

Growth and poverty

Vito Peragine

University of Bari

Poverty in Europe and how to fight it

Sapienza University of Rome – May 26, 2017

Outline

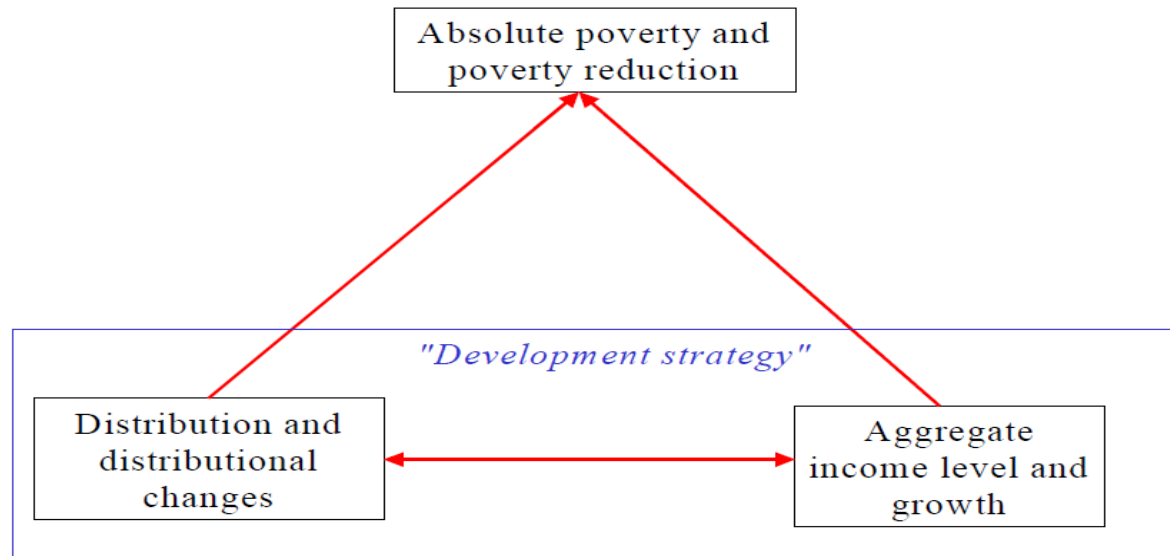
1. Poverty, inequality and growth: a conceptual framework
2. Some measurement tools
 - Absolute poverty and shared prosperity
 - The growth incidence curve
3. Some recent numbers on poverty, growth and inequality
 - Italy
 - The Global view
4. Some implications for the domain and the design of policies aiming at reducing poverty

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A conceptual framework (1)

The Poverty-Growth-Inequality Triangle

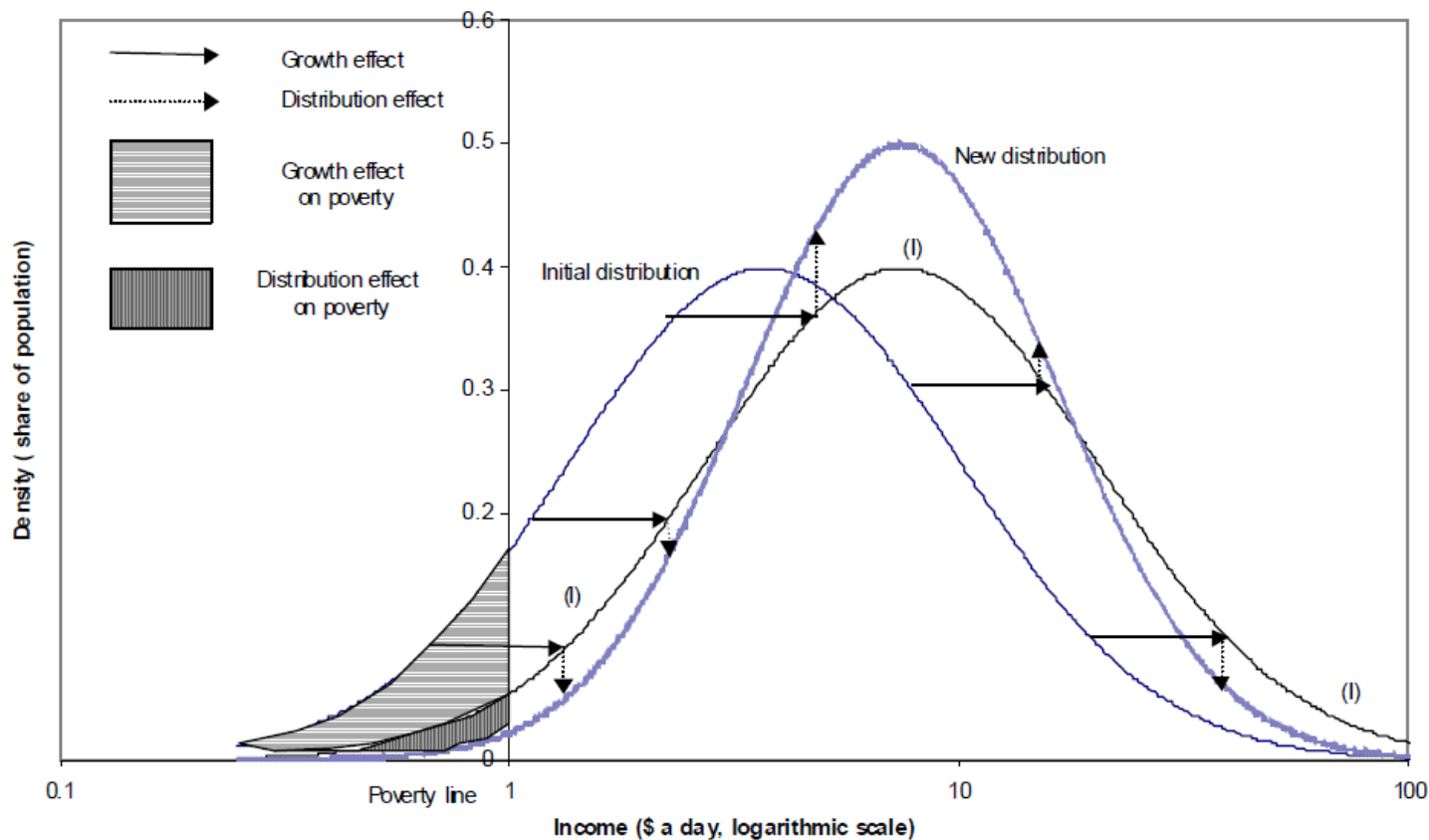


The micro approach and the macro approach

Mainly focused on poor and developing countries

A conceptual framework (2)

Figure 1. Decomposition of change in distribution and poverty into growth and distributional effects



Bourguignon (2004)

A conceptual framework (3)

- **Change in Poverty \equiv F (growth, distribution, change in distribution)**
- However, the elasticity of poverty with respect to growth for a constant distribution turns out not to be constant across countries with different development levels and distribution. This also applies to the elasticity of poverty with respect to inequality.
- Bourguignon (2003): under the assumption that the distribution function is log-normal, both the growth and the inequality elasticity of poverty are increasing functions of the level of development and decreasing functions of the degree of relative income inequality
- The real challenge to establishing a development strategy for reducing poverty lies in the interactions between distribution and growth

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Measurement tools

World Bank (2013):

- **extreme poverty**: absolute poverty headcount ratio
- **shared prosperity**: income (or consumption) growth of the poorest 40 percent of the population
 - *shared prosperity premium*: difference between the income growth of the bottom 40 and the mean income growth in each country

The Growth Incidence Curve

The Growth Incidence Curve was first formally described by Ravallion and Chen (2003).

The version in discrete time is:
$$g(p) := \frac{y_t(p) - y_{t-1}(p)}{y_{t-1}(p)}$$

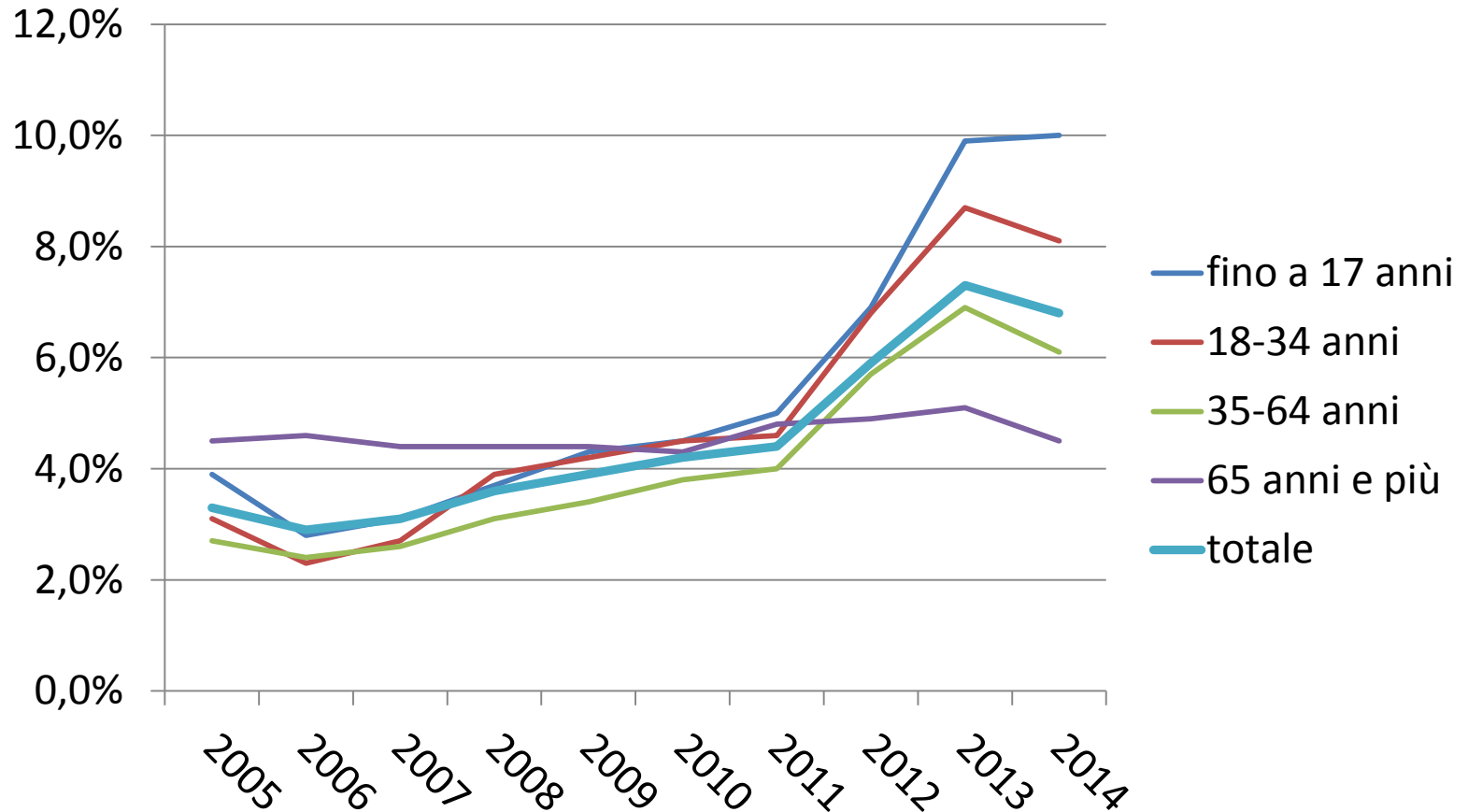
Anonymous and non anonymous (longitudinal) versions: both useful, they capture different phenomena

Mean income, poverty (absolute and bottom 40) and inequality changes are all transformations of the information in the GIC.

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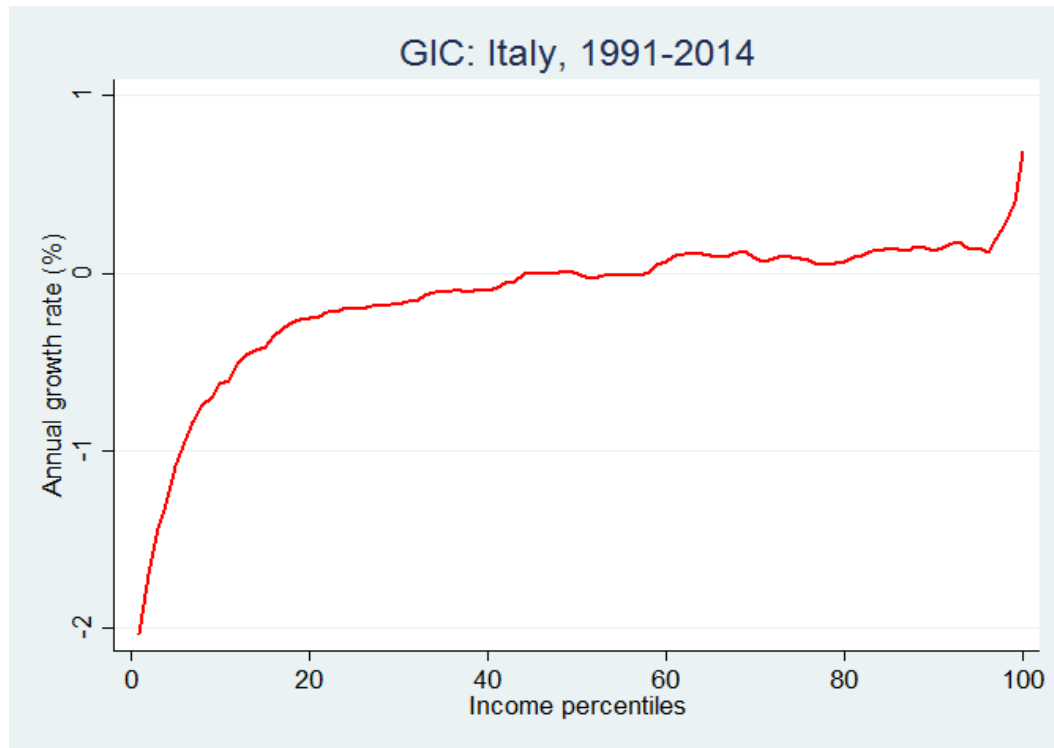
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Absolute poverty in Italy: 2005-2014



Istat (2016)

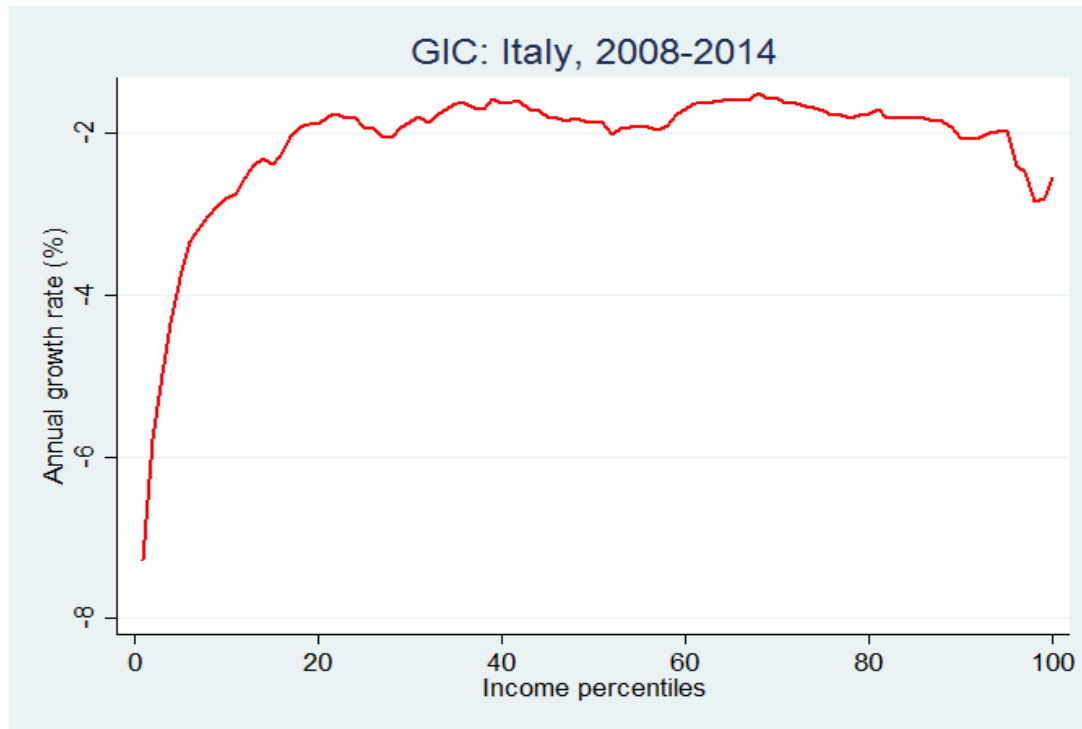
Growth in Italy: 1991-2014



Palmisano and Peragine (2016)

Notes: Household equivalized disposable income at constant prices of 2005. SHIW Historical Database (1977-2014), Bank of Italy.

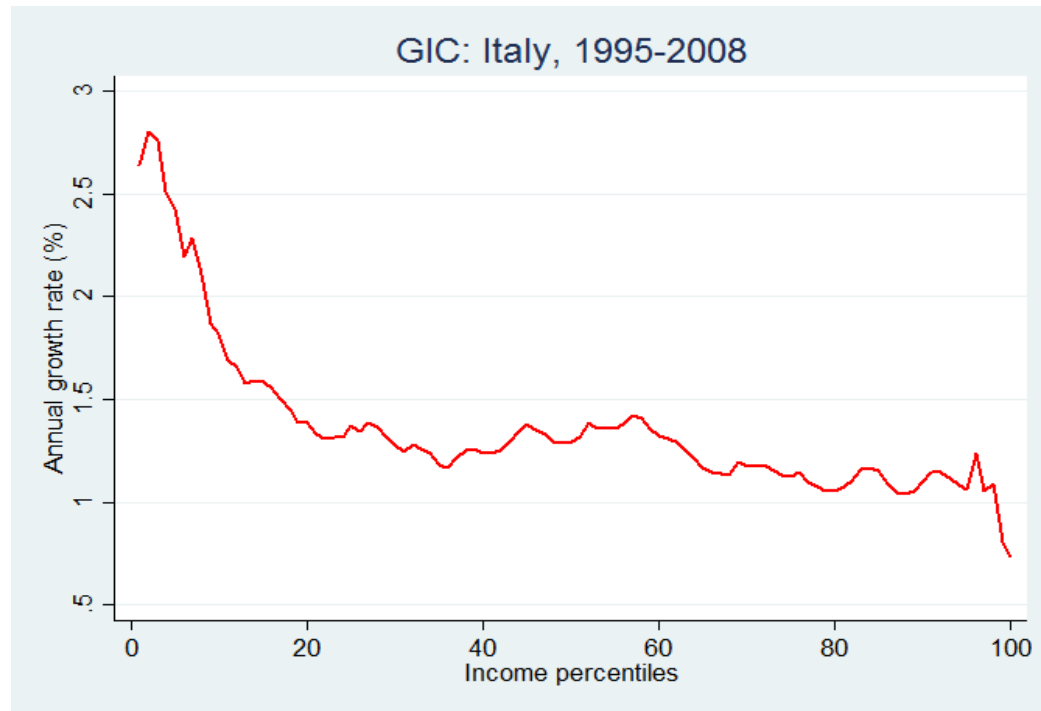
Growth in Italy: 2008-2014



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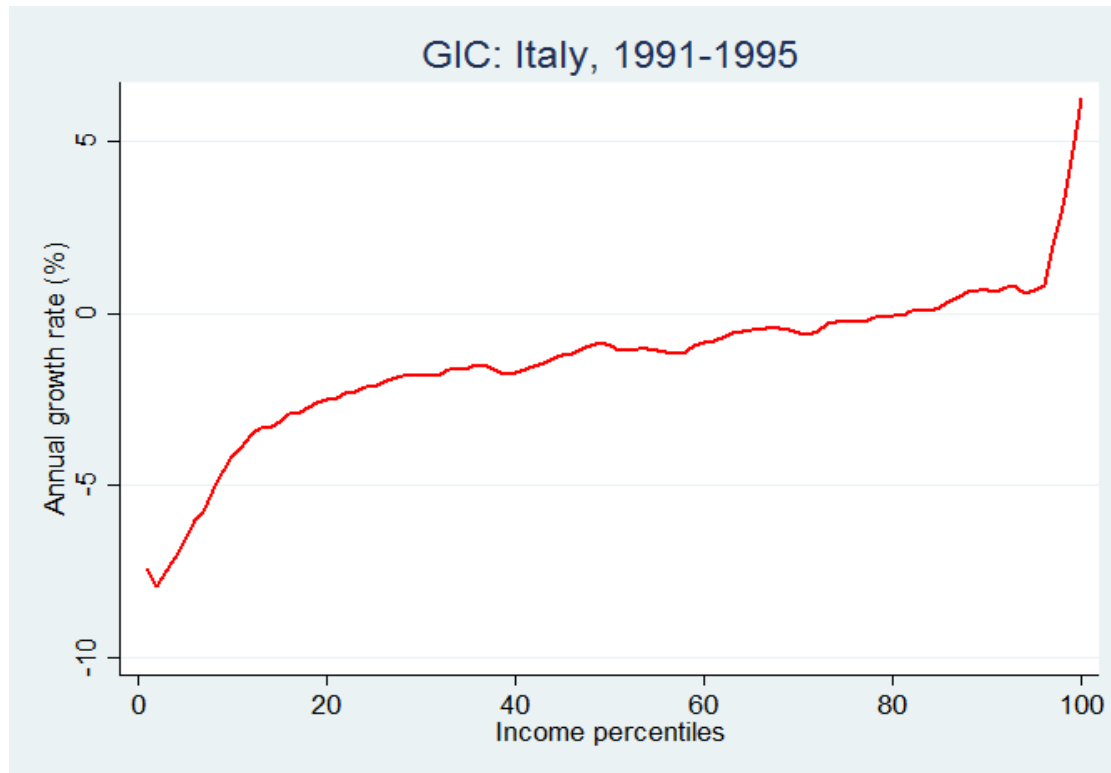
Growth in Italy: 1995-2008



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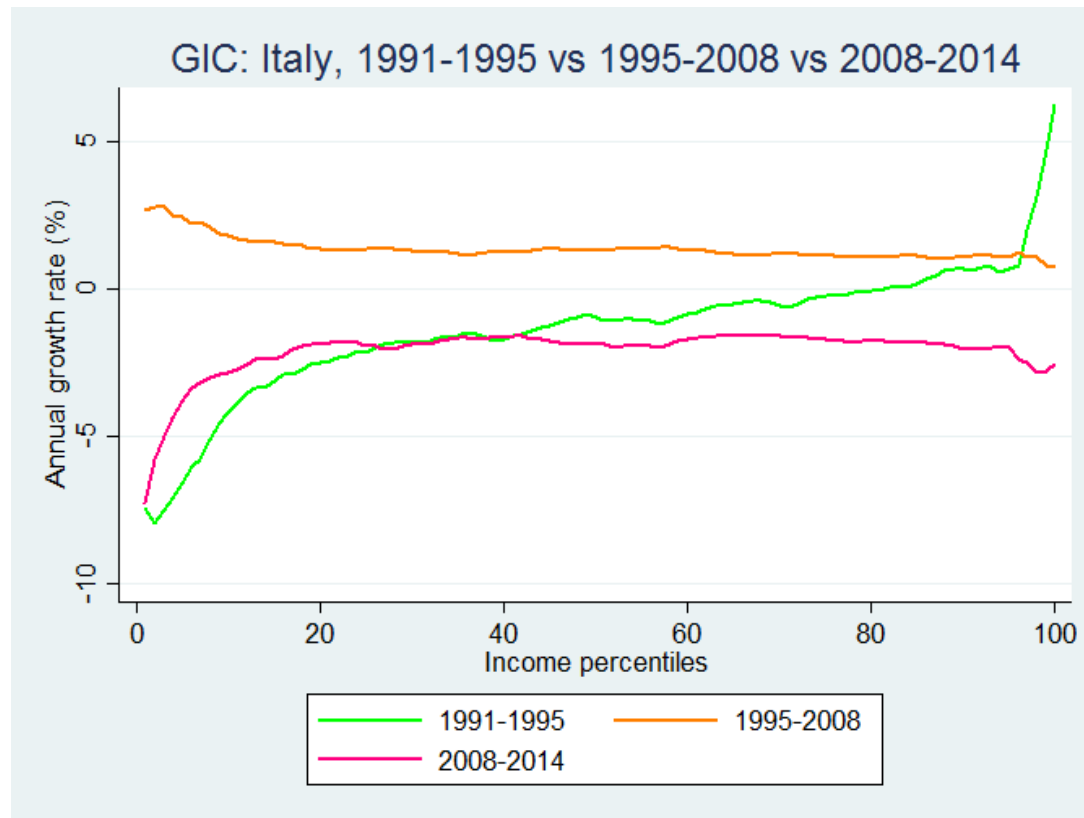
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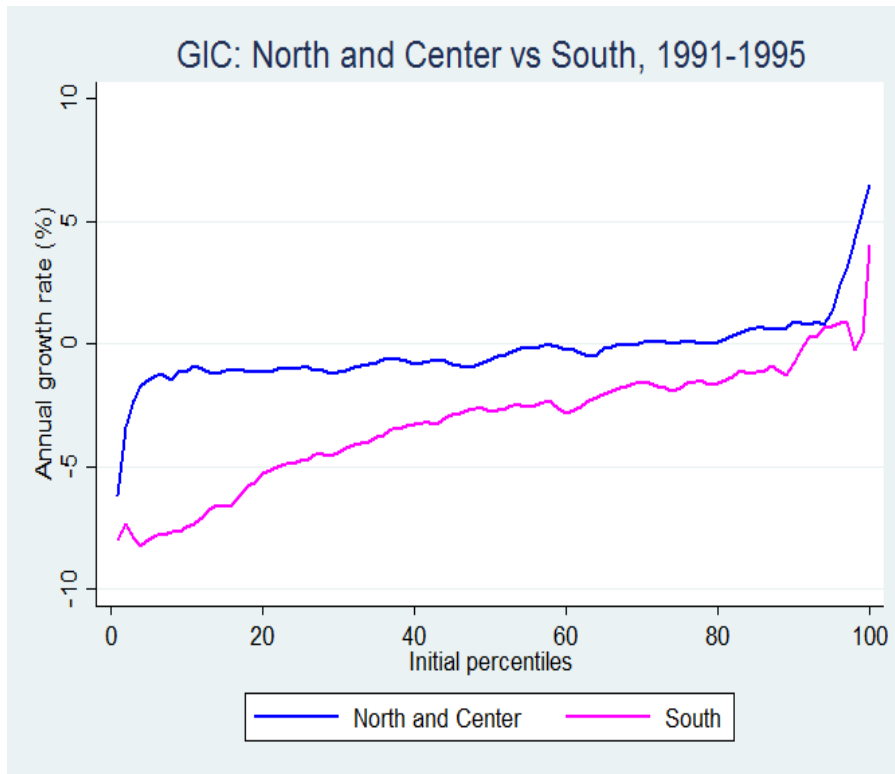
Growth in Italy: 1991-2014



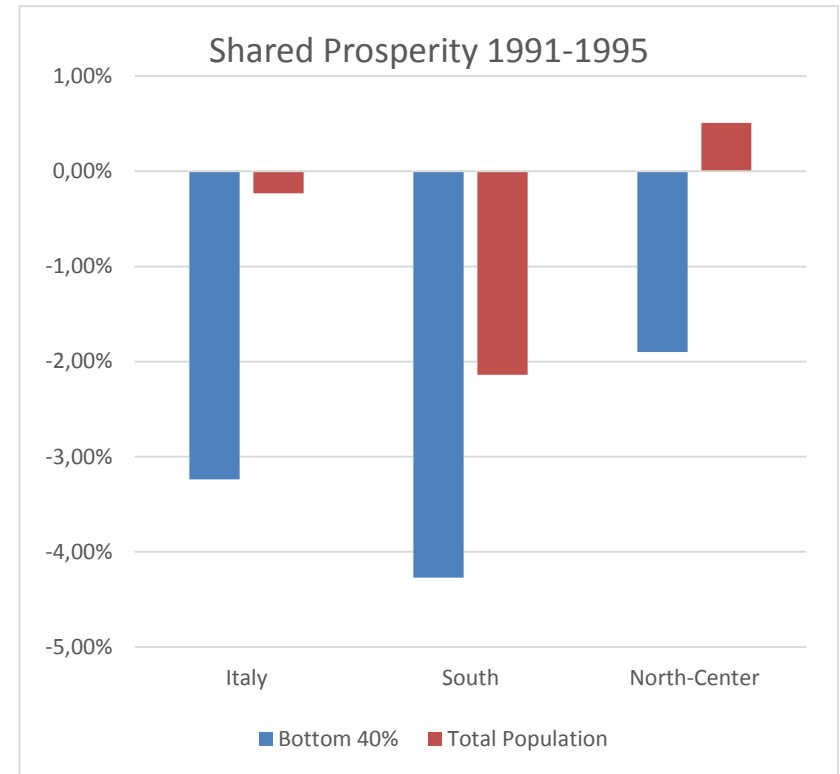
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Growth in Italy: North and Center vs South, 1991-2005

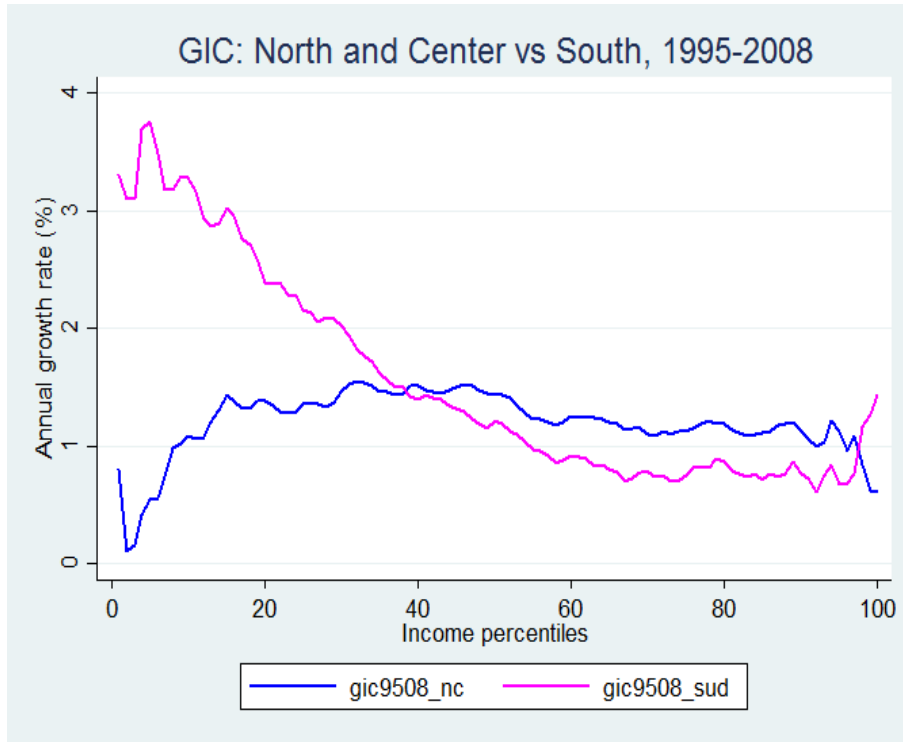


Palmisano and Peragine (2016)

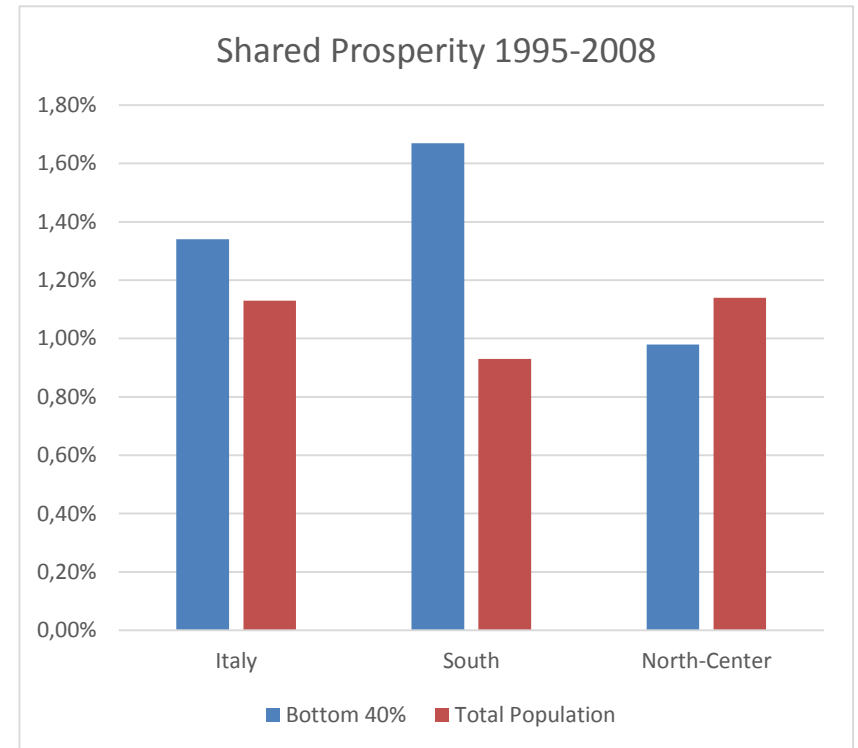


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Growth in Italy: North and Center vs South, 1995-2008

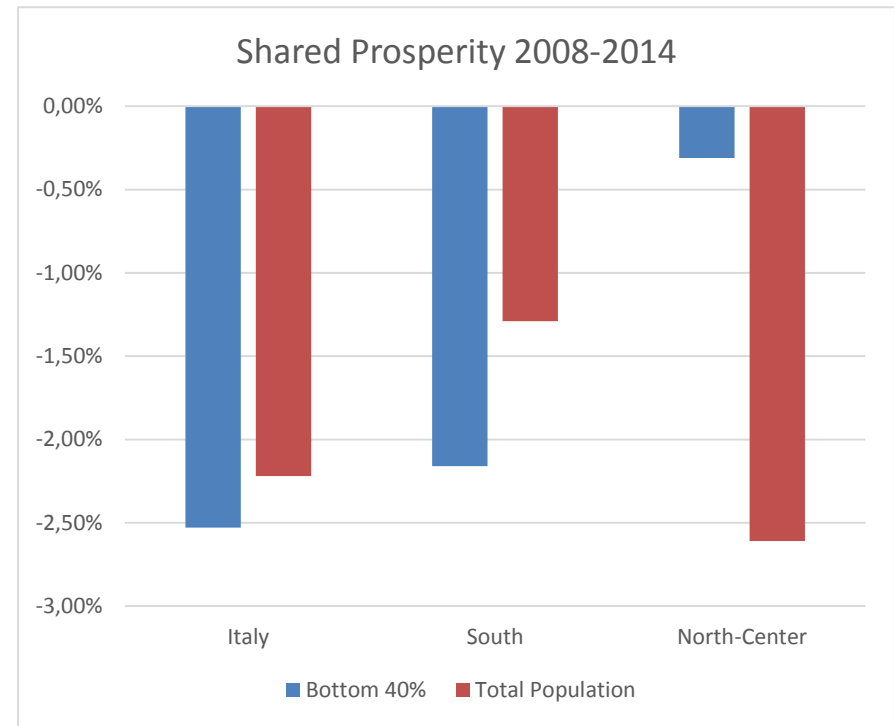
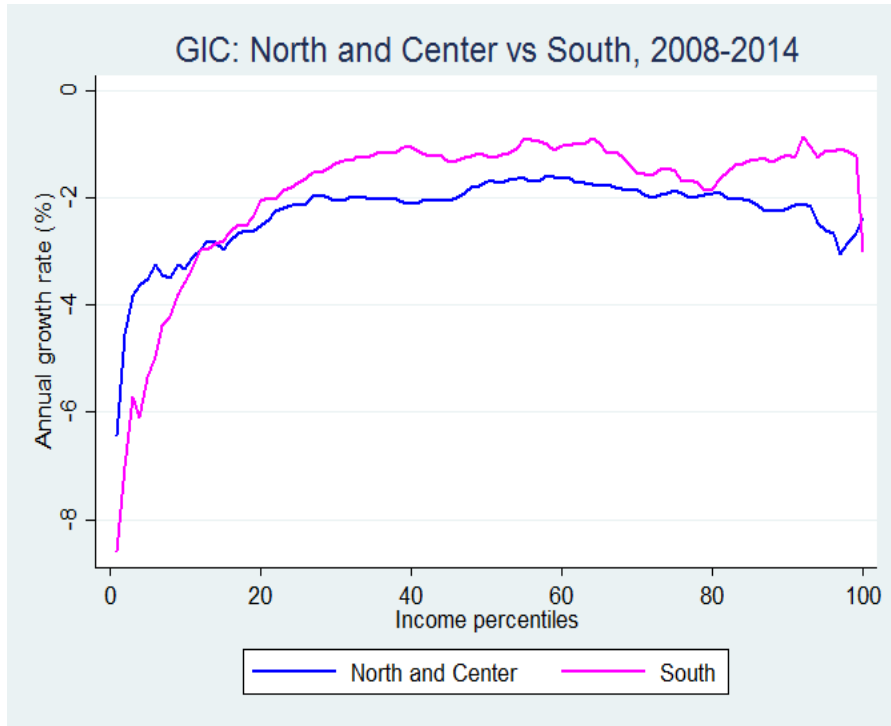


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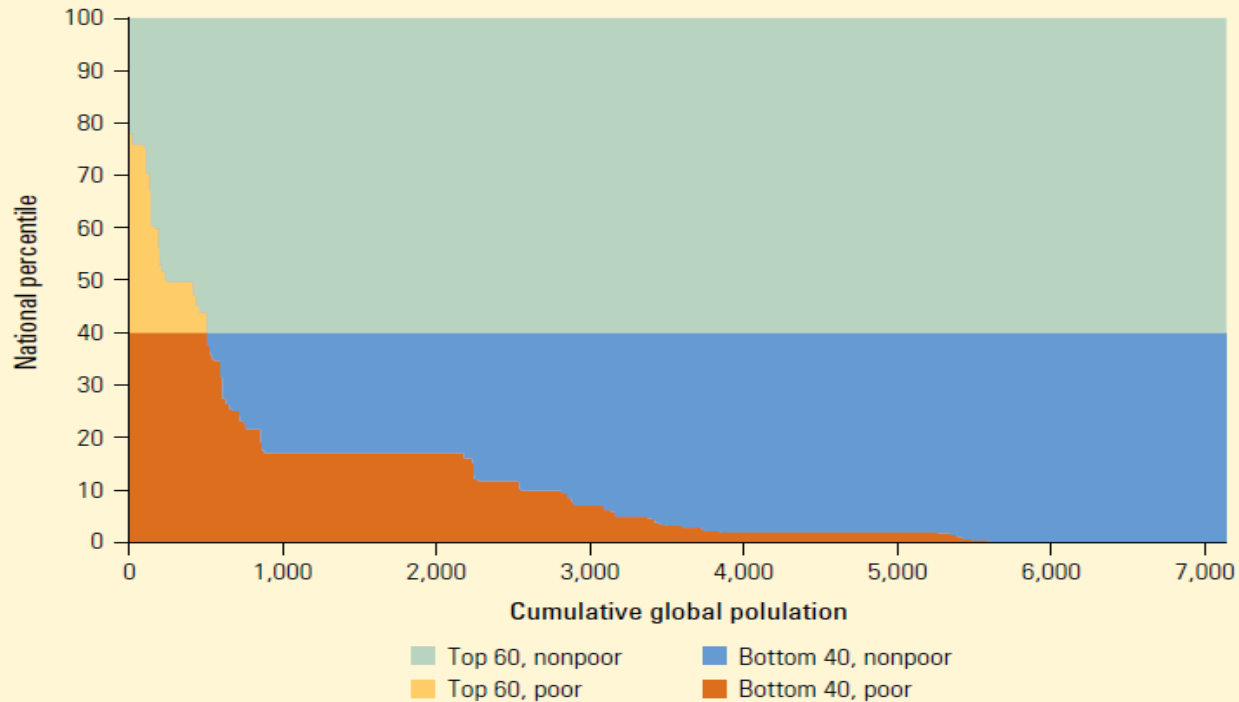
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Poverty in the World

FIGURE B3.1.1 Distribution of the Extreme Poor, the Nonpoor, the Bottom 40, and the Top 60, 2013

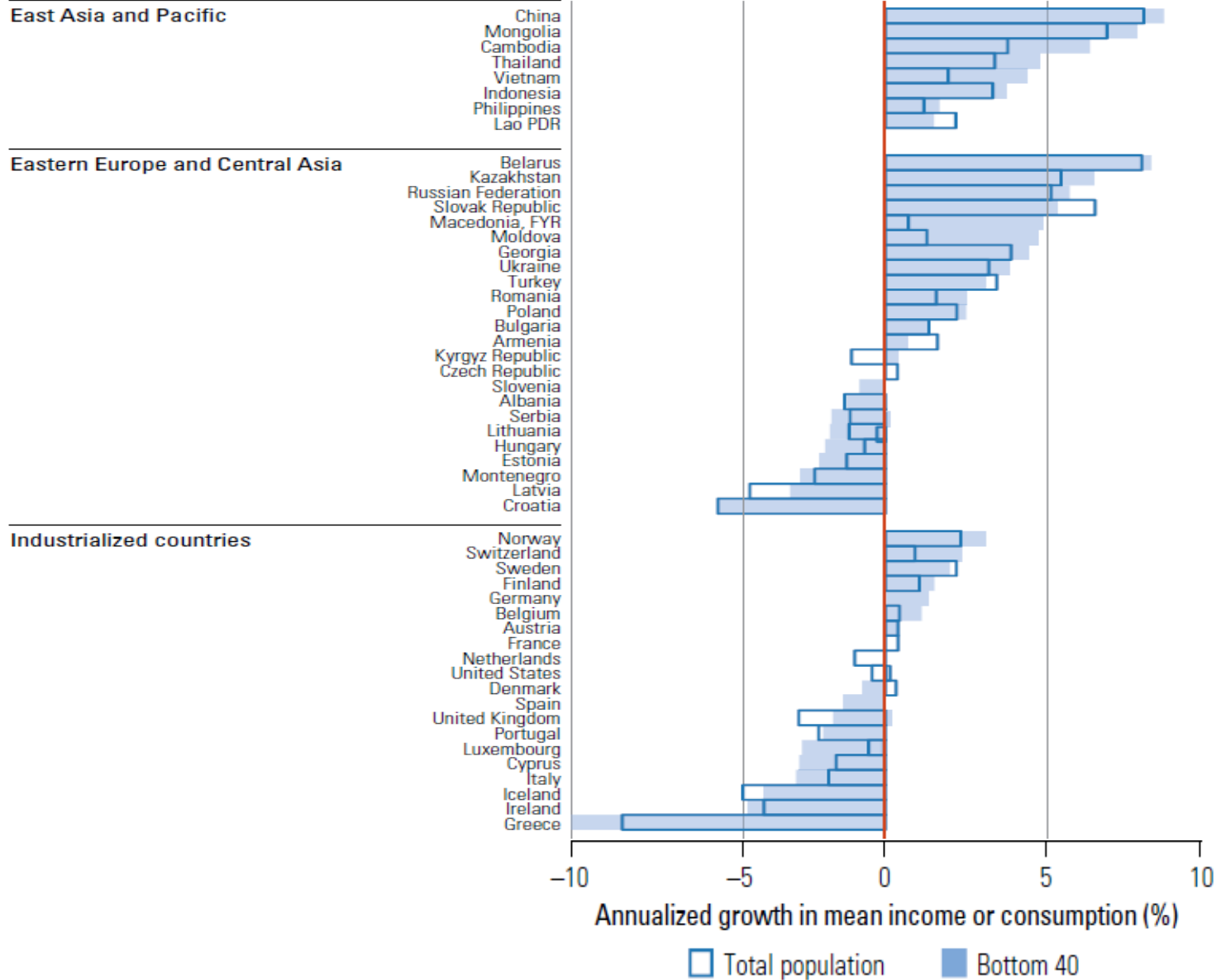


Source: Inspired by Beegle et al. 2014 and updated with 2013 data.

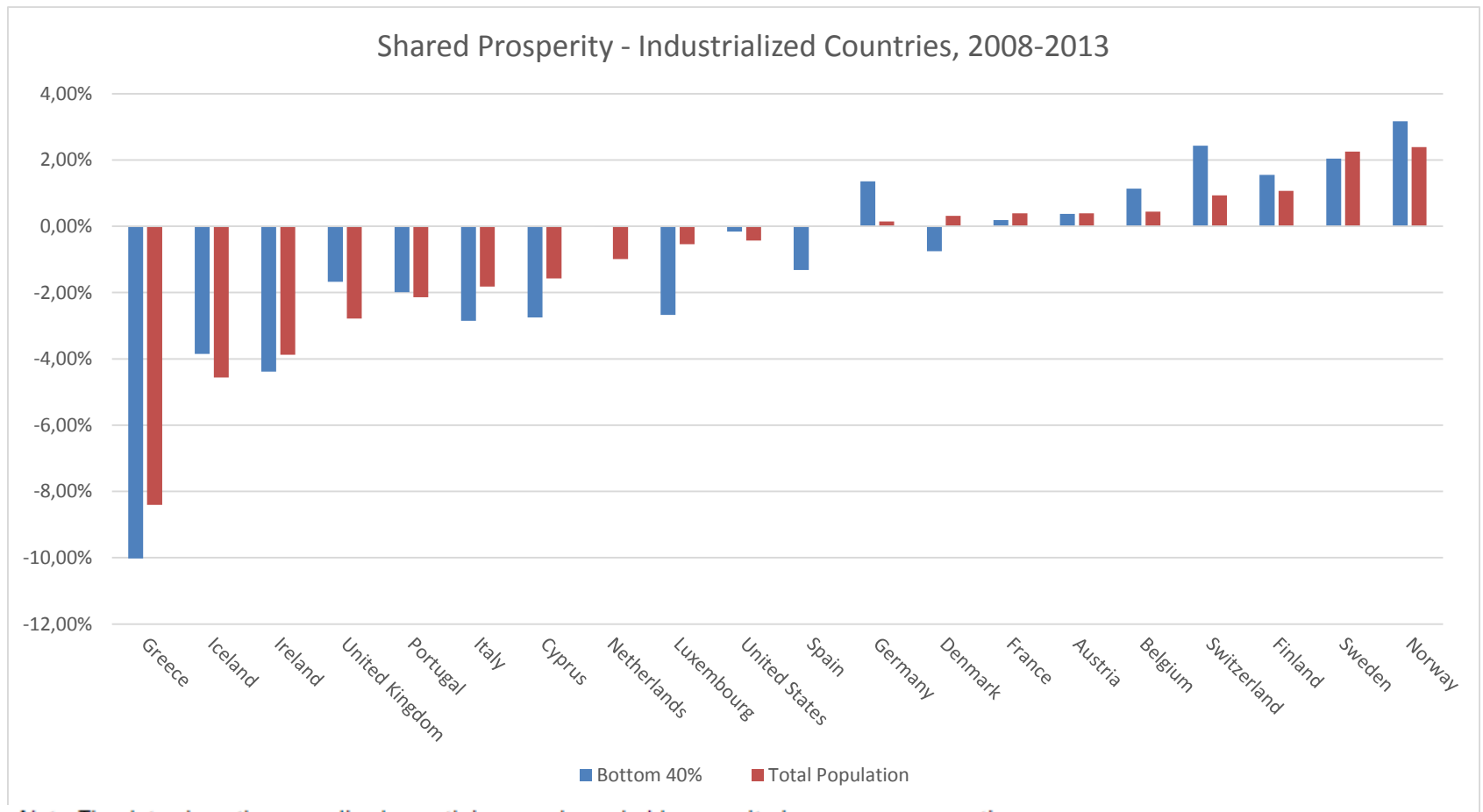
Note: The figure has been constructed from vertical bars representing countries sorted in descending order by extreme poverty headcount ratio (from left to right). The width of each bar reflects the size of the national population. The figure thus illustrates the situation across the total global population.

World Bank (2016)

Shared prosperity: 2008-2013



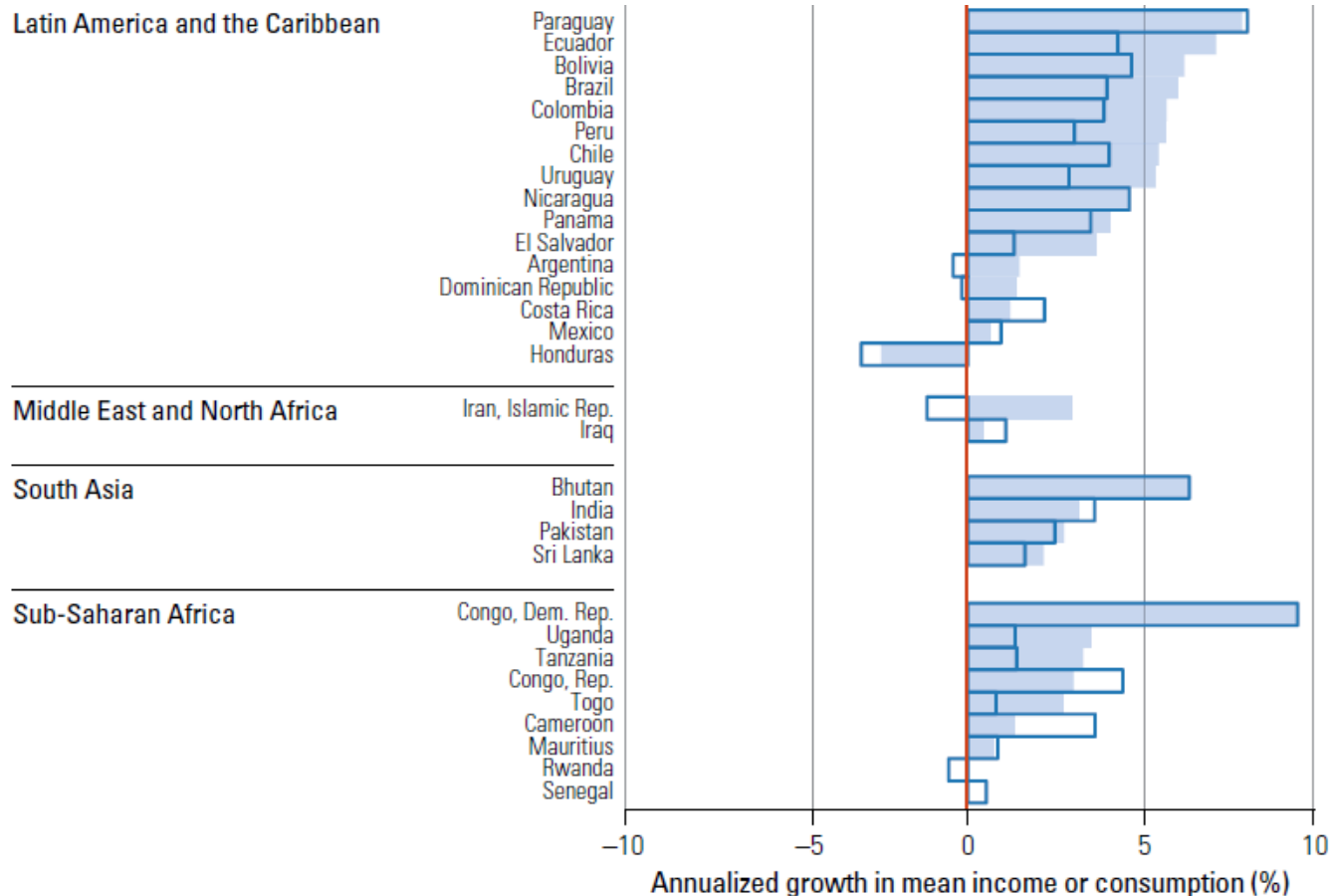
Shared prosperity: industrialized countries, 2008-2013



Note: The data show the annualized growth in mean household per capita income or consumption.

World Bank (2015)

Shared prosperity: 2008-2013

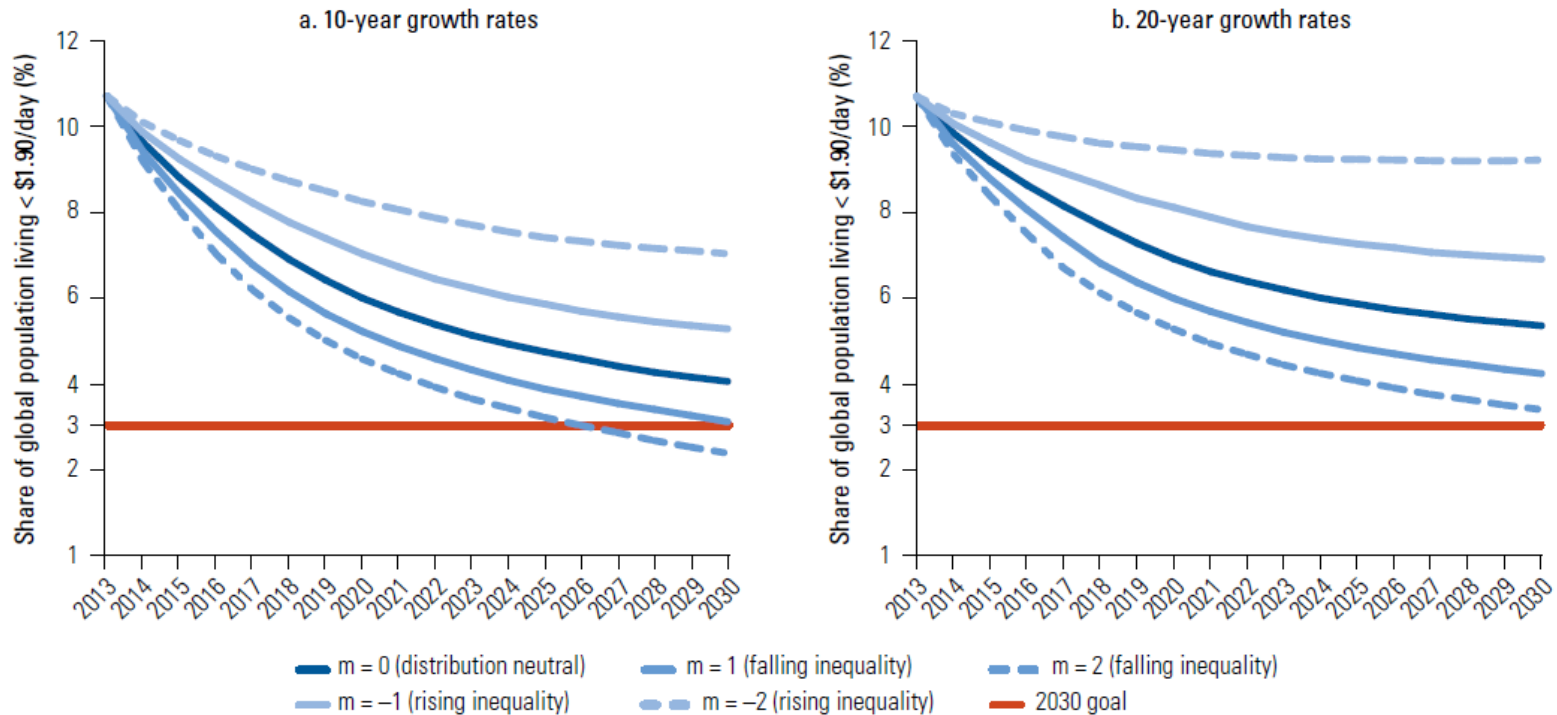


Note: The data show the annualized growth in mean household per capita income or consumption.

World Bank (2015)

Shared prosperity: 2013-2030

FIGURE 3.4 Boosting Shared Prosperity and Ending Poverty, 2013–30



Source: Updated results based on Lakner, Negre, and Prydz 2014.

Note: m = the assumed shared prosperity premium, that is, the growth in income or consumption among the bottom 40, minus the growth in income or consumption at the mean. For example, $m = 2$ indicates that the growth in income among the bottom 40 exceeds the growth in income at the mean in each country by 2 percentage points.

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Policy implications

- Growth, changes in poverty and changes in inequality are all summary measures of changes in the disaggregated distribution of incomes.
- Understanding these changes requires understanding the determinants of changes in the growth incidence curve.
- When thinking about policies, do not think of “growth versus distribution”. Think about ‘policy incidence’.

Policy implications

- Poverty can be reduced through higher average growth, a narrowing in inequality, or a combination of the two.
- Achieving the same poverty reduction during a slowdown in growth therefore requires a more equal income distribution. It follows that, to reach the goals, efforts to foster growth need to be complemented by equity- enhancing policies and interventions
- The importance of inequality reduction in ending poverty and boosting shared prosperity, particularly in a context of weaker growth.

Policy implications

- Anti-poverty policies
- Ex ante and ex post egalitarian policies
- Outcome and opportunity egalitarian policies

Policy implications

- Safety nets capable of protecting the poorest from risk
 - By smoothing consumption among the most deprived, especially during shocks, CCTs help prevent the widening of inequality and the duration of economic recession
- The accumulation of good-quality human capital and enhanced infrastructure to connect lagging regions to economically more active ones
- Tax redistribution: up to 20 points of the Gini index of market incomes in some European Union (EU) economies
 - Not only income tax
- Expanding health care coverage and good-quality education, at all levels, thereby narrowing inequalities in human capital development and future income

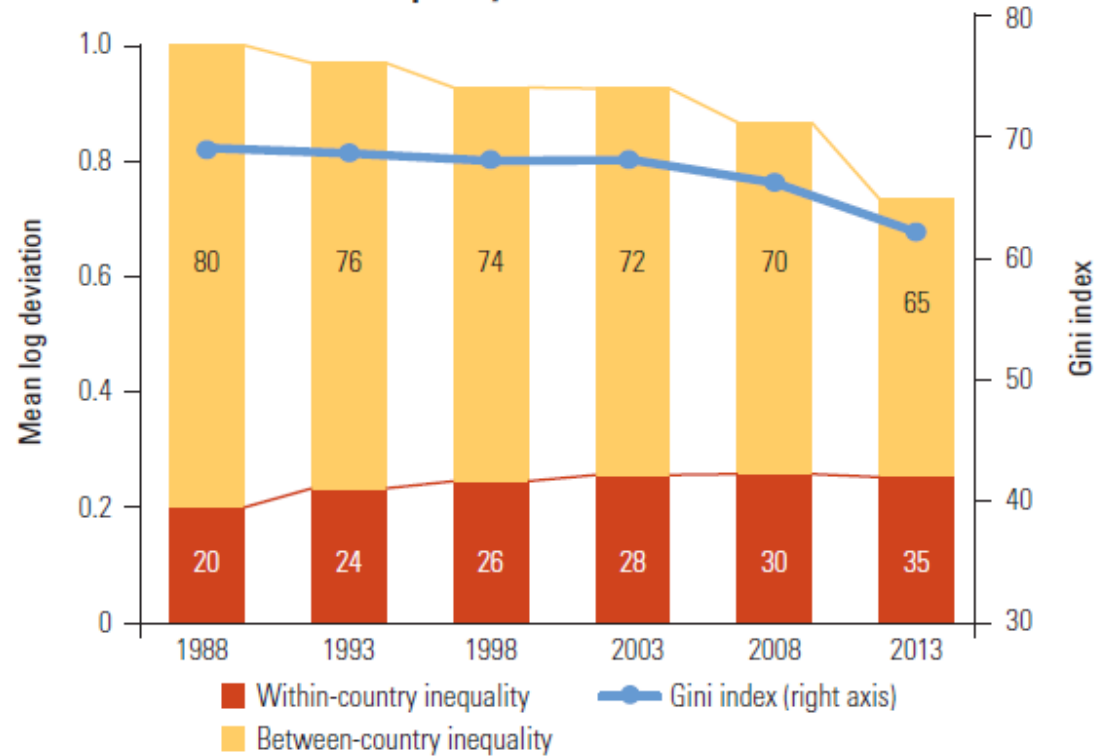
Egalitarian policies: opportunity vs outcome ?

- Opportunity perspective:
 - *individual outcome = F (circumstances, responsibility)*
- Ex ante equalization of circumstances, through cash transfers or services:
 - Outcome redistribution between parents => equalization of opportunities for the next generation
 - “Selective” education financing aimed at compensating pupils starting from different family background (Betts and Roemer, 2004) => equalizing effect on parents’ income
- Ex post compensation of circumstances through policies that affect outcomes:
 - Affirmative action: e.g., policies addressing the gender wage gaps or other horizontal inequalities
 - These policies could also reduce the outcome inequalities
- Bottom line: The Opportunity perspective can give more strength to the arguments in favour of policies aimed at reducing poverty and inequality

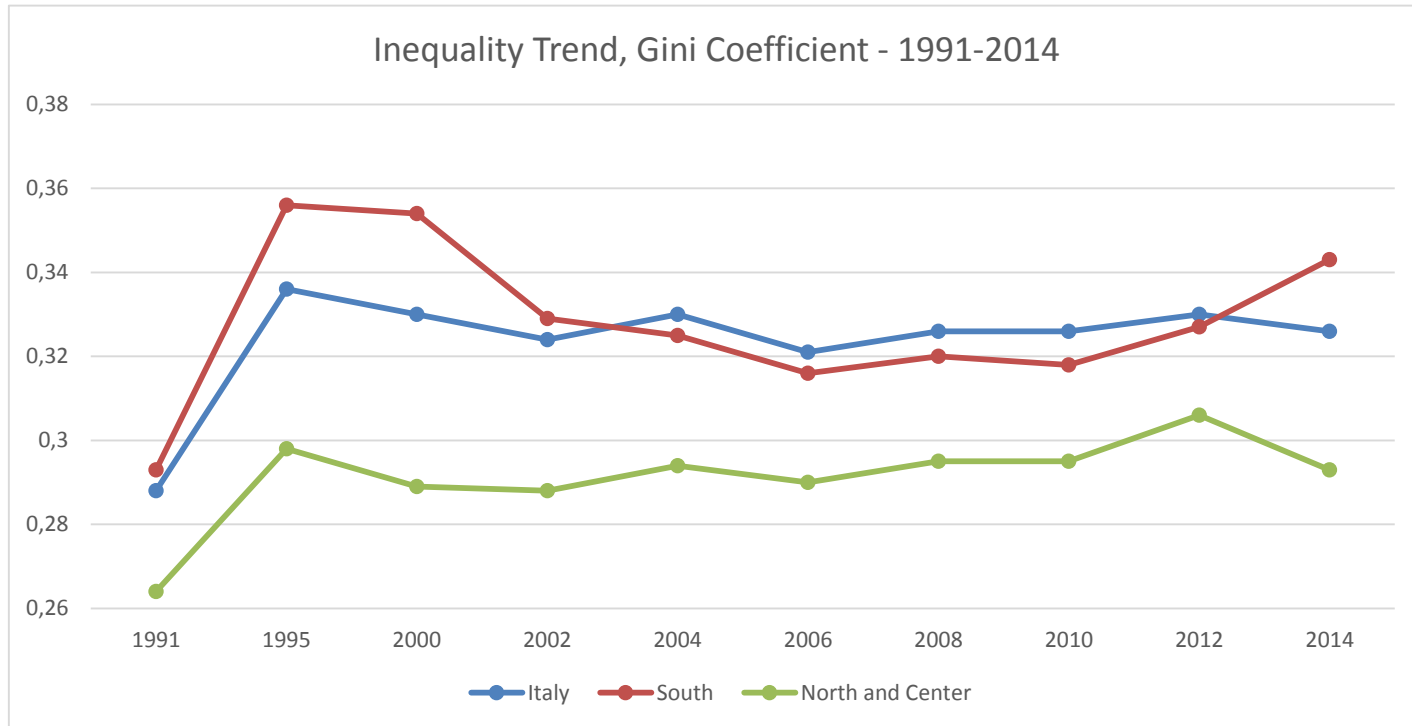
Thank you

Global Inequality Trend: 1988-2013

FIGURE 0.10 Global Inequality, 1988–2013



Inequality Trend: Italy, 1991-2014



Notes: Household equivalized disposable income at constant prices of 2005.
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