

**Redistribution for Equitable Growth**

**Readings:**

- *Keith Griffin(1989): Chapter 7 from Alternative Strategies for Economic Development*

*Suggested Reading:*

- *Keith Griffin, Aziz Khan and Amy Ickowitz(2002): Poverty and Distribution of Land, Journal of Agrarian Change*

**Why Redistribution?**

- Entitlement or command over goods and services is determined primarily by the endowment of an agent
- Exchange possibility is the other determinant
- Redistribution is the surest means to enhance this endowment for the poor
- What are the alternative models of redistribution?

**Redistribution on the margin:**

- Idea popularised by the World Bank in the mid-1970s(Chenery et al. Redistribution with Growth)
- The core of the strategy is the redistribution of the benefits of growth
- In other words, growth is still generated by the autonomous movement of the economy, but its dividends are shared (to some extent)
- Different from involving people with low incomes in the process of generating growth
- The tax-transfer mechanism is the main instrument for implementing this strategy

**Different ways of redistributing growth**

- Consumption Redistribution: A certain percentage of income or (incremental income) is transferred directly to the poor. The World Bank proposed a target of 2% of the GDP.
- Investment Redistribution: A certain percentage of income is invested in projects directly affecting the poor. It is seen as a long-term investment that benefits the poor in the long run instead of providing instant relief.
- Possibility of a third model (perverse redistribution): Restrict wage levels to boost profit, investment, and growth rates. Distribution moves against the poor.

**Comparing the different models (based on simulation exercises)**

- In the case of consumption transfers (2% of the GDP is annually for 25 years), there was a huge opportunity cost in terms of lost growth (which could have materialised from investments instead of consumption)
- As soon as consumption transfers ceased, the per capita consumption of the poor decreased
- Eventually, after 40 years, the consumption levels of the poor were 19% lower than they would have been without the transfer

- In the case of investment transfers (2% of the GDP annually for 25 years), the consumption levels of the poor increased 23 years after 40 years in contrast to what it would have been without the transfer
- However, the immediate impact on poverty was lower in this case.

#### **Some General problems with the redistribution with growth strategy**

- First, it is difficult to make the process viable politically for a sustained period (constant pressure from the rich to discontinue)
- There are definite losses for the non-poor sections from this policy (for the middle class, consumption falls 19% and 17% for the higher income group after 40 years)
- The problem of efficient targeting and preventing leakage. Also, the differential impact on different groups of the poor
- Given the initial redistribution of assets among the different classes, redistribution at the margin may not be successful in the long run to alter income distribution radically. There are countervailing market forces that might neutralise some of the positive impacts.

#### **Redistribution of Assets**

- Changing the initial distribution of endowments
- Most often discussed in the context of land reform
- Ex-ante redistribution of productive assets makes poorer sections participate more in and benefit from the growth process.
- One-time redistribution, which is challenging to bring about but does not need sustaining
- Of course, with regressive regimes, land redistribution has also been overturned.
- Successful land reforms have provided the basis for equitable growth in Japan, South Korea and Taiwan.

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*Table A1. Land concentration in selected developing countries*

	<i>Date</i>	<i>Gini coefficient</i> <sup>23</sup>
<i>Sub-Saharan Africa</i>		
1. Kenya	1981–90	0.77
2. Nigeria <sup>24</sup>	1973	0.37
3. Botswana	1991–2000	0.49
<i>Latin America</i>		
4. Colombia	1981–90	0.77
5. Brazil	1971–80	0.85
6. Mexico	1961–70	0.75
<i>South Asia</i>		
7. Bangladesh <sup>25</sup>	1995	0.65
8. India	1981–90	0.59
9. Pakistan	1981–90	0.58
<i>Southeast Asia</i>		
10. Indonesia	1971–80	0.56
11. Malaysia	1971–80	0.58
12. Philippines	1980	0.61
<i>Middle East &amp; N. Africa</i>		
13. Morocco <sup>24</sup>	1981	0.47
14. Syria <sup>24</sup>	1979	0.59
15. Tunisia <sup>24</sup>	1980	0.58
<i>East Asia</i>		
16. China <sup>26</sup>	1995	0.43
17. South Korea	1971–80	0.30
18. Taiwan	1961–70	0.47

### How does Land Reform help?

- Land reform breaks the system of dominance of the landowners, which is based on land concentration.
- It improves wealth distribution as well as income distribution
- Combining the efficiency and equity impacts on income (average income increases due to the inverse relationship between farm size and productivity as well as incentive effects and distribution of income improves due to redistribution of productive assets), income poverty is bound to decrease.
- There are significant non-economic benefits of land reform as well (e.g. breakdown of social hierarchies which are based on economic dominance, end of the political clout of the landowning class)

TABLE I  
GROWTH REGRESSIONS FOR 1960–1985

	High-quality sample (N = 46)		Largest possible sample (N = 70)		Largest possible sample			
	OLS (1)	TSLS (2)	OLS (3)	TSLS (4)	OLS (5)	OLS (6)	OLS (7)	OLS (8)
Const.	3.60 (2.66)	8.66 (3.33)	1.76 (1.50)	6.48 (2.93)	3.71 (3.86)	6.22 (4.69)	6.24 (4.63)	6.21 (4.61)
GDP60	-0.44 (-3.28)	-0.52 (-3.17)	-0.48 (-3.37)	-0.58 (-3.47)	-0.38 (-3.61)	-0.38 (-3.25)	-0.39 (-3.06)	-0.38 (-2.95)
PRIM60	3.26 (3.38)	2.85 (2.43)	3.98 (4.66)	3.70 (3.72)	3.85 (4.88)	2.66 (2.86)	2.62 (2.53)	2.65 (2.56)
GINI60	-5.70 (-2.46)	-15.98 (-3.21)	3.58 (-1.81)	-12.93 (-3.12)		-3.47 (-1.82)	-3.45 (-1.79)	-3.47 (-1.80)
GINILND					-5.50 (-5.24)	-5.23 (-4.38)	-5.24 (-4.32)	-5.21 (-4.19)
DEMOC* GINILND							0.12 (0.12)	
DEMOC								0.02 (0.05)
$\bar{R}^2$	0.28	0.27	0.25	0.26	0.53	0.53	0.51	0.51

The dependent variable is average per capita growth rate over 1960–1985. *t*-statistics are in parentheses.

### How does land reform relate to inclusive growth?

- It brings about equitable asset distribution in agriculture, which involves some of the poorest sections of the economy.
- As long as it is complemented with suitable policies, it can lead to agricultural growth which is broad-based, leading to a more equitable distribution of income
- Unless the subsequent industrial development is particularly disequalising, the growth process built on a relatively equal distribution will yield more inclusive outcomes
- The difference between South Korea, Taiwan on the one hand and China on the other

### **Limits of Land Reforms**

- Land Reform is not simply a policy option.
- Most successful land reforms are the result of revolutionary changes or particular circumstances.
- It is, therefore, difficult to replicate these successes
- Moreover, severe inter-generational fragmentation has made average land sizes very small and potentially unviable
- In the current climate crisis facing agriculture, is it possible to implement radical land reform and stimulate production?