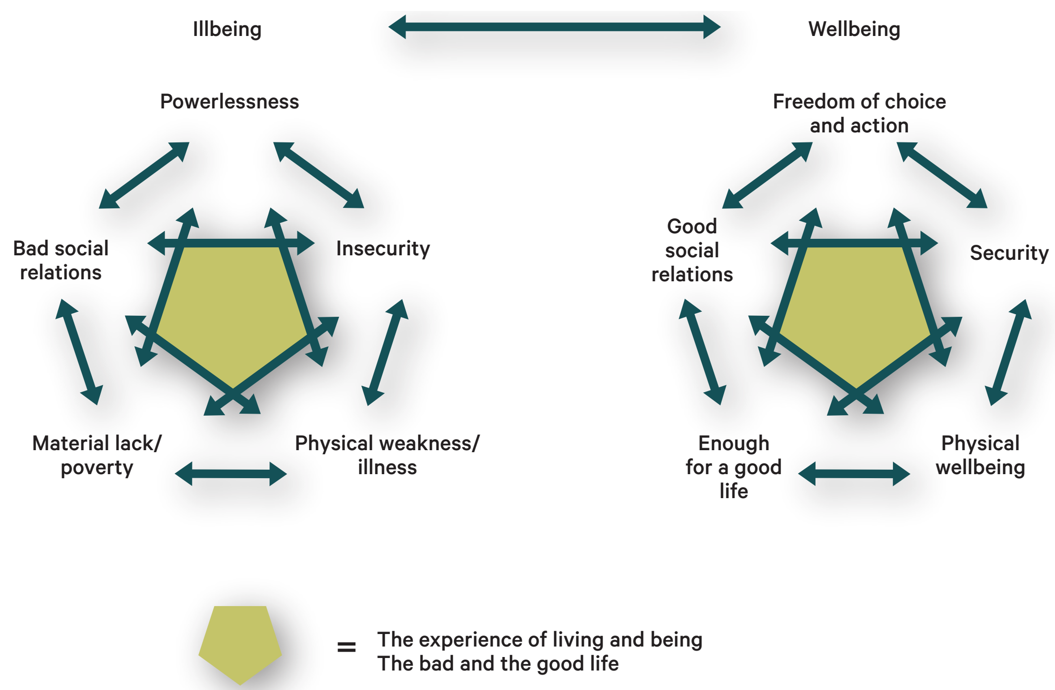
According to Chambers (2001):

> "The case is for the language of illbeing and wellbeing to be widely used in addition to poverty and wealth, which are only one part of them. It is for repeated participatory processes to enable local people, especially the poorest, most marginalised and most vulnerable, to analyse and monitor the quality of their lives, and for this to be fed back regularly to policy-makers. It is for policy-makers to spend time living in poor communities and appreciating their conditions and realities firsthand" (see Figure 5).

In addition, Chambers (2001) noted:

> "Dimensions of the bad life included income-poverty and material lack, as well as other disadvantages, such as those represented in Figure 4, including the poverty of time, or of living and working in bad places ("the places of the poor"), and bad social, especially gender, relations. Others were the human body as the main asset of many poor people, indivisible, uninsured, and vulnerable to flipping from asset to liability; many aspects of insecurity, worry and anxiety; and pervasively powerlessness. The many ideas of wellbeing and the good life to which people aspired had striking commonalities – material wellbeing or having enough, bodily wellbeing or being and appearing well, many aspects of social wellbeing including being able to settle children and to help others, or of having security, and freedom of choice and action."

FIGURE 5: Development as good change – from illbeing to wellbeing



Human poverty. The *Human Development Reports* issued towards the end of the 1990s articulated the concept of human poverty. As expressed in the *1997 Human Development Report,* just as life is multi-dimensional, so is poverty (UNDP, 1997):

> "It is in the deprivation of the lives that people can lead that poverty manifest itself. Poverty can involve not only the lack of the necessities of material well-being, but the denial of opportunities for living a tolerable life. Life can be prematurely shortened. It can be made difficult, painful, or hazardous. It can be deprived of knowledge and communication. And it can be robbed of dignity, confidence and self-respect-as well as the respect of other. All are aspects of poverty that limit and blight the lives of many millions in the world today.
>
> "If human development is about enlarging choice poverty means that opportunities and choices most basic to human development are denied - to lead a long, healthy, creative life and to enjoy a decent standard of living, freedom, dignity self-respect and the respect of others."

The concept of human poverty led to the articulation of poverty as a shortfall in capabilities, a denial of freedoms, and a violation of rights.

The *2000–2001 World Development Report* (World Bank, 2000) proposed a strategy for attacking poverty in three ways:

- promoting opportunity
- facilitating empowerment
- enhancing security.

Capability deprivation. Poverty can be viewed as capability deprivation, with "capability" referring to what a person can or cannot do, can or cannot be (Robeyns, 2003). This includes, for example, the capability to lead a long and healthy life, the capability to be well-nourished, the capability to be educated, or the capability to appear in public without shame.

Multidimensional poverty. Building on the notion of capability deprivation, the *Human Development Reports* incorporated the idea of multidimensional poverty.

The Multidimensional Poverty Index (MPI), published for the first time in the *2010 Human Development Report* (UNDP, 2010), complements money-based measures by considering multiple deprivations and their overlap at the individual level in health, education, and standard of living. The measure proposed in the HDRs has three dimensions and ten indicators:

- *Dimension 1 – Health:* i) nutrition, ii) child mortality
- *Dimension 2 – Education:* iii) years of schooling, iv) children enrolled
- *Dimension 3 – Living standards:* v) cooking fuel, vi) toilet, vii) water, viii) electricity, ix) floor, x) assets.

Poverty as denial of human rights. We have seen that poverty within the human development framework is viewed not narrowly as income deprivation, but as a denial of freedoms – economic, social, cultural, and political. This, in turn, is traced to inadequacies and inequalities in the distribution of opportunities, including those between women and men, across regions, between rural and urban areas, and within communities. The idea of human development has been considerably enriched by the human rights discourse that has highlighted the importance of both moral consensus and legal obligations. From a rights perspective, poverty represents a denial of basic entitlements to education, health, nutrition, and other constituents of decent living. A rapid and equitable expansion of freedoms is therefore crucial for ending human poverty.

2.2 Measures of poverty

Listed below and described briefly are commonly used measures of poverty.

Incidence of poverty (headcount index).[6] By far, the most widely used measure, the headcount index refers to the share of the population whose income or consumption is below the poverty line. It is the share of the population that cannot afford to buy a basic basket of goods.

The advantages of the headcount index are that it is:

- simple to construct
- easy to understand
- easy to explain.

The headcount index has two main weaknesses. It does not:

- take into account the intensity of poverty – or the depth of poverty, namely the gap between poor peoples' standards of living and the poverty line.
- indicate how poor the poor are, and hence does not change if people below the poverty line become poorer.

Poverty headcount ratio (headcount index). Population below $1.25 a day is the percentage of the population living on less than $1.25 a day at 2005 international prices. Since 1990, the World Bank has tracked global poverty trends based on a common international poverty line – the so-called "$1-a-day" line. In 2000, the World Bank significantly revised this poverty line, to take advantage of new purchasing power parity (PPP) data covering a much larger number of developing countries. The researchers set the new line at the median (middle value) of the national poverty lines of the 10 poorest countries. The resulting line was $1.08 per day at PPP based on 1993 prices. Although the new line differs from the original version, it continues to be called the "$1-a-day line" and serves as the common international standard of extreme poverty.

Depth of poverty (poverty gap index). The poverty gap index indicates the extent to which individuals on

6 See The World Bank website, accessible at: http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,,contentMDK:20242881~isCURL:Y~menuPK:492130~pagePK:148956~piPK:216618~theSitePK:430367,00.html

average fall below the poverty line, and expresses it as a percentage of the poverty line. This offers more information than the headcount index. For example, while two countries may have similar headcount ratios, they can have distinctly different poverty gap indexes, with a higher poverty gap index indicating poverty is more severe.

The following features of the poverty gap index are worth noting, as it:

- provides information regarding how far households are from the poverty line
- can be used as an aggregate poverty measure, as well as decomposed for various sub-groups of the population, such as by region, employment sector, education level, gender, age, or ethnic group
- indicates the minimum cost of eliminating poverty (relative to the poverty line), because it shows how much would have to be transferred to the poor to bring their incomes or expenditures up to the poverty line (as a proportion of the poverty line).

Poverty severity (squared poverty gap index). This takes into account not only the distance separating the poor from the poverty line (the poverty gap), but also the inequality among the poor. It places a higher weight on those households that are further away from the poverty line.

Some researchers use this index to construct a measure of poverty that takes inequality among the poor into account. It is simply a weighted sum of poverty gaps (as a proportion of the poverty line), where the weights are the proportionate poverty gaps themselves. For example, a poverty gap of 10 percent of the poverty line is given a weight of 10 percent while one of 50 percent is given a weight of 50 percent, which is in contrast with the poverty gap index, where the gaps are weighted equally.

The measures of poverty depth and poverty severity provide complementary information on the incidence of poverty. It might be the case that:

- some groups have a high poverty incidence but low poverty gap (when numerous members are just below the poverty line), while
- other groups have a low poverty incidence but a high poverty gap for those who are poor (when relatively few members are below the poverty line but with extremely low levels of consumption).

Depth and severity might be particularly important for the evaluation of programs and policies. A program might be very effective at reducing the number of poor (the incidence of poverty) but might do so only by lifting those who were those closest to the poverty line out of poverty (low impact on the poverty gap). Other interventions might better address the situation of the very poor but have a low impact on the overall incidence (if it brings the very poor closer to the poverty line but not above it).

Non-monetary dimensions of poverty. Poverty is not only associated with insufficient income or consumption. It also is associated with insufficient outcomes with respect to health, nutrition, and literacy, to deficient social relations, to insecurity, and to low self-confidence and powerlessness. In some cases, it is feasible to apply the tools developed for monetary poverty measurement to non-monetary indicators of well-being.

- *Health and nutrition poverty* – one could focus on the nutritional status of children as a measure of outcome, or on the incidence of specific diseases (diarrhea, malaria, respiratory diseases) or life expectancy for different groups within the population.
- *Education poverty* – one could use the level of literacy as the defining characteristic, and use some level judged as the threshold for illiteracy as the "poverty line". In countries where literacy is close to universal, one could opt for specific test scores in schools or for years of education as the relevant indicators.
- *Composite indices of wealth* – one might combine the information on different aspects of poverty

rather than using a single dimension of poverty. This could include creating a measure that takes income, health, assets, and education into account. It is important to note that it is not possible to define a "poverty line" with composite indices. However, analysis by quintile or other percentile remains possible and can provide important insights in the profile of poverty.

TABLE 1: Income poverty indicators

The World Bank puts out regular data on the following income poverty indicators

Poverty headcount ratio

- Poverty headcount ratio at $1.25 a day (PPP) (% of population)
- Poverty headcount ratio at $2 a day (PPP) (% of population)
- Poverty headcount ratio at national poverty line (% of population)
- Poverty headcount ratio at rural poverty line (% of rural population)
- Poverty headcount ratio at urban poverty line (% of urban population)

Poverty gap

- Poverty gap at $1.25 a day (PPP) (%)
- Poverty gap at $2 a day (PPP) (%)
- Poverty gap at national poverty line (%)
- Poverty gap at rural poverty line (%)
- Poverty gap at urban poverty line (%)

Income share

- Income share held by fourth 20%
- Income share held by highest 10%
- Income share held by highest 20%
- Income share held by lowest 10%
- Income share held by lowest 20%
- Income share held by second 20%
- Income share held by third 20%

Source: World Bank accessed at http://data.worldbank.org/topic/poverty

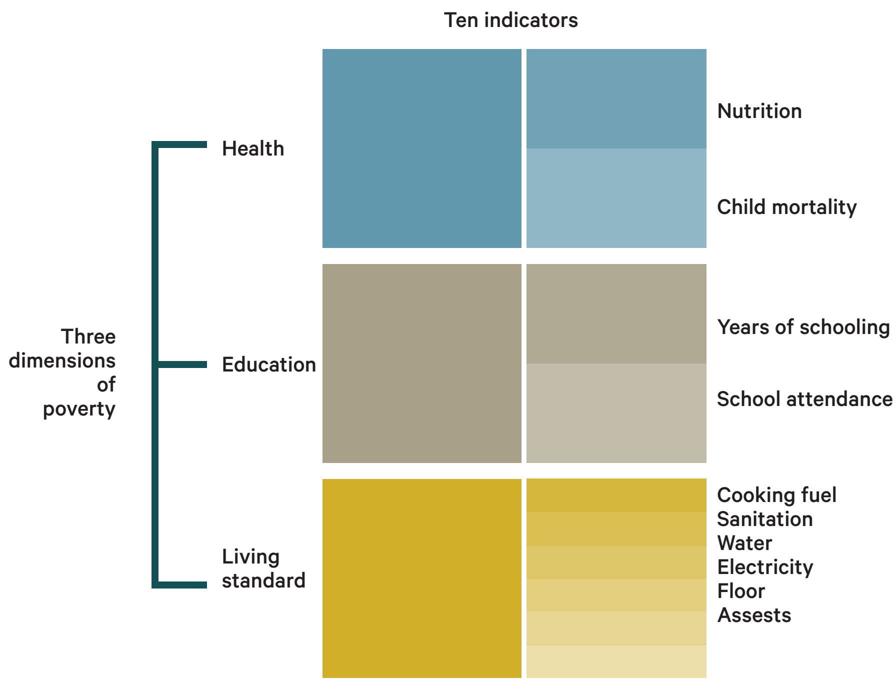
- *Subjective perceptions* – one can establish a subjective measure of poverty through posing specific questions to households, e.g. i) asking how they perceive their situations, such as "do you have enough?", "do you consider your income to be very low, rather low, sufficient, rather high or high?", ii) asking what they consider their minimum standards and needs, such as "what is the minimum amount necessary for a family of two adults and three children to get by?" or "what is the minimum necessary for your family?", or iii) asking for community poverty rankings, such as "which groups are most vulnerable in the village?". On the basis of the answers, one can then derive poverty lines, although it is important to note the limitations of self-reported measures. For example, they might reproduce existing discrimination or exclusion patterns, if these patterns are perceived as "normal" in the society. More generally, the observed perceptions of poverty need not provide a good basis to establish priority public actions. This may be the case if policymakers have a different time horizon or a different focus than the population.

The Human Development Index.[7] The first *Human Development Report*, published in 1990, introduced a new way of measuring development by combining indicators of life expectancy, educational attainment and income into a composite human development index (HDI). The breakthrough for the HDI was the creation of a single statistic which was to serve as a frame of reference for both social and economic development. The HDI sets a minimum and a maximum for each dimension, called goalposts, and then shows where each country stands in relation to these goalposts, expressed as a value between 0 and 1. The HDI has three components and four indicators.

The decent standard of living component is measured by gross national income (GNI) per capita (PPP$) instead of GDP per capita (PPP$) The HDI uses

7 See http://hdr.undp.org/en/statistics/hdi/

FIGURE 6: Dimensions and indicators of MPI



the logarithm of income to reflect the diminishing importance of income with increasing GNI. The scores for the three HDI dimension indices are then aggregated into a composite index using geometric mean.

The Multidimensional Poverty Index.[8] The Multidimensional Poverty Index (MPI) identifies multiple deprivations at the individual level in education, health, and standard of living. As with development, poverty is multidimensional – but this is traditionally ignored by headline figures. Published for the first time in the *2010 Human Development Report*, the MPI complements money-based measures by considering multiple deprivations and their overlap. The index identifies deprivations across the same three dimensions as the HDI and shows the number of people who are multi-dimensionally poor (suffering deprivations in 33% of weighted indicators) and the number of deprivations with which poor households typically contend. It can be deconstructed by region, ethnicity, and other groupings as well as by dimension, making it an apt tool for policymakers.

The MPI has three dimensions and ten indicators: two for health, two for education and six for living standards.

The MPI reflects both the prevalence and intensity of multidimensional deprivation – identifying how many deprivations people experience at the same time. It can be used to create a comprehensive picture of people living in poverty, and permits comparisons across countries, regions, and the world, or within countries by ethnic group, urban or rural location, as well as other key household and community characteristics.

8 See: http://www.ophi.org.uk/wp-content/uploads/MPI-Primer.pdf

TABLE 2: Components and indications of the human development index

COMPONENTS AND INDICATORS OF THE HUMAN DEVELOPMENT INDEX			
Dimension	Indicator	Minimum Value	Maximum Value
Longevity	Life expectancy at birth	20	83.57
Educational attainment	i) Mean years of schooling for adults aged 25 years	0	13.3 years
	ii) Expected years of schooling for children of school-entering age	0	18
Living standards	Gross national income per capita	$100 (PPP)	$87,478 (PPP)

Requirements. What makes a household poor? One deprivation alone may not represent poverty. The MPI requires households to be deprived in multiple indicators at the same time. A person is multidimensionally poor if the weight indicators in which he or she is deprived add up to at least 33 percent.

Limitations. Ideally, the MPI would be able to make comparisons across gender and age groups, for example, along with documentation of intra-household inequalities. Yet because certain variables are not observed for all household members, this is not possible. So each person is identified as deprived or not deprived using any available information for household members. For example, if any household member for whom data exists is malnourished, each person in that household is considered deprived in nutrition. Taking this approach – which was required by the data – does not reveal intra-household disparities, but it is intuitive and assumes shared positive (or negative) effects of achieving (or not achieving) certain outcomes.

Ending extreme poverty and promoting shared prosperity. The World Bank President, Jim Yong Kim, has outlined a bold agenda for the global community toward ending extreme poverty and promoting shared prosperity (World Bank, 2013).

- To end extreme poverty, the goal will be to reduce those living on less than $1.25 a day to no more than 3 percent by 2030.
- To promote shared prosperity, the goal will be to promote income growth of the bottom 40 percent of the population in each country.

3

Equity versus Equality

3.1 Defining equity and equality

Equity has to do with fairness, with justice and impartiality. It refers to outcomes or results. From an equity perspective, people can differ greatly in the incomes they earn, the health they enjoy, the security they possess, and so on. Differences in outcomes (income, educational attainment, nutritional status, longevity, etc.) can be the result of several factors including differential access to opportunities, personal lifestyle, and other choices, and even unavoidable factors such as aging and geographical vulnerabilities. At the same time, disparities of outcomes between population groups that are avoidable and unfair are termed inequities.

Equality has to do with sameness and should be distinguished from equity. Equality denotes that everyone is at the same level and refers, in a sense, to the starting point. When we talk about equality, we are talking about equal sharing and exact division.

Why is equity important? Pursuit of equity is important for both intrinsic and instrumental reasons.

Intrinsic importance. Pursuit of equity or fairness as a goal in itself has strong moral and ethical appeal. Some groups do worse than others in terms of outcomes if, for example, they have suffered historical discrimination and subjugation for many decades. Correcting this injustice should be a goal in itself, regardless of whether it results in tangible benefits to such disadvantaged communities.

Instrumental significance. Equity is important for several instrumental reasons:

- equity can contribute to reducing income poverty
- equity can contribute to the strengthening of a democratic society.

On the other hand:

- inequity constitutes a violation of human rights
- inequity is a major obstacle in taking advantage of the richness of diversity
- inequity may lead to political conflict and instability.

Wilkinson and Picket (2009) found that in richer countries, inequity is associated with a wide range of social problems including: levels of trust, mental illnesses, life expectancy, infant mortality, obesity, educational performance, drug use, teenage births, homicides, and imprisonment rates. In most cases, these indicators are not closely related to the per capita income or rate of growth of a country, and so higher rates of growth tend not to be associated with reducing social problems.

The World Bank has identified several instrumental reasons for pursuing equity.

- With imperfect markets, inequalities in power and wealth translate into unequal opportunities, leading to wasted productive potential and to an inefficient allocation of resources.
- Economic and political inequalities are associated with impaired institutional development.

When societies become more equitable in ways that lead to greater opportunities for all, the poor stand to benefit from a "double dividend".

- Expanded opportunities benefit the poor directly, through greater participation in the development process.
- The development process itself may become more successful and resilient as greater equity leads to better institutions, more effective conflict management, and a better use of all potential resources in society, including those of the poor. Resulting increases in economic growth rates in poor countries will, in turn, contribute to a reduction in global inequities.

In his recent book, *The Price of Inequality,* Stiglitz (2012) argued that inequality undermines productivity and retards growth, whereas a more egalitarian society would result in a more stable economy.

When we talk about equality, we mean equal sharing and exact division. Take the case of food for a household of four. Equality would mean that everybody gets the same amount. Equity, on the other hand, would mean that food would be distributed according to the needs of the family members – the two small children get relatively smaller amounts than the two adults. In other words, equity strives to ensure equality of opportunities by helping people benefit *from the same starting point*.

Unavoidable circumstances. Equity refers to outcomes. Typically, every society has different outcomes from its achievements in areas such as health, education, employment, and income. Some unequal outcomes are attributed to unavoidable circumstances and factors. For instance, aging, since it cannot be stopped, might mean that retired people may be earning far less than younger workers. Similarly, the health status of adults is likely to be different from that of very young children and the very old who are more vulnerable to illnesses. Some other differences in outcomes can be directly attributed to conscious choices that individuals make. For instance, even after getting the same graduate education, two individuals might not end up earning the same incomes, especially if one chooses to become a teacher and the other opts to become an investment banker. However, we should be aware that choice may be limited by social and other contextual factors, as for example when many girls "choose" not to study mathematics or engineering and to select a more "suitable" career.

Avoidable circumstances. On the other hand, many unfair and avoidable circumstances lead to inequitable outcomes. These have to do with factors such as place of residence, race or ethnicity, occupation, gender, religion, education, socioeconomic status, sexual orientation, and disability. In the United States, for instance, race can be a major barrier to economic inclusion and civic participation. People of color are often hit earliest and hardest by economic recession and downturns. Similarly, place of residence can make all the difference in many developing countries. These predetermined factors generally make a major difference in the lives they lead. That some individuals or groups have consistently inferior opportunities – economic, social, cultural, and political – compared with their fellow citizens violates a sense of fairness, particularly when the individuals affected can do little about them. Such situations are clearly unfair and inequitable. We should strive to eliminate those unfair and avoidable circumstances that deprive certain individuals and communities from realizing their full potential.

Equity and its basic principles: Equity can therefore be defined in terms of two basic principles: equal opportunity and avoidance of deprivation in outcomes.

- *Equal opportunity* – a person's life achievements should be determined primarily by his or her talents and efforts, rather than by predetermined circumstances such as race, gender, social and family background, or place of birth.

- *Avoidance of deprivation in outcomes* – individuals should be spared from extreme deprivations in outcomes – particularly in health, education, and consumption levels.

UNICEF uses the term "inequities" to refer to disparities among population groups that are avoidable and unfair. Equity compares differences in outcomes with unequal opportunities:
- some differences in outcomes are due to inequities (unequal opportunities)
- some differences are due to factors that are unavoidable (the effects of aging on health)
- some differences are due to choice (not everyone seeks the highest paying job)
- some differences are due to bad luck or external factors (such as economic downturns, natural disasters, and conflicts).

Equality of what? Opportunities. We should focus on the equality of opportunities, and not, as discussed earlier, on final achievements or outcomes. Opportunities could be:
- economic (access to jobs, sources of livelihood, credit, assets)
- social (access to health care, educational institutions)
- cultural
- political.

Each individual and even each generation should be entitled to a just opportunity to make the best use of its potential capabilities. How individuals use these opportunities and the results they achieve is a matter of their own choice. But they must have a choice – now and in the future.

3.2 Measures of inequality

The overall level of inequality in a country, region, or population group – and, more generally, the distribution of consumption, income, or other attributes – is in itself an important dimension of welfare in that group. Inequality measures can be calculated for any distribution – not just for consumption, income, or other monetary variables, but also for land and other continuous and cardinal variables. Some of the commonly used measures of inequality are described below.[9]

Quintile Income Ratio. This is the ratio of the average income of the richest 20 percent of the population to the average income of the poorest 20 percent of the population.

Gini Coefficient. This is the most commonly used measure of inequality. The coefficient varies between 0, which reflects complete equality and 1, which indicates complete inequality (one person has all the income or consumption, all others have none). Graphically, the Gini Coefficient can be easily represented by the area between the Lorenz Curve and the line of equality.

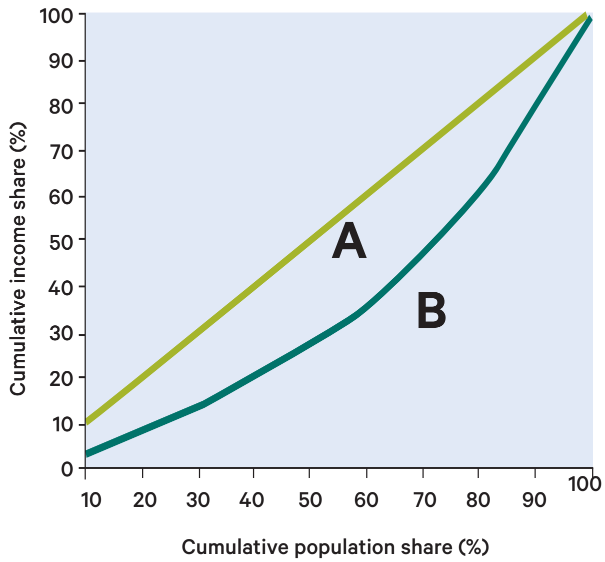
As shown in Figure 7, the Lorenz Curve maps the cumulative income share on the vertical axis against the distribution of the population on the horizontal axis. In this example, 40 percent of the population obtains around 20 percent of total income. If each individual had the same income, or total equality, the income distribution curve would be the straight line in the graph – the line of total equality.

The Gini Coefficient is calculated as the area A divided by the sum of areas A and B.

- If income is distributed completely equally, then the Lorenz Curve and the line of total equality are merged and the Gini Coefficient is zero.
- If one individual receives all the income, the Lorenz Curve would pass through the points (0,0), (100,0) and (100,100), and the surfaces A and B would be similar, leading to a value of 1 for the Gini Coefficient.

[9] The World Bank site, accessible at: http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,,contentMDK:20238991~menuPK:492138~pagePK:148956~piPK:216618~theSitePK:430367,00.html

FIGURE 7: Lorenz Curve of income distribution



Gini Coefficient: advantages

- It is a measure of inequality, not a measure of average income or some other variable which is unrepresentative of most of the population, such as GDP.
- It can be used to compare income distributions across different population sectors as well as countries.
- It can be compared across countries and interpreted easily. While GDP statistics do not represent changes for the whole population, the Gini Coefficient demonstrates how income has changed for poor and rich. If the Gini Coefficient is rising in parallel with GDP, then poverty may not be improving for the vast majority of the population.
- It can be used to indicate how the distribution of income has changed within a country over time and thus can be used to track whether inequality is increasing or decreasing.

Gini Coefficient: disadvantages

- Comparing income distribution among countries may be difficult because benefit systems may differ. For example, some countries give benefits in the form of money while others use food stamps, which may not be counted as income in the Lorenz Curve and therefore not taken into account in the Gini Coefficient.
- The measure will give different results when applied to individuals instead of households.
- The Lorenz Curve may understate the actual amount of inequality if richer households are able to use income more efficiently than lower income households. From another point of view, measured inequality may be the result of more or less efficient use of household incomes.
- Economies with similar incomes and Gini Coefficients can still have very different income distribution. This is because the Lorenz Curves can have different shapes and yet still yield the same Gini Coefficient. As an extreme example, an economy where half the households have no income, and the other half share income equally

TABLE 3: **Quintile income ratio and Gini Coefficients of select countries, 2012**

	COUNTRY	QUINTILE INCOME RATIO 2000–2010	INCOME GINI COEFFICIENT 2000–2010
1	Brazil	20.6	54.7
2	China	9.5	42.5
3	Chile	13.5	52.1
4	Mexico	11.3	48.3
5	Norway	3.9	25.0
6	South Africa	25.3	63.1
7	Sri Lanka	6.9	40.3
8	United States	8.4	40.8
9	Viet Nam	5.9	35.6

Source: *Human Development Report* 2013

has a Gini Coefficient of ½, but an economy with complete income equality, except for one wealthy household that has half the total income, also has a Gini Coefficient of ½.

- The Gini Coefficient is not additive across groups, meaning that the total Gini of a society is not equal to the sum of the Ginis for its sub-groups.

Share of income/consumption of the poorest x%. If a society is most concerned about the share of income of the people at the bottom, a better indicator may be a direct measure, such as the share of income that goes to the poorest 10 or 20 percent. Such a measure would not vary, for example, if changes in tax rates result in less disposable income for the top 20 percent to the advantage of the middle class rather than the poor.

Palma Index. The Palma Index (Palma, 2006, 2011) is the ratio of the top 10 percent of population's share of gross national income (GNI), divided by the poorest 40 percent of the population's share of GNI. The Palma is based on the observation that, for a snapshot of data covering countries at quite different income levels, the "middle class" or middle income groups between the "rich" and the "poor" (defined as the five middle deciles, 5 to 9) tend to capture around 50 percent of national income. However, the other half of national income is shared between the richest 10 percent and the poorest 40 percent but varies considerably across countries.

Alex Cobham and Andy Sumner (2013) pointed out that there is a close fit between the Palma Index and the most commonly used indicator of inequality, the Gini Coefficient. They also found that the Palma might be a better measure for policymakers to track, as it is intuitively easier for policymakers and citizens to understand and, in addition, could be a more relevant measure of inequality to poverty reduction policy. For a given, high Palma value, it is clear that the gap needs to narrow – by raising the share of national income of the poorest 40 percent or by reducing the share of the top 10 percent.

TABLE 4: Palma ratios for select countries

	PALMA RATIO 1989–90	PALMA RATIO 2009–10
Brazil	6.447	4.302
Costa Rica	2.486	3.333
Malaysia	2.597	2.627
Mexico	0.801	2.812
Paraguay	1.896	3.730
Philippines	2.284	2.183

Source: Alex Cobham and Andy Sumner (2013)

Inequality-adjusted Human Development Index (IHDI): The Human Development Index (HDI) is a composite index that measures average achievements in three basic dimensions of human development – a long and healthy life, knowledge, and a decent standard of living. The Inequality-adjusted Human Development Index (IHDI) is the HDI value adjusted for inequality in the distribution of each of the three dimensions across the population. It is computed as a geometric mean of geometric means, calculated separately for each dimension across the population.

The IHDI accounts for inequalities in HDI dimensions by "discounting" each dimension's average value according to its level of inequality. The IHDI equals the HDI when there is no inequality across people but falls further below the HDI as inequality rises. In this sense, the IHDI is the actual level of human development (taking into account inequality), while the HDI can be viewed as an index of the "potential" human development that could be achieved if there were no inequality. The "loss" in potential human development due to inequality is the difference between the HDI and the IHDI and is expressed as a percentage.

TABLE 5: Inequality-Adjusted Human Development Index

	HUMAN DEVELOPMENT INDEX	INEQUALITY-ADJUSTED HUMAN DEVELOPMENT INDEX		
	VALUE	VALUE	OVERALL LOSS (%)	DIFFERENCE FROM HDI RANK
	2012	2012	2012	2012
Norway	0.955	0.894	6.4	0
United States	0.937	0.821	12.4	-13
Brazil	0.730	0.531	27.2	-12
Sri Lanka	0.715	0.607	15.1	11
India	0.554	0.392	29.3	1
Haiti	0.456	0.273	40.2	-7
Nigeria	0.471	0.276	41.4	-13

Note: Overall loss is the loss in potential human development due to inequality, calculated as the percentage difference between the HDI and IHDI.
Source: *Human Development Report* 2013

TABLE 6: Gender Inequality Index: three dimensions and five indicators

DIMENSION	INDICATORS
Reproductive Health	Maternal mortality
	Adolescent fertility
Empowerment	Parliamentary representation
	Educational attainment (secondary level and above)
Labor market	Labour force participation

TABLE 7: Gender inequality index for select countries, 2012

Norway	0.065
United Kingdom	0.205
China	0.213
United States	0.256
Sri Lanka	0.402
Bangladesh	0.518
Sudan	0.604
India	0.610
Saudi Arabia	0.682

Source: *Human Development Report*, 2013

Gender Inequality Index (GII). The disadvantages facing women and girls represent a major source of inequality. All too often, women and girls are discriminated against in health, education, and the labor market – with negative repercussions for their freedoms.

The GII is a composite measure reflecting inequality in achievements between women and men in three dimensions: reproductive health, empowerment, and the labor market.

Gender inequality varies tremendously across countries – the losses in achievement due to gender inequality range from 4.5 percent to 74.7 percent. These losses are not directly comparable to total inequality losses because different variables are used.

Countries with unequal distribution of human development also experience high inequality between women and men. In turn, countries with high gender inequality also experience unequal distribution of human development.

3.3 Policy implications[10]

Equity and prosperity. Equity is complementary to the pursuit of long-term prosperity.

- Institutions and policies that promote a level playing field – meaning all members of society have similar chances to become socially active, politically influential, and economically productive – contribute to sustainable growth and development.
- Greater equity is doubly good for poverty reduction as it can have beneficial effects on aggregate long-run development and offer greater opportunities for poorer groups within any society.

Complementarities between equity and prosperity arise for two broad sets of reasons: market failures and unexploited talents.

- *Market failures* – in many countries, market failures in areas such as credit, insurance, land, or human capital may prevent people from making the most efficient use of resources. For example, some highly capable children may fail to complete primary schooling, while others, who are less able, may finish university. Ensuring that children have equal educational opportunities will make for greater efficiencies.
- *Unexploited talents* – high levels of economic and political inequality tend to lead to economic institutions and social arrangements that systematically favor the interests of those with more influence. Such inequitable institutions can generate economic costs and, at the same time, favoring the rich and influential leaves the talent of the middle and poorer groups unexploited.

In discussing gender equality and development, the *World Development Report 2012* (World Bank, 2012) stated:

> "Following Amartya Sen, we see development as a process of expanding freedoms equally for all people. …This Report focuses on three key dimensions of gender equality identified by men and women from Afghanistan to Poland to South Africa, as well as by researchers:
> - the accumulation of *endowments* (education, health, and physical assets);
> - the use of those endowments to take up economic *opportunities* and generate incomes;
> - and the application of those endowments to take actions, or *agency*, affecting individual and household well-being. …
>
> … it is difficult in practice to measure opportunities separately from outcomes. Indeed, equality of opportunities and equality of outcomes are tightly linked both in theory and in measurement. For this reason, the Report takes a pragmatic approach, focusing on both outcomes and opportunities in relation to endowments, agency, and access to economic activities. Following Sen, we also believe that while people may disagree in what is just or fair, they will agree on eliminating what are "outrageously unjust arrangements."

In other words, while it may be difficult to define whether gender equality is about outcomes or opportunities, most will agree that gross manifestations of gender inequality should be eliminated.

Inequality traps. The adverse effects of unequal opportunities and political power on development are all the more damaging because economic, political, and social inequalities tend to reproduce themselves over time and across generations. The *World Development Report, Equity and Development* (World Bank, 2006) calls such phenomena "inequality traps".

Three new perspectives. According to the World Bank, an equity lens adds three new – or at least often neglected – perspectives to development policymaking.

- The best policies for poverty reduction could involve redistributions of influence, advantage, or subsidies away from dominant groups.

[10] This section draws extensively on The World Bank, *2006 World Development Report 2006: Equity and Development*, The World Bank, Washington D.C.

- While such equity-enhancing redistributions of power, or access to government spending and markets can often increase efficiency, possible trade-offs need to be assessed in the design of policy.
- The dichotomy between policies for growth and policies specifically aimed at equity is false.

Implications of pursuing an equity agenda. There are at least three important considerations that must be borne in mind when pursuing an equity agenda.

- *Level the economic and political playing field* – by ensuring equality of opportunities, we are providing for a level-playing field. Even with genuine equality of opportunities, outcomes will vary depending upon individual preferences, talents, effort, and even luck. This is not to say that outcomes do not matter. On the contrary, outcomes do matter, but the concern is mainly for their influence on absolute deprivation and their role in shaping opportunities.
- *Distributional considerations* – from an equity perspective, the distribution of opportunities matters more than the distribution of outcomes. According to the World Bank (2006):

  "A concern with equality of opportunity implies that public action should focus on the distributions of assets, economic opportunities, and political voice, rather than directly on inequality in incomes. Policies can contribute to the move from an "inequality trap" to a virtuous circle of equity and growth by leveling the playing field—through greater investment in the human resources of the poorest; greater and more equal access to public services and information; guarantees on property rights for all; and greater fairness in markets. But policies to level the economic playing field face big challenges. There is unequal capacity to influence the policy agenda: the interests of the disenfranchised may never be voiced or represented. And when policies challenge privileges, powerful groups may seek to block reforms. Thus, equitable policies are more likely to be successful when leveling the economic playing field is accompanied by similar efforts to level the domestic political playing field and introduce greater fairness in global governance."
- *Equity vs. efficiency trade-offs* – there may be various short-run, policy-level trade-offs between equity and efficiency. However, the (often implicit) cost-benefit calculus that policymakers use to assess the merits of various policies too often ignores the long-term, hard-to-measure but real benefits of greater equity. Greater equity implies more efficient economic functioning, reduced conflict, greater trust, and better institutions, with dynamic benefits for investment and growth. To the extent that such benefits are ignored, policymakers may end up choosing too little equity. However, by the same token, those interested in greater equity must not ignore the short-term trade-offs. If individual incentives are blunted by income redistribution schemes that tax investment and production too steeply, the result will be less innovation, less investment and less growth.

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