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## DEVELOPMENT, POVERTY, AND BASIC HUMAN NEEDS: SOME ISSUES†

From the earliest days when development planning was attempted in many of the developing countries, raising the standard of living of the poorest sections of the population to an acceptable level has been one of the major goals, explicitly stated as such in the development plans in some countries and implicit in others. However, over the nearly three decades of experience, the perceptions of the strategies to be pursued in trying to achieve this goal have changed.<sup>1</sup> The early development plans aimed at accelerating the rate of growth of real national income, focusing essentially on the process of capital accumulation and its allocation. The need for raising domestic savings as well as supplementing it by external capital flow was emphasized. The debates were on the sectoral allocation of investment, such as between agriculture and manufacturing industry, choice of technology, and import substitution versus export promotion. The question of how the benefits of growth in national income were shared by different socioeconomic groups in the society was infrequently raised. One reason for this neglect was, of course, the belief that even the poorest will benefit from growth, more so since institutional changes that were promoted at the same time, such as some land reform and an increasing role of the public sector, were supposed to facilitate this. Perhaps the main reason was that in the framework of a mixed economy that excluded any revolutionary restructuring of production and exchange relations, excessive emphasis on redistribution at an early stage in the growth process was thought to retard growth and hence the long-run feasibility of sustaining any appreciable increase in the levels of living of the poor.

The conviction that sustained and rapid growth is the desirable route toward a better life for the poor countries as well as the poor in these countries was shared by the major aid donors. Once the poor countries reached the stage of sustainable and sustained growth, that is, the "take-off" stage in the terminology of the

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<sup>1</sup> See Minhas (18) for a wider discussion of these issues.

times, they would increasingly look like the mature economies of the West. Furthermore, the late start of these countries would enable them to take advantage of modern technology and, with aid, to shorten considerably the period needed to reach the take-off as compared to the historical experience of the mature economies. Aid was viewed as helping this process of modernization without revolutionary change.

In the early 1960s, at least in one major developing country, India, doubts began to be raised whether in fact the poor had benefited from the growth in national income achieved in the 1950s.<sup>2</sup> Further, by the middle and late 1960s, there was growing disenchantment with foreign aid in some of the major developed countries for various reasons. But it did not reflect any significant rethinking of development problems. In fact, the Pearson Commission reporting to the President of the World Bank in 1969, held that during the first two decades of developmental efforts, the less developed countries grew faster than the industrialized countries did at a corresponding stage in their development. It was also argued that if only the industrialized countries would fight off their aid weariness and actively augment the flow of aid, the less developed countries would succeed in lifting themselves out of the depths of underdevelopment in reasonable time (9).

Events subsequent to the report of the Pearson Commission showed that aid weariness did not disappear. The Commission's target for aid flows was not only not achieved but the ratio of aid flow to gross national product (GNP) began to decline for some of the major aid donors. By the early 1970s, concern about environmental pollution led to a questioning of both the feasibility and the desirability of further growth of GNP in many developed countries, including the United States. This period also marked the realization that the problems of the poor in developed countries were far harder to solve through public welfare policy than had been believed earlier. These domestic concerns led to some change in the understanding of development issues as well. Many aid donors explicitly shifted the emphasis in aid policies to the problems of the poor.

The concern about the distributional aspects of growth was reflected in appeals by the International Labour Office (ILO) and others to make the creation of productive employment opportunities, rather than aggregate income growth, a primary objective of policy. "A fundamental redirection of development strategy" was called for consisting of a rural strategy that "focuses on increasing the productivity of the small farmer and the self-employed through better access to land, water, credit, markets and other facilities" and an urban strategy of "[restructuring] the modern sector to make it more responsive to the opportunity cost of labor and capital . . . [and] policies designed to reach the self-employed and to make small-scale producers more efficient" (8, pp. xvii-xviii). Subsequent emphasis in the World Bank on integrated rural development

<sup>2</sup> Prime Minister Nehru of India was one of the earliest to voice doubts about the impact of such strategies on the poor. The Committee on Distribution of Income and Levels of Living was appointed by the Government of India in 1960 to inquire into the changes in levels of living during the First and Second Plans, to study the trends in distribution of income and wealth, and in particular to ascertain the extent to which the operation of the economic system has resulted in concentration of wealth and means of production (11, p. 1).

strategies and the choice of urban projects for Bank support reflected this perception.

The apprehension that even the suggested shift in emphasis toward employment goals may not be enough to tackle the problem of poverty within a reasonable time led the ILO to go a step further. The declaration of principles and program of action adopted by the Tripartite World Conference on Employment organized by the ILO proposed that strategies and national development plans and policies should include explicitly, as a priority objective, the promotion of employment and the satisfaction of basic needs of each country's population. It further specified that basic needs should be understood to include certain minimum requirements of a family for private consumption, such as adequate food, shelter, and clothing as well as certain household equipment and furniture, as well as certain essential services, such as safe drinking water, sanitation, public transport, and health, educational and cultural facilities (16).

It is of interest to note that just as redistributive concerns were first expressed in India, employment generation in addition to income growth was included as an objective as early as 1956 in India's Second Five-Year Plan. Further, the main ideas of the basic needs approach to the problem of the poor can be traced to the paper by the late Pitambar Pant of the Indian Planning Commission (13). The author explicitly posed the problem of poverty alleviation in terms of providing at least a minimum level of living for the entire population. This minimum needs basket included essential items of consumption such as food, fuel and light, clothing, and shelter, as well as services such as health, sanitation, safe drinking water, and education to be provided through the government budget. The author recognized that some sections of the population might not benefit from development that creates productive employment opportunities because of the high dependency ratios in their households. These groups were to be provided their minimum level of living through income transfers. The problem was also posed of determining a rate of income growth that would not be so high as to be infeasible, but high enough to enable the minimum needs to be met. In one sense this article is a precursor of Chenery (8) with its emphasis on the income-earning capacity of the majority of the population, but it also goes beyond in explicitly focusing on basic or minimum needs. However, it had little influence on Indian policy until 1972, when the approach paper on the Fifth Five-Year Plan included a minimum needs program as part of the plan that was quietly dropped in the draft as well as the final version of the plan.<sup>3</sup>

In the remainder of the paper, it is proposed to examine the extent to which the development performance of some of the major developing countries would corroborate the premises underlying the "new" perceptions on development, evaluate the basic needs approach, and finally raise some policy issues. It will draw on both analytical studies and on actual experience in various countries, including the papers presented and the discussions at a workshop organized by the World Bank on Analysis of Distributional Issues in Development Planning and held in Bellagio, Italy, during April 22-27, 1977. A complete list of papers is given in the Appendix.

<sup>3</sup> In the early 1970s there was extensive discussion among Indian economists on quantifying the extent of poverty as well as on the evaluation of policies pursued toward poverty abatement. See Srinivasan and Bardhan (23).

## POVERTY AND INCOME DISTRIBUTION: CROSS-SECTIONAL EVIDENCE AND TIME TRENDS

The extent of poverty in a country or region can be measured using either absolute or relative indicators. Perhaps the most widely used absolute measure of poverty is the proportion of the population below some poverty line. The familiar measures of income inequality, such as the Gini coefficient, variance of the logarithm of individual incomes, coefficient of variation, share in income or consumption accruing to the bottom and top deciles or quintiles, are relative measures, in the sense that they reflect the relative positions of different individuals or groups of individuals in respect of their income or consumption. It is perhaps better to describe them as summary measures of the inequality of income distribution rather than as poverty measures. There are a number of conceptual and measurement problems associated with both absolute and relative measures, none of which will be discussed in this paper. (See 22.)

### *Cross-sectional Evidence*

Kuznets, from his historical study of the development of some of the presently developed countries, hypothesized that income inequality first increases and then decreases as development proceeds. In testing this hypothesis, Ahluwalia related the share in income of various income classes to the logarithm of per capita GNP in constant 1970 U.S. dollars of 60 (developed and developing) countries, in the form of a quadratic regression.<sup>4</sup> The relationship was estimated separately for the entire sample and a sub-sample of 40 developing countries. His results showed that as per capita GNP rises, the share of income accruing to the poor—say the bottom 40 percent of the population—first falls, reaches a minimum, and then rises. The estimated per capita GNP at the “turning point,” at which the share begins to rise again is \$468 if the entire sample is used and \$371 if only the developing countries are considered. Their percent share in income falls from an average value of 17 at a per capita GNP level of \$100 to 11 at the turning point, and rises to 15 at a level of \$2,000. This cross-sectional result appears to confirm the Kuznets hypothesis.

There are well known difficulties with interpreting and projecting a cross-sectional relationship over time. The cross-sectional curve essentially represents an average relationship. The deviation of an individual country observation from the estimated curve could be viewed as the effect of the policies being followed as well as other relevant specific features of that country. Two types of projections can be made from the curve: in one, starting from any level of per capita GNP, one projects the per capita income for a future year and from the curve reads off the share of the bottom 40 percent. Making projections in this way, one is really comparing the expected income (hypothetical average) share of the bottom 40 percent in countries which have the initial level of per capita GNP to the expected share in countries where income has reached the projected value. This type of projection is clearly not country-specific. In the second type of projection, one starts from the given initial income level and the initial share of the bottom 40 percent, then one adds the change in the share as estimated from the curve to the

<sup>4</sup> The income classes were: top 20 percent, middle 40 percent, lowest 60 percent, 40 percent, and 20 percent of the population. See Ahluwalia (2, pp. 307-42).

initial share to obtain the share associated with the projected terminal income. In this exercise, some allowance is made for the country's specific initial circumstances. Projections of either type, if they mean anything at all, indicate what might happen if incomes changed but the distributional and other policy environment did not change significantly. It would be wrong, therefore, to interpret the curve and the projections from it as representing some sort of "iron law" of development. It is, however, possible to make some limited and stylized policy simulations based on the curve.

### *Time Trends in Poverty*

Turning now from cross-sectional studies to time trends in poverty, Griffin and Khan concluded that "development of the type experienced by the majority of Third World countries in the last quarter century has meant, for very large numbers of people, increased impoverishment" (14). This conclusion seems to be somewhat hasty since continuous and comparable time series data on the size distribution of income or expenditure are not available for most of the developing countries. At best, data relating to two or three points in time are usually available, but even so these data sets are rarely comparable, because of changes in concepts and coverage. India is a major exception in that annual data on a comparable basis are available on consumption expenditure by households separately for the rural and urban area of each of the major states, as well as for the country as a whole. The data for India do not confirm the Griffin-Khan conclusion.

Ahluwalia used the Indian data to show, first, that in rural areas, where nearly 80 percent of India's population lives, the proportion of the population below a normatively defined poverty line fluctuated substantially over the period 1956/57 to 1973/74, falling initially from over 50 percent in the mid-1950s to around 40 percent in the early 1960s, and then reaching a peak of nearly 57 percent in 1967/68 before declining (3). Second, there was no evidence of a significant trend in these fluctuations over time. Third, though the fluctuations in the incidence of poverty in individual states largely follow the all-India pattern, showing no clear trend, there is a statistically significant positive time trend (that is, the proportion of people below the poverty line steadily increased) in three states, and a negative trend in one state. The state of Punjab is among those showing no clear trend—surprisingly, since real income and agricultural output grew faster here than in most other states. Fourth, for India as a whole there is a significant inverse relationship between the incidence of rural poverty and real agricultural income per head. This is also true in seven individual states (again with the surprising exception of Punjab), covering two-thirds of the rural population in India. Fifth, the relative inequality, as measured by Gini coefficients, of the distribution of per capita household consumption noticeably declined in eight states out of thirteen, while the remaining five showed no trend. Thus Ahluwalia found no significant increase in the proportion of poor in India, and relative inequality appeared to have decreased. Indirect evidence, such as the rising expectation of life at birth, and declining mortality (including infant mortality) and fertility rates would seem to corroborate the conclusion that there could not have been a serious decline in the living standards of the poor.

It might be argued that the fact that nearly half the Indian population falls below the poverty line in spite of over 25 years of development planning is in itself proof of the failure of the development strategy pursued by India. It is beyond the scope of the present paper to evaluate India's development efforts. It suffices to state:

1. Whatever its other results, Indian planning did not result in growth rates of real national income as high or as steady as those in some other developing countries.

2. Even the moderate growth achieved has decelerated since the late 1960s—a period that was also marked by a steep drop in the external resource inflow, the onset and strengthening of inflation, and a substantial drop in the growth of real public investment, as well as what some believe to be a slowing in the growth of food output, despite the Green Revolution. Not surprisingly, in the late 1960s the incidence of poverty rose some after falling from the middle 1950s onwards.

3. The economic policies pursued, such as the bias against export activities, use of administrative controls as a resource allocation mechanism and, above all, the failure to enforce legislated institutional changes, such as land reform, meant that both growth and income distribution performance were worse than they could otherwise have been. India is clearly not an example where a successful growth strategy failed to help the poorer sections of the society.<sup>5</sup>

Based on data for six years in the 1960s, instead of only two as used by Griffin and Khan, and three different poverty lines corresponding to a calorie intake of 95, 92, and 90 percent, respectively, of the requirement, Naseem showed that the proportion of the rural population of Pakistan below the first poverty line decreased initially and then increased, while there is no trend if the other two poverty lines are used (19). However, it should be pointed out that there are conceptual difficulties with using a calorie requirement based poverty line. These are discussed later.

Contrasted with India's unspectacular growth record, Brazil has had an average annual growth of real income exceeding 6.5 percent since 1950. But data on the size distribution of income are available only for the years 1960 and 1970 from the demographic census data and for the year 1972 from a special household survey. The census data do not include income in kind, direct tax payments, and unrealized capital gains. Some of the controversy on the Brazilian income distribution performance arises out of differing interpretations and adjustments made to the census data. Other data of varying quality and quantity are available relating to average wages, occupational wages, factor shares, and distribution of earnings in the formal urban sector. While it is hazardous to base statements about time trends on only two or three observations, Fishlow reported a consensus among scholars that relative inequality increased in the decade of the 1960s, though not enough to force down the absolute incomes of the poor (9). However, some would argue to the contrary on the basis of the reported increase in infant mortality rates in some areas. Also, the regional economic disparities in Brazil where, for structural reasons, the Northeast continues to be relatively poor, have to be kept in mind. Among those who do not deny that income distribution

<sup>5</sup> For further details see Bhagwati and Desai (5), Bhagwati and Srinivasan (6) and Srinivasan and Bardhan (23).

deteriorated in a relative sense in the 1960s, there are two prevalent schools of thought. One focuses on the unequalizing effects on incomes of wage increases for skilled labor, demand for which increasingly exceeds supply as aggregate growth accelerates. The other stresses the importance of the post-1964 wage squeeze, which slowed down inflation somewhat, but with rapid growth also allowed shares of profits and top remunerations to increase. Bacha and Taylor are "agnostic but predisposed toward the wage squeeze explanations" (4). Fishlow rejects the hypothesis of "unequalizing inevitable effects of growth" arguing that the "Brazilian experience seems to have been one in which the strains of growth have been amplified rather than counteracted by policy" and that a policy of increased governmental transfers that are linked to educational investment in rural areas is not only feasible but will help offset some of the concentration in incomes (9).

Korea and Taiwan provide examples of countries where real income growth was both rapid (with annual growth rates exceeding 7 percent since the early 1960s) and apparently shared—and increasingly—by those at the bottom of the income distribution. Reliable data are available for Taiwan on a continuous basis only from the mid-1960s. Somewhat less reliable data for two years in the 1950s show that Gini coefficients then were comparable to those in other less developed countries. The Gini coefficient for all households in Taiwan remained virtually constant at about 0.33 between 1964 and 1968, and then declined by over 11 percent between 1968 and 1972. Both Korea and Taiwan were Japanese colonies and went through major structural changes following the Second World War, redistributing land and other productive assets not destroyed during the war. Both have followed similar policies in respect of foreign trade. Ranis argued that (20)

the dominant cause of the relatively favorable income distribution performance in Taiwan . . . [was] the massive shift of rural households from agricultural to non-agricultural activity in the presence of a dynamic agriculture and in the absence of massive rural/urban migration . . . Taiwan continued to invest heavily in its decentralized infrastructure . . . encouraged rural industry directly via rural electrification grid, the maintenance of equality in power and fuel rates as between rural and urban locations, and the establishment of rural-industrial estates, bonded factories and processing zones located with an eye to rural location and mobility . . . [succeeded] in the maintenance of a surprisingly high labor share in urban industrial *cum* service activities [through] a labor-intensive output mix and technologies, intimately tied up with the relative mildness of import substitution combined with [subsequent] thorough liberalization efforts.

In the Korean case also the share of agriculture in employment declined substantially while the share of the manufacturing sector increased with remarkably little capital deepening as reported by Rao (21). Within manufacturing substantial growth of labor-intensive export activities has occurred. Rural-urban income differentials were narrowed through a variety of policy instruments, including intervention in the determination of grain prices. For the economy as a whole the average real wage has increased by about 7 percent per year during 1963-75. While the regime has not encouraged union activity, and strikes have



been illegal, there is apparently government pressure to improve the earnings level of low wage groups. Emphasis on primary education and a successful campaign of adult education have reduced illiteracy to negligible levels. This has helped the industrialization process by making available well-trained and trainable workers.

The brief review of data suggests that it is simplistic to argue that in spite of growth poverty has increased in developing countries.<sup>6</sup> It does clearly indicate, however, that other policies that were (or equally were not) being followed along with the emphasis on aggregate income growth had a lot to do with success or failure in achieving growth as well as equity. Also, it is not easy to isolate the effect of changes in "initial conditions" on which policies must be brought to bear—such as those wrought by social revolution (China, Cuba) or by war (Korea, Taiwan)—either in bringing about equity initially or in increasing the chances of success of equity-promoting policies subsequently.

There is no denying, however, that the extent of absolute poverty in the less developed countries as a whole, and in some of the poorer, larger, and more populous among them, is indeed staggering. It is this, rather than any claims of its logical evolution in development theory with emphasis first on income growth, then on employment, and finally on basic needs, which necessitates a careful analysis of the proposed basic needs strategy.<sup>7</sup>

#### BASIC NEEDS APPROACH: DISTINGUISHING FEATURES

The approach to the problem of poverty contained in Chenery (8) and even in the Minimum Needs Program of the Indian Fifth Plan in essence is a strategy of insuring that adequate real purchasing power is placed in the hands of the poor. Except for the socially provided services, the consumption pattern is to be determined by private market decisions. The Indian approach is to determine the necessary level of purchasing power on the basis of the cost of the minimum consumption needs basket, again excluding socially provided services. Except for those groups among the poor who cannot take advantage of employment and income generation opportunities and who are to be provided transfer income, the poor are to be reached through the income generation process.

The basic needs approach, on the other hand, does not rely solely on income generation or transfers, and places primary emphasis on the production and delivery to the intended groups of the basic needs basket through "supply management" and a "delivery system."<sup>8</sup> In a system in which production and consumption decisions are primarily mediated through the market, the failure of

<sup>6</sup> Needless to say, the responsibility for the particular use (critical or otherwise) of the data and the interpretations derived lie with the authors of the papers presented at the workshop.

<sup>7</sup> There is also a cynical interpretation of the conversion of some developed countries to the basic needs approach. By linking aid to performance of developing countries in providing the basic needs of their population (and given the inherent difficulty of a successful basic needs strategy), such developed countries can de facto reduce their aid commitment while still appearing to be concerned about poverty! Further, insofar as basic needs goods are primarily agricultural, emphasis on basic needs will have the added consequence of slowing down industrialization of developing countries and hence growth of their demand for non-renewable resources.

<sup>8</sup> While there are by now a number of articles and pamphlets on the basic needs approach, the clearest and most balanced account is given in Streeten (24).

the poor to get their basic needs presumably reflects not only the unequal initial distribution of real purchasing power, but also market imperfections and failures. In such a context redistribution of purchasing power alone may be insufficient to insure that the poor receive their basic needs: market interventions may be necessary on a continuous basis.

It can be argued that by selective direct interventions in the production and distribution processes (rather than through creating purchasing power in the hands of those who need it and expecting them to consume the basic needs basket), the basic needs approach may lead to the provision of basic needs to people at much lower levels of aggregate income per head than would otherwise be possible. Further, it is possible that in tackling nutritional deficiencies and similar problems, the income route may be inefficient, if only because ignorance of nutritional principles or preference for less nutritious foods as incomes rise. The key issue then becomes one of delivery: is it possible to insure that the poor get a nutritionally adequate diet in a cost-effective way? A similar issue arises in the provision of health services and water supply. If the government or the ruling elite's preferences result in the public budget being used for arms, airports, big urban hospitals, and higher education, instead of rural clinics, water supply, roads, and primary education, the key question becomes how a shift in these preferences might be brought about. In analyzing the delivery issue its political implications are inescapable: the question really is "what sort of feasible production organization, institutional reform, and interventions are required in this or that particular country to provide basic needs on a sustainable basis?" Some of these issues will be taken up in the policy discussion below. But first it is necessary to discuss the quantification of the basic needs bundle.

### *Measurement of Basic Needs*

Even if the basic needs program were to be focused simply on eliminating inadequacies in the caloric content of food consumption, quantification would not be easy.<sup>9</sup> A person's calorie "requirement" depends on his age, sex, and normal activity, so there is a distribution of calorie requirements for a given population at a point in time.<sup>10</sup> Where a single number is used to characterize this distribution, it is very often calculated so as to incorporate a substantial safety margin, in the sense that if every member of the population took in this specified number of calories per day, the actual calorie requirement of, say, at least 95 percent of the population would be met. While the true measure of the population with deficiency in calorie consumption is that part of the population whose members actually consume less calories than their individual requirements, the usual estimates are based on a comparison, for the population as a whole, of the actual consumption with the single number estimate of the calorie requirement for the population as a whole.<sup>11</sup> Estimates of a population's calorie deficit made this way

<sup>9</sup> Some years ago alarms were raised about protein deficiency in the diets of the poor and the dire consequences thereof. It was later established that protein deficiency is part of a broader problem of inadequate food and energy intake. Protein deficiency by itself without other deficiencies is infrequently observed.

<sup>10</sup> A person's requirement can vary from day to day. See Sukhatme (25).

<sup>11</sup> Household survey-based data give total or per capita calorie consumption of each household thus averaging out intra-household variations. An additional element of bias arises out of this situation.

can exceed or fall short of the true value: to consider an extreme example, if everyone actually consumed the same number of calories but the individual requirements varied, the estimated proportion of the population with calorie deficiency could be either 100 or 0 percent, depending upon whether the identical actual consumption was less or greater than the norm. The true proportion, of course, will be somewhere in between. Sukhatme showed that if, instead of using a poverty line based simply on average calorie requirements, allowance is made for variations in individual calorie requirements, the estimated incidence of poverty is brought down from about 50 to about 25 percent in urban areas, and from about 40 to about 15 percent in rural areas (25). The literature on malnutrition has very little to say on the effects of mild malnutrition.<sup>12</sup> This aspect becomes relevant if for lack of resources or other reasons it is not feasible to meet the calorie requirement of the entire population fully.

Another, perhaps more serious, problem is that nutritional intervention alone, better water supply, or curative medicine may have little effect on the mortality or morbidity of a poor country, though if they are combined their impact can be considerable. This suggests that the quantification of basic needs, if feasible at all, will have to be in terms of a bundle of things together rather than specific requirements independently derived of the elements constituting such a bundle. This issue is discussed further in the policy section below.

It is sometimes asserted that the great strength of the basic needs approach is that by focusing directly on nutrition, health care, and so forth, it will have a very favorable impact on fertility, infant mortality, or labor productivity. But these effects may be present regardless of whether the poor live better because they have higher incomes, or because their basket of basic needs is delivered to them. This being the case, the issue is really whether a basic needs approach will succeed in raising the quality of life of the poor more effectively than other types of policies. Again this depends on the policy framework.

It is clear that it makes little sense to attempt to define universal standards of basic needs, and that efforts at global modelling along this direction or at global cost estimates for meeting basic needs are futile.<sup>13</sup> The measurement problem may lead some to conclude that it would be a sheer waste of time to wait for the results of research on resolving these, and that the need of the hour is to push governments to a commitment to seeing that basic needs are satisfied on a sustainable basis over a reasonable period of time. Many would argue on the other hand that while the cliché that "the best need not to be enemy of the good" has some measure of validity, the issue is one of arriving at an appropriate set of policies.

### *Policy Framework of Basic Needs*

Approaches to development problems other than basic needs implicitly or explicitly face the issue of temporal trade-offs in the sense that raising the incomes

<sup>12</sup> The proportion of the population that is malnourished, measured as those "consuming less calories" than their requirement, can be different from the proportion obtained if malnourishment is defined in terms of body weight in relation to some standard.

<sup>13</sup> There are a few hardy souls who are undeterred by conceptual or data problems. For flights of fancy in global estimation, see McHale and McHale (17) and Burki and Voorhowe (7).

of the poor through redistribution now, if pushed, makes it difficult to sustain these incomes if the redistribution cuts too much into savings for growth. The literature on basic needs has not adequately discussed the issues of trade-offs among different basic needs (food, shelter, or health) at one time and over time, that is, satisfaction of a basic need now, versus more of this good or another in the future. Given that resources are scarce, increasing the supply of one set of goods involves the sacrifice of one or more other goods, if the system is productively efficient initially. Either basic needs involves the production of a different consumption basket with the same resources that were earlier devoted toward consumption, in which case investment (in the aggregate though not in composition) is not affected, or, even if resources have to be diverted away from investment activities to producing basic needs, the productivity-raising aspects of basic needs will be sufficient to offset the loss in future production possibilities that would otherwise have occurred. Whether the trade-off problem is serious or not then becomes an empirical issue. Both Sri Lanka and Tanzania have followed a basic needs-type strategy apparently at the expense of growth, and thus of future capacity to provide basic needs, and it is possible that both will find it difficult to continue this strategy.<sup>14</sup>

The distinction between countries in which a moderate redistribution of current income flows would be adequate to meet the basic needs of the entire population (for example, Brazil, Mexico) and countries where even the most radical redistribution feasible will still leave a large section of the population with deficiencies in their consumption of basic needs (Bangladesh, India, Pakistan) is clearly important from a policy angle. The temporal trade-off mentioned earlier is far more serious in the latter group of countries. In the other group, policies to close the basic needs gap need not necessarily involve major structural change.

The extreme fuzziness in the basic needs literature on policy aspects can be illustrated with reference to nutrition programs. As mentioned earlier, it is believed that raising the incomes of the poor need not eliminate their nutritional deficiency since, left to themselves, the poor may spend their additional incomes either on foods of lower nutritional content than those consumed at low levels—for example, replacing coarse with finer cereals, such as rice and wheat—or on non-food items. On the other hand, direct nutritional-supplementing programs oriented toward target groups, such as pregnant or lactating mothers or school children, have often run into substitution problems: for example, if pregnant women treat the special foods merely as substitutes for what they would have eaten at home, or where the supplementary food provided in a school program is offset by reducing the food intake of children at home. This may not be altogether bad, in the sense that the household as a whole benefits either because others eat more than they would otherwise have, or because some resources are released for consumption of other items. But the primary objective, namely to reach the target groups, is not achieved. Indirect evidence for this phenomenon has come from several studies which show only insignificant differences between the average weight gain or health situation of intended beneficiaries of special feeding programs and the weight or health observed in control groups. Besides being

<sup>14</sup> There is some doubt whether Tanzanian income inequality has declined as much as claimed by some.

ineffective, such programs are very costly ways of doing wrong things. The Applied Nutrition Programs that have been part of the Five-Year Plans in India for over a decade have run into similar problems.

It was mentioned earlier that there is a significant complementarity among health, sanitation, water supply, and nutrition programs. In the absence of a safe water supply and control over communicable diseases, efforts at improving the nutritional status of the population may be ineffective and costly. And in the absence of adequate nutrition, resistance to diseases will be lower and the cost of curative health programs will be higher. A critical minimum effort may be needed in all these directions simultaneously if each is to have any effect at all! The impact of the spread of education on raising the productivity of investment in all these areas in general and in nutrition programs in particular may be significant but is as yet not fully researched.

Another important issue in providing many of the basic needs is the question of appropriate technology and delivery systems. A water supply scheme which would be prohibitively costly if it used the urban technology of advanced countries may become feasible if local initiatives and resources are used in conjunction with a technology which does not necessarily involve individual house connection to water mains. Thus the sociopolitical institutional framework in which the basic needs programs are to be implemented may be the overwhelming determinant of their feasibility and effectiveness.

The importance of the content and the system of delivery of health care cannot be underestimated. Reference has already been made to the inadequate budget share and the ill-conceived delivery system (modern large urban hospitals) of health care in many of the developing countries. However, there are countries (even if the People's Republic of China is left out), such as Sri Lanka, or regions within a country, such as Kerala in India, where the conception and delivery of health care have differed markedly from that elsewhere in developing countries. Critical evaluation of these efforts in a comparative framework would yield valuable policy lessons, as would a similar analysis of policies toward education and literacy. It is no coincidence that the contrast in the educational policies of Korea and Taiwan on the one hand and of Brazil on the other is remarkable.

Apart from the vagueness of a basic needs approach in respect of crucial policy aspects, there is an inherent contradiction in the position adopted by some basic needs proponents. It blames the existing sociopolitical framework with its vested interests for preventing the poor from sharing in the fruits of development, while at the same time these institutional bottlenecks are assumed to be somehow less relevant for a basic needs strategy.

### *Distributional Policies: Models, Facts, and Politics*

There are by now a number of computable development models incorporating redistributional considerations in one form or the other. The consumption vectors in some of the early exercises in the 1960s on input-output based consistency models for India were derived using estimated Engel curves and alternative Lorenz ratios of the distribution of consumption expenditure. An updated version of this type of exercise was part of the Fifth Five Year Plan (12). These exercises were of limited use since the policies that were to bring about the reduction in

inequality of consumption expenditure were not part of the model. By contrast, the models for Brazil, Korea, Malaysia, and the Philippines attempt to link income generation to factor endowments through factor prices in a general equilibrium framework in which most factor and commodity prices are determined endogenously. Some of these models, for instance, the one for the Philippines, include a demographic subsystem as well.

The conclusions that emerge from the policy simulations of the Korea and Philippines models are:

1. The size distribution of income remains exceedingly stable even in the face of substantial policy interventions.
2. Further, the relative degree of poverty and wealth as a whole is much less affected than the location (rural or urban) or poor and wealthy.
3. Limiting population growth leads to a deteriorating income distribution and increasing poverty in the short and medium term; beneficial effects emerge only in the very long term. Rural-urban migration is the most important demographic variable in improving income distribution, up to a 25-year horizon.
4. Appropriate trade strategy will help increase the absolute incomes, as well as the share, of the poor.
5. Agricultural terms of trade are the most important policy instrument for improving the lot of the poor.
7. Above all, only a massive, wide-ranging, balanced and continued attack on poverty and maldistribution of income has much chance of succeeding; lesser modifications to existing strategies will fail. Successful planning of income distribution can be devised using an integrated array of policies, without changing the fundamental rules of the economy (*r*).

It appears that the specification of these models explained some of their counter-intuitive results. The result from the Korea model that any increase in agricultural productivity would be absorbed through a reduction in the agricultural terms of trade, and hence would increase inequality, stemmed directly from the model's peculiar lack of attention to foreign demand for agricultural output; considerations of comparative advantage and access to the world markets were modelled inadequately in respect to the agricultural sector. For small open economies, such as Korea, this does not make sense. The result that limiting population growth had negative effects on income distribution, except in the very long run, seems to arise from the effect on the agricultural terms of trade of the shift in demand for agricultural products, relative to their supply, which is caused by lower population growth. This suggests that the agricultural sector had been inappropriately modelled. The remarkable insensitivity of "size" distributions to policy changes may be due to the fact that these models basically describe the functional income distribution, the size distribution being derived more or less mechanically from it. The flexibility of money wages and prices built into the model, along with some payment flows fixed in nominal terms, meant that substantial changes in exogenous demand had limited effects on the overall level of economic activity and the distribution of income.

The models for Brazil reviewed in the paper by Bacha and Taylor focus on the savings-investment equilibrium (*q*). As exogenous demands for investment, exports, or government consumption shift, relative prices and employment (and hence income flows) adjust to maintain the macro-economic balance, while the

exact mechanisms of adjustment vary from model to model. As investment demand increases with growth, income distribution becomes more concentrated, to the benefit of high saving groups. While the model results are by no means conclusive, Bacha and Taylor believe that their models are no worse, and perhaps better, than other explanations of Brazilian income inequality.

The above discussion suggests that general equilibrium neo-classical models with fairly smooth price adjustments may not be satisfactory tools for analyzing dynamic processes arising out of discrete jumps, rather than gradual changes, from an initial position of disequilibrium. Indeed most of these models are essentially comparative static in character, and in the dynamic models the postulated dynamic adjustment mechanisms, such as the determination of aggregate investment and its sectoral allocation, are often simplistic. It is conceivable that structural changes (in ownership of assets, labor force participation, skill acquisition, and demographic characteristics) are the dominant forces in effecting any significant changes in income distributions and available models are inadequate to portray the process of structural change.

### *Country Experiences*

In evaluating the policies pursued in countries that have experienced improvement in their income distribution (Korea, Taiwan) and deterioration (Brazil, Colombia, the Philippines) two divergent characterizations are possible. One could attribute the "success" of Korea and Taiwan more to the change in their "initial" conditions brought about by the violence of war, occupation by non-native regimes (mainland Chinese in Taiwan) and the interest of the dominant military allies of the regime (the United States in both Taiwan and Korea) than to their subsequent economic policies. In this view, the success of Korea and Taiwan was not replicable in other countries with different initial conditions. The other characterization, while not denying the importance of initial conditions, would suggest that the mix of economic policies actually pursued did matter a great deal. Taiwan, while initially following import substitution policies in consumer goods, soon enough switched to a policy of encouraging labor-intensive industrial consumer goods. On the other hand, Colombia and the Philippines maintained an import-substitution strategy, extending it to more capital-intensive intermediate and capital-goods industries. The location of industrial estates in rural communities enabled Taiwan to pursue a balanced agricultural and non-agricultural rural growth. Korean growth involved very little capital deepening in the aggregate and its emphasis on labor-intensive manufactured exports was similar to that of Taiwan. This enabled Korea to absorb a growth in the labor force of more than 3 percent per annum during 1963-75 and to reduce unemployment significantly. Both in Taiwan and Korea, real wages rose significantly once the labor surplus phase was over. Rural-urban wage differentials were not allowed to deteriorate, and in fact were improved by government interventions in the determination of agriculture's terms of trade. The contrast with the policies pursued in the other group of countries, particularly in Brazil, could not have been greater. The success of Taiwan and Korea, it could be argued, strengthened the case for a feasible reformist strategy in other countries.

*Political Framework and Distributional Policies*

At the risk of sounding naive and ignorant politically, a few remarks on the politics of income distribution will be offered. It is obvious that except in the unlikely situation where everyone benefits from a policy change, the gain to the poor in a redistribution policy has to be at the expense (at best relatively and at worst absolutely) of the non-poor. If a reformist strategy oriented toward redistribution is to be successfully implemented either the regime has to be sufficiently authoritarian to be able to impose it, or, in a liberal and plural framework, those in power have to be able to count on or able to mobilize the support of a broad coalition of necessarily different interest groups that nonetheless advocate the reforms proposed for their own reasons. Some would argue that historically speaking major redistributions of wealth have resulted only after a war or occupation by a foreign power or they have been imposed by an authoritarian regime or a violent revolution. However, these events are either exogenous or unlikely to be deliberately promoted by governments in power. Reformist, rather than radical, strategies are likely to be the only feasible options for improving distribution in most countries. While it is of great interest and importance to understand how viable, progressive coalitions of interest groups could be formed in different situations, this process is not easily modelled nor can it be orchestrated from outside. The brighter side of the picture is the fact that the technological and institutional (in a broad sense) conditions under which a reformist strategy could be pursued in the third quarter of the twentieth century are not the same as those that existed in countries where redistribution took place after violence of one sort or another. For instance, the technology of the so-called Green Revolution is, if anything, scale-neutral. New high-yielding varieties raise output per acre as compared with traditional varieties, even if no additional inputs of fertilizer or water are used. To the extent that this is valid, lack of thoroughgoing land reform is less serious a bottleneck than it would otherwise have been. To say this is not to minimize the need for land reform.

## SUMMARY AND CONCLUSIONS

Before offering some concluding remarks, it is useful to summarize briefly the above discussion. The cross-country data seem to support the hypothesis of Kuznets that as development proceeds, income inequality worsens first before it improves. But clearly this is not an iron law of development as is evident from the variations in the performance of different countries. There is no strong evidence to suggest that the problem of absolute poverty in developing countries has worsened despite growth in GNP in the last three decades. In fact, the evidence is mixed: poverty has been significantly reduced in some but not in others of the group of fast growing countries. Similar mixed evidence was obtained with respect to slow growing countries as well. A shift of development policy, to the provision of basic needs to target groups through selective interventions in the production and distribution processes, in spite of its appeal on the surface, appears to be based on an inadequate understanding of the conceptual and measurement problems in quantifying basic needs and on an almost naive belief



that the very same institutional bottlenecks that prevented the benefits of growth from reaching the poor to any significant extent, would somehow be absent if the policy is the provision of basic needs to the poor. It appears that the only sensible approach is to emphasize growth as in the past, but supplementing (rather than supplanting) the growth strategy with policies toward better distribution of benefits of growth and experimentation with alternative approaches and delivery systems for providing food, education, health, water supply, and sanitation to the poor. The question then is whether such a "reformist," as contrasted with a "revolutionary," strategy depends for its adoption and success more on favorable initial conditions, which in the past have been brought about by exogenous events such as war or occupation, than on the economic policies pursued during the course of development. No firm answer seems to emerge from the analysis of the development policies and performance of the developing countries since the Second World War.

It would be a serious error to conclude that the growth performance of the developing countries is insignificant and that there has been no improvement in the levels of living of the poor. The growth rates achieved by these countries since 1950 are impressive compared to their own past record and to the record of presently developed countries when they were at their initial stage of development. Nor have the poor been completely left out of the development process. Indicators such as expectation of life at birth, mortality rates (in particular, infant mortality), and school enrollment rates do suggest that some improvement has taken place in the levels of living of the poor. Undoubtedly growth achievements have fallen short of expectations. But it would be tragic if the serious misunderstanding of the performance of past development strategy leads to the adoption of development policies based on ill-defined concepts such as basic needs, to the detriment of growth. A development strategy cannot be fully articulated on the basis of the need to provide a limited set of goods and services to a part of the population. Nor can any success achieved in the provision of basic needs be sustained in the future without growth. Instead of turning into a blind alley, students of development should devote their efforts to the difficult task of understanding the sociopolitical characteristics of the development process. Such an understanding is the first step on the road toward developing a framework for defining and evaluating alternative development strategies for poverty alleviation.

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## APPENDIX

### PAPERS OF THE WORLD BANK WORKSHOP ON ANALYSIS OF DISTRIBUTIONAL ISSUES IN DEVELOPMENT PLANNING, BELLAGIO, ITALY, APRIL 22-27, 1977

1. I. Adelman, M. J. Hopkins, S. Robinson, G. B. Rodgers, R. Wery, "A Comparison of Two Models for Income Distribution Planning"
2. M. S. Ahluwalia, "Rural Poverty and Agricultural Growth in India"
3. M. S. Ahluwalia and J. Duloy, "Poverty Alleviation and Growth Pessimism: A Reexamination of Cross-Country Evidence"
4. E. L. Bacha, "The Kuznets Curve and Beyond: Growth and Changes in Inequalities"
5. E. L. Bacha, and L. Taylor, "Brazilian Income Distribution in the 1960s: Facts, Model Results and the Controversy"
6. C. L. G. Bell, "A Simple Dualistic Economy in a Comparative Statics Setting"
7. M. Bruno, "Distributional Issues in Development Planning: Some Reflections on the State of the Art"
8. H. B. Chenery and N. Carter, "International Aspects of Poverty and Growth"
9. A. Fishlow, "Brazilian Income Distribution: Does Trickle-Down Really Work?"
10. K. Griffin and A. R. Khan, "Poverty in the Third World: Ugly Facts and Fancy Models"
11. G. Lamb, "Distributive Politics in Tanzania"
12. D. Lehmann, "The Death of Land Reform"
13. ———, "The Politics of Armageddon: Chile 1970-73"
14. M. Lipton, "The Technology, the System and the Poor: The Case of the New Cereal Varieties"
15. C. Lluch, "On Simple Macroeconomic Models"
16. G. Pyatt, "Labor Markets and the Efficiency of Labor"
17. G. Ranis, "Equity with Growth in Taiwan: How Special is the Special Case?"
18. D. C. Rao, "Economic Growth and Equity in Korea"
19. G. B. Rodgers, "Demography and Distribution"
20. F. Stewart, "Inequality, Technology and Payments Systems"
21. P. Streeten, "Basic Needs: An Issues Paper"
22. L. Taylor and F. Lysy, "Vanishing Short-Run Income Redistributions: Keynesian Clues about Model Surprises"