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A Rural Perspective on Inequality, Poverty and Policies

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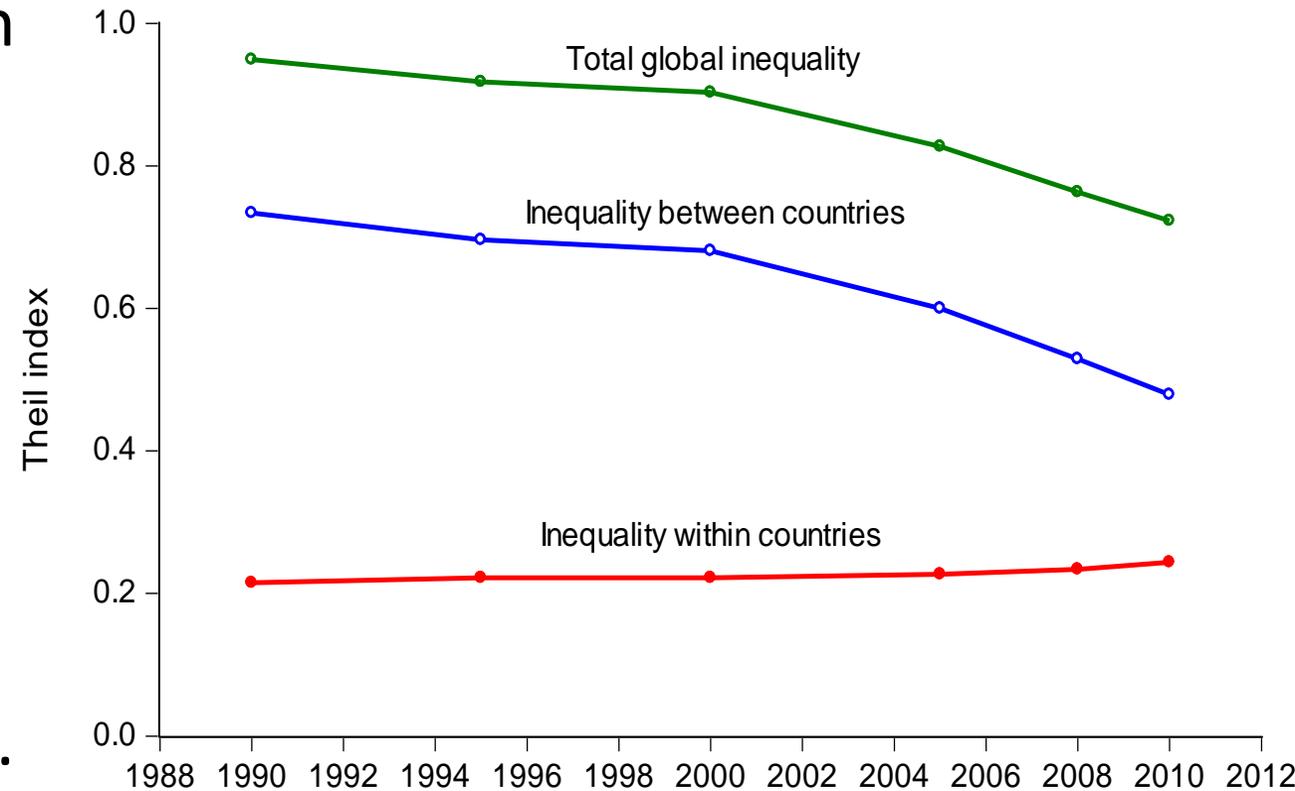
1. Stylized facts
2. The questions for this conference

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Some stylized facts on inequality

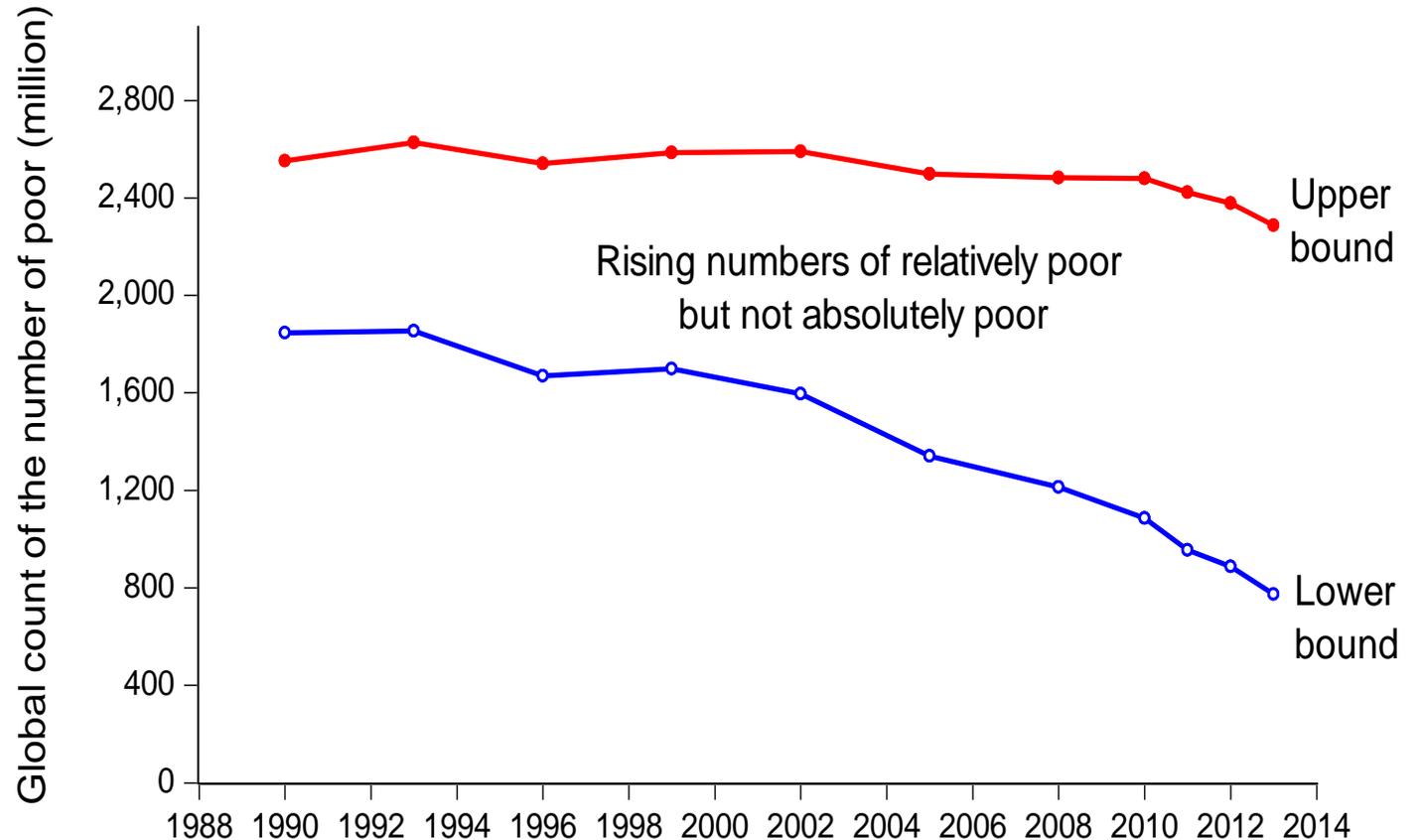
- Global relative inequality has been falling, due to higher growth rates in developing countries.
- Rising relative inequality within some countries, falling in others.
- Inequality is creeping up on average within countries.
- Signs of inequality convergence; probably from policy convergence.
- Rising absolute inequality globally and within many countries.



Source: Created from data in Bourguignon (2016, Table 1).

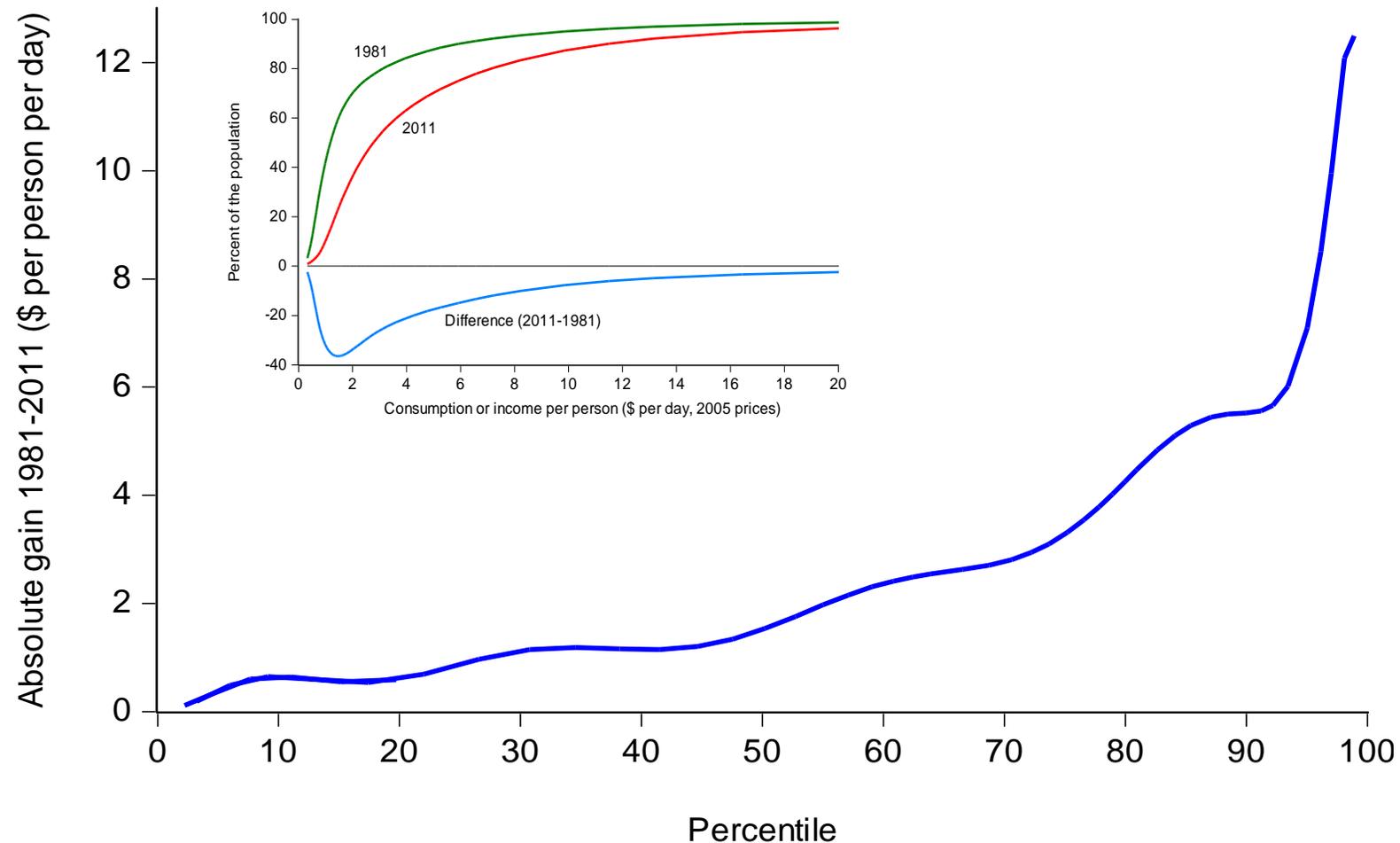
Some stylized facts on poverty

- Declining absolute poverty measures in developing world.
- Less progress against relative poverty, which is now greater in the developing world.
- Less progress in lifting the floor; poorest often left behind =>

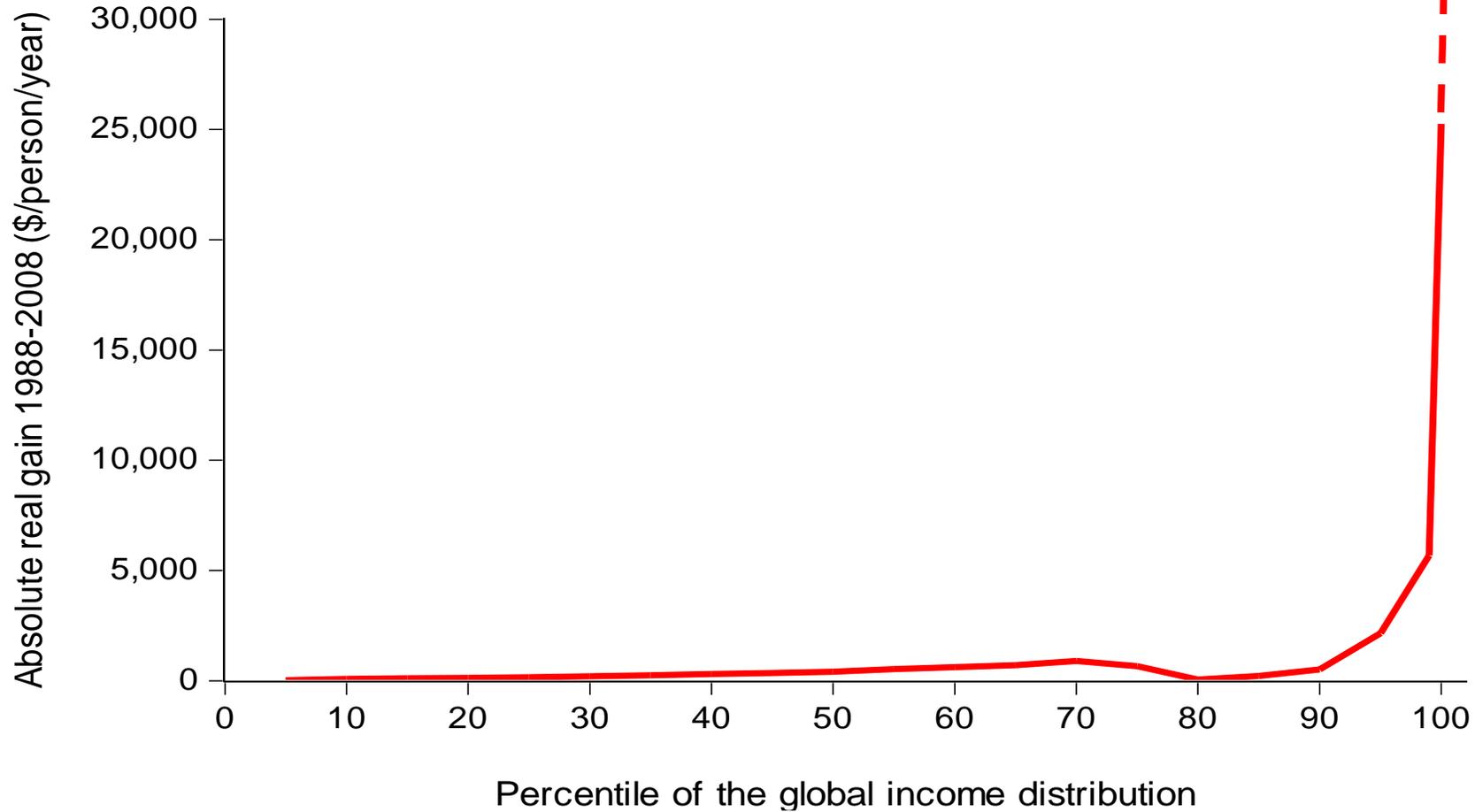


The poorest have been left behind!

Fewer people living near the floor, but little change in the floor



And globally it looks like this!



Some stylized facts on rural inequality and poverty

- Poverty rates are typically higher in rural areas.
 - Around 2/3 of the absolutely poor in the developing world live in rural areas.
- Human development indicators tend to be worse in rural areas.
- Public service provision is also worse.
- Income inequality tends to be lower in rural areas than urban areas.
- Signs of convergence between rural and urban areas, but uneven.
- Economic development can be good or bad for inequality, either nationally or within rural areas.
 - Depends on initial conditions and policies.

1. Stylized facts

2. The questions for this conference

- Do policies to reduce rural poverty also reduce rural inequality?
- Should we care if the answer is “no”?

The two main drivers of rural poverty reduction have ambiguous implications for rural inequality

- **Agriculture and rural development** is often inequality and poverty reducing, but how much so depends crucially on the nature of the growth process and initial inequalities, esp., land.
- **Urbanization** is an important driver of overall poverty reduction:
 - Migration, labor absorption and remittances
 - Trade in common markets (incl. labor)
- But urbanization has ambiguous implications for rural inequality and national inequality. May well increase, at least initially.
- Urban poverty measures can rise in a process of overall (national) poverty reduction.

Should policy makers care about rural inequality?

- Maybe, maybe not!
- Danger in focusing on just one sector in an economy, esp., when linked to other sectors through migration.
- A poverty-reducing and growth-promoting development path could well increase rural inequality. It depends!
- High rural inequality may impede prospects for future rural growth.
- We need to **un-pack “inequality”**; some aspects matter more.
 - We need to focus on rural inequalities that impede poverty reduction and human development.
 - **Inequality of opportunity**: ground for consensus for action; this also means enhancing access of rural poor to urban opportunities.
 - Specific inequalities of gender, race, ethnicity.

Country stories: China

- Huge progress against **absolute poverty**, but rising inequality incl. rural.
- Rural economic development has been the main driver of overall poverty reduction over the last 40 years.
- **Agricultural growth** has been very strong predictor of overall inequality.
- Provinces with initially **high rural inequality** saw less subsequent growth and slower pace of poverty reduction.
- Key factor to pro-poor rural growth: **low inequality of land**.
- Legacies of past (esp., HD) and early agrarian reforms established basis for growth and poverty reduction
- **Urban economic development** played an important role in labor absorption from rural areas.
- Absorbing rural surplus labor is putting a break on rising inequality.

Country stories: India

- Like China, historically, agriculture and rural development have been more important for overall poverty reduction than urban development.
- Yet, weaker effects on poverty than for China, due to India's **high rural landlessness**.
- Weak and slow linkages through labor market, though this is changing.
- Accelerating progress against absolute poverty in post-1991 period.
- This has come with **rising inequality**.
- **Poverty and inequality convergence** between rural and urban.
- It now matters less for India's poor whether growth comes from urban or rural economies.

Economic growth has driven past progress against poverty, but inequality threatens that progress

- Growth has been **distribution neutral** on average: falling in some growing economies, rising in others.
- Growth has been the main proximate source of progress against absolute poverty.
- However, high and (often) rising **inequality** undermines future growth, and dampens its impact on poverty.
- Poor countries have a **harder time growing their economy**, and a harder time assuring that their growth is **pro-poor**.
- And **uninsured risks** galore, both macro and micro!

How to assure rapid poverty reduction?

- This requires successful action in fostering the conditions for continued, reasonably rapid, **pro-poor growth**
 - Poverty-reducing economic reforms. Making markets work better for poor people
 - Assuring that poor people are able to participate fully in that growth, which will in turn require that they have access to schooling, health care, labor-market opportunities and financial resources when needed
- **Complementarity** between pro-poor growth and pro-poor social policies, esp., human development and social protection.
- And it will need a measure of **good luck**:
 - Avoiding major crises (financial and agro-climatic)
 - Success in dealing with climate change
 - Continuing progress in global trade

How to achieve more pro-poor growth?

Literature and policy discussions point to the need to:

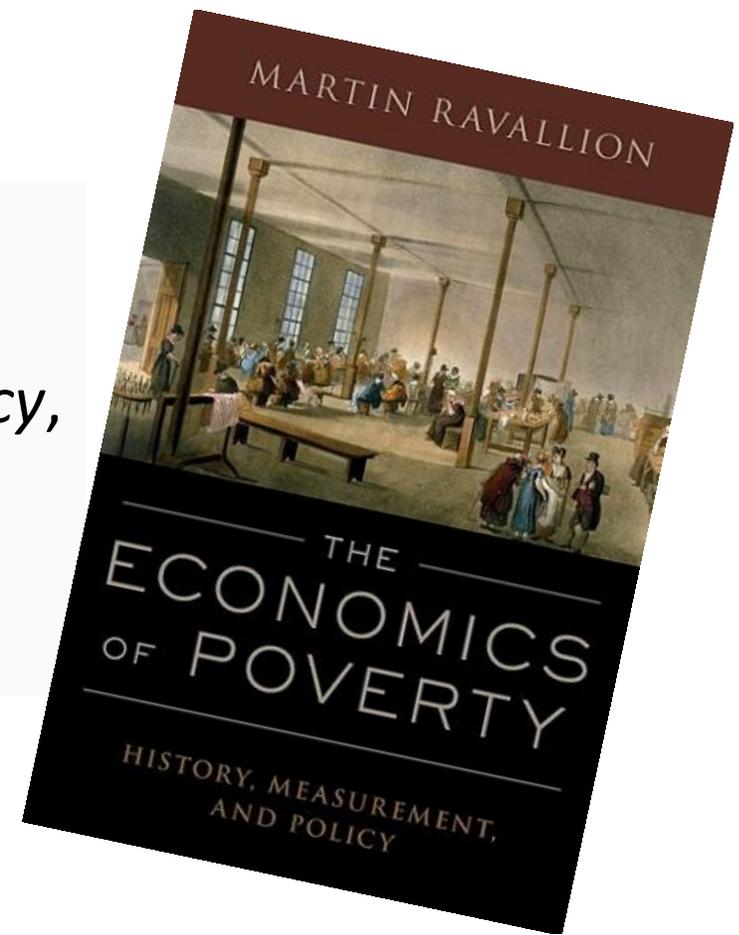
- Develop human and physical assets of poor people
- Make markets work better for them (credit, labor, land)
- Remove biases against the poor in public spending, taxation, trade and regulation
- Promote agriculture and rural development; invest in local public goods in poor areas
- Remove restrictions on migration
- Foster labor absorption from urban economies, esp., small and medium sized towns

A new role for redistributive interventions, but many challenges

- Success against relative poverty, lifting the floor and reducing inequality will almost certainly require **more effective redistributive policies**.
 - Challenges: Information, incentives, fiscal, political economy.
 - Excessive emphasis on fine targeting. Menu of options should include basic (full) income.
 - Protection + promotion; role for smart social policies.
 - Monitoring + evaluation.
 - No one evaluation method! Tailor to policy and setting.
 - Learn from both success and failures.

Further reading:
Martin Ravallion, *The Economics of
Poverty: History, Measurement and Policy*,
Oxford University Press, 2016

economicsandpoverty.com



Thank you for your attention!