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By

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I.

In a paper published in 1955 which was, in his words, "5 per cent empirical information and 95 per cent speculation" and which bears — in spite or because of its speculative character — the marks of prophetic insight, Simon Kuznets advanced the proposition that "in the early phases of industrialization in the underdeveloped countries income inequalities will tend to widen before the leveling forces become strong enough first to stabilize and then reduce income inequalities." He then answered in the negative the question "Can the political framework of the underdeveloped societies withstand the strain which further widening of income inequality is likely to generate"?

Since 1955, ample evidence has accumulated to bear out Kuznets' "speculation" that in the developing countries inequalities in income distribution are greater than they were in the industrialized countries before the trend toward growing inequalities was reversed — in some countries before the turn of the century, in others not until after the First World War — and that they have become more pronounced in most though perhaps not in all countries.

What has come as a rather shocking surprise, however, is the extent of the inequality and the low absolute level of per capita income of the poorest quintile of the population. In 21 out of a total of 40 developing

Remark: The views expressed in this paper are those of the author and not necessarily of the International Bank for Reconstruction and Development with which he is associated.


2 Data on income distribution have in recent years become available for a surprisingly large number of developing countries; although for most countries their reliability is rather uncertain, especially since in many instances their coverage is limited, and their comparability is highly questionable. The most comprehensive data are given in I. Adelman and C. T. Morris, An Anatomy of Patterns of Income Distribution in Developing Nations, Final Report Prep. for the U. S. Agency for International Development, February 12, 1971. A short version has been published in Development Digest, Vol. IX, Washington, D. C., 1971, No. 4, pp. 24 sqq.
countries for which data are available, the average per capita income of the poorest 20% of the population is less than 28% of the national average. That means that it is not only in the "hard core" least developed countries which have been singled out in various resolutions of the United Nations bodies for special consideration, that the per capita income of the majority of the population is abysmally low (and therefore perennially in danger of falling below the threshold of physical needs); but that in a number of countries in which the national average per capita income has reached a level substantially above the benchmark of say, $100, such as Brazil, Colombia, El Salvador, Jamaica, Lebanon, Mexico, Panama, Peru, and Tunisia, a substantial proportion of the population still has a per capita income below that international "poverty line."

There is another group of countries in which the low per capita income of the poorest quintile— or for that matter of the poorer half — of the population is a matter of special concern on humanitarian grounds and, in policy terms, of urgency. This group includes India and Pakistan in Asia and some of the major countries of Africa such as Kenya, Nigeria, and Tanzania. In these countries the relative share in the national income of the poorest quintile of the population is significantly higher than that in the first group, between 7% and 10%; but because of the low national average, the absolute amount is so low that it is clear that minimum requirements of caloric intake and nutritional balance are not met. According to the data, the per capita income of some 110 million Indians is $38 compared with a national average of $100; in Pakistan, the poorest 20% of the population — some 22 million — "enjoy" a per capita income of $36; and so on.

These figures are the more disconcerting since the experience of the last twenty years has shown that it is virtually impossible in developing countries to mitigate the plight of the lower income groups by redistributive fiscal operations. For a variety of reasons, of which the low national per capita income itself is presumably the most important one, efforts aiming at redistribution for the benefit of the poor do not work. Moreover,

1 Data given in Adelman and Morris, op. cit., cover 44 countries, including Japan, Israel, Rhodesia and South Africa. These four countries have been excluded — because Japan and Israel can no longer be considered "developing" in the generally accepted meaning of the term, and because in Rhodesia and South Africa the income distribution may be considered chiefly the result of discriminatory legislation. If the four countries are included, the numbers in the text become 24 out of 44.

2 U. N. General Assembly Resolution A/RES/2768 (Session XXVI), New York, November 22, 1971. The resolution also contains references to other U. N. resolutions and documents which pertain to the least developed countries.

3 The data on Pakistan refer to years prior to the secession of Bangladesh.
there is evidence which suggests that in the great majority of developing
countries the benefits of economic development accrue chiefly to the upper
income groups — the highest 20% or 40% of the population — and that in
some countries the poorest 20% or even a larger percentile do not partici-
pate in the process of economic advancement at all.

This state of affairs is in sharp contrast with the fundamental objectives
of economic development — the diminution of poverty and human
misery. It is, I suggest, indicative of the direction in which development
theory and development policy has been moving — wandering may be a
better term than moving — that it has become necessary to recall their
basic aims. In the preoccupation with the means of development — to
raise the rate of savings and investment, to achieve viability in the inter-
national accounts, to move from externally supported to self-sustained
growth — sight has been lost of its ends. And the advocates and promoters
of development and development aid have been so busy defending their
cause against its detractors and proving its success — by impressive
aggregate statistics and persuasive accounts of changes in institutions,
attitudes and social values — that they have had no time, or inclination, to
concern themselves with the imperfections of their accomplishments.
True, national development efforts and international development
assistance have been successful, and, in the face of formidable obstacles,
successful beyond all reasonable expectations: unprecedented population
growth rates notwithstanding, a growth in per capita GNP of some
$2^{1/2}\%$ or better is a remarkable achievement. But unfortunately it is
equally true that the achievements of the last twenty years do not form
a solid foundation for further and faster advances from now on — because
of the uneven distribution of the benefits of economic growth, which has
adversely affected the social and political cohesiveness of many countries
and made them more prone to interruptions of economic progress through
social upheaval and political turmoil.

II.

Against this background of facts and impressions, three sets of questions
may be posed. One is: what are the causes of the inequalities in income
in developing countries? The second: why has little or nothing been
done to date to mitigate the inequalities? And the third: what, if any-
thing, can be done about them?

The aim of this paper is to provide some tentative answers to the
third question. But before doing so, a few comments on the first
two seem in order. The causes of income inequality have been dealt
with in a refreshing, imaginative, and comprehensive way by Adelman
and Morris*. Because of the complexity of their findings, it would be futile to attempt to summarize them here. Only four remarks which are relevant for a better understanding of the answers given below to the third question seem appropriate.

One is to underline the importance of what Adelman and Morris have called dualism in the structure of the many developing countries: the more pronounced the dualism, i.e., the existence side by side of a technologically and institutionally backward sector and a technologically advanced and well organized modern sector, the greater the incidence of high income inequality. But since the growth of a modern sector is an essential and unavoidable ingredient of the growth process itself, it becomes immediately clear that economic development itself is one of the prime causes, if not the prime cause, of income inequality—just as Kuznets had suggested. Conversely, low growth and low growth potential—i.e., the absence of favorable resource endowment such as mineral deposits or good climatic conditions—are associated with less income inequality.

The second one is to call attention to the close connection between income inequality on the one hand and unemployment and underemployment on the other, and to the rather obvious relation of both income inequality and unemployment/underemployment to social disenchantment and tension. It is unfortunate (though perhaps not surprising) that in recent years the prevalence and the growth of unemployment and underemployment in developing countries has received much attention without, however, bringing out the fact that the lack of employment opportunities is but one of many causes of income inequality. It is doubtful whether the fully employed peasant who is unable to eke out a living for himself and his family from the land he owns or, more likely, rents is better off and less in need of help and attention than underemployed or unemployed casual urban workers.

The third comment is closely related to the second one. The rise in urban unemployment and rural underemployment which has become painfully evident in a large number of developing countries in recent years—although the existence of an oversupply of labor has been con-

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* Adelman and Morris, op. cit.


* The only reason for focussing on unemployment, rather than on inequality of income (i.e. poverty) may be the fact that unemployment, concentrated in urban areas is politically more dangerous than "simple" poverty.
sidered a structural characteristic of underdevelopment for a long time— has been attributed largely to the increase in the rate of population growth. The rise in the rate of population growth must of course also be considered as a significant cause of the continuing and worsening unevenness of income distribution if, as is presumably the case, the increase in the birth rate is greater among the lower income groups than among the upper which practice birth control. This implies of course that family planning measures are likely to have a favorable impact, not only on the rate of income growth, but also on income distribution.

The fourth cause of inequality which deserves to be singled out—at least as a boon to those of us who have been brought up to believe that knowledge and education are the key to everything—is the rather close relation between education and the level of family income. On general grounds it is of course difficult to establish the direction of the causal relation because there is logic—and empirical evidence—to either of the two assertions that, one, a low level of education, or the absence of any formal education "causes", or, more cautiously stated, is one of the causes of low income; or, two, low family income is one of the reasons why children do not go to school, or get only a minimum, and an inadequate minimum at that, of education.

As to the reasons why little attention has been paid so far to the problems of income distribution associated with the development process, several admittedly speculative explanations may be advanced. One is the fact that, although most of the intellectual and political leaders and proponents of development would readily embrace the proposition that the objective of development is to enhance human welfare, the aim of their "operational" concept of development is more output, preferably industrial output. The measure of their success is not the reduction of poverty, but a high growth rate of the national product. This essentially Victorian concept of development—or progress as it was called then—has been reinforced by the advice and guidance of the "development economists" of the rich countries who have brought their neo-classical professional training to bear on the problem of economic development. They understand the functioning of the price and market mechanism and can readily explain why in the conditions prevailing in developing countries the scarcity of entrepreneurial talent and professional skills makes the entrepreneur and the professional the chief beneficiary of the fruits of economic advancement, while the abundance of unskilled workers and peasants prevents their income from rising to any significant extent.

More recently, intellectual leadership has been assumed by the builders of growth models who with mechanical precision apply a set of allegedly causal relations to any economy on request or at their own initiative. The models then "prove" what has been assumed in their construction in the first place: that growth is faster if consumption does not grow, or grows only slowly, and that external accounts can be brought into balance more rapidly than otherwise would be the case if real wages in the export sector can be kept low.

This rather simplistic account of the essential features of growth models is only in part facetious. Its purpose is not to show that they are inevitably useless (although I would argue that in many instances their usefulness has been greatly exaggerated), but to point out that virtually without exception they do not concern themselves with the problems of income distribution as such, and their general emphasis on the importance of a rising savings function gives them if anything a bias in favor of an uneven income distribution.

Two standard policy prescriptions resulting from the mutual reinforcement of the mechanics of growth models and the politics of least resistance of the political leaders are an increase in the share of the public sector in the gross product through higher taxes and policies of import substitution. The increase in taxation can of course lead, as the experience of a number of advanced countries show, to a reduction in income inequality. But in the reality of the developing countries where institutions and the structure of political power effectively stand in the way of progressive taxation, increased taxes often mean in effect a more than proportionate reduction in the income of the lower and middle income groups. Conceptually, this accentuation of income inequality can be offset by a distribution of the benefits of public expenditure in favor of the lower and middle income groups; but in practice the need to allocate a large share of public expenditures for the support of the "dynamic" modern sector of the economy through the financing of economic overhead investment makes this difficult if not impossible.

Moreover, the policy of import substitution, offering incentives for industrial production through protection — though perhaps justified as an inevitable phase of the process of development — is bound to impose additional burdens on the members of the lower and middle income groups, especially those whose income is derived from wages or self-employment (in agriculture) in the export sector.

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The preceding reference to the structure of the fiscal system — both on the receipts and on the expenditure side — and to the income effects of industrial protection leads directly to the last and main part of this paper, which addresses itself to the question: what can be done to mitigate the income inequalities and their deleterious effects on social stability in the developing countries?

For a number of reasons — and to nobody's surprise — the answer to this question is not easy. There is no single straight-forward answer. Although the phenomenon of income inequality which in some sense of social justice and humanitarian concern is excessive and virtually universal in the Third World, the constellation of circumstances, the social structure, and especially the locus of poverty, differ so widely from country to country that it is difficult to come up with a generally meaningful and operationally useful answer. For example, it is "generally true" that the per capita income in rural areas is lower than in urban areas; from this "generally true" observation it seems to follow that measures to raise agricultural income would automatically help to mitigate the rural-urban inequality of income. But it is also "generally true" that commercial farmers and rural landlords belong frequently to the highest income groups which because of the source of their income pay little or no taxes. Thus it would for instance be a mistake to attempt to alleviate rural poverty through tax relief or production subsidies on agricultural production — because it may well be that the rich rather than the destitute farmers would reap most of the benefits of such measures.

By the same token, it may be agreed that in many countries the redistribution of land would go a long way toward alleviating rural poverty; recently the general case for land reform has been strengthened by evidence that smaller holdings are by and large more intensively cultivated than larger ones and, given the abundant supply of rural labor, total production is likely to increase by a redistribution of land. However, differences in soil fertility, climatic conditions, production techniques, and a host of other relevant factors, make it virtually impossible to determine, in general terms, what the best pattern of land distribution should be and what rules and regulations have to be built into a system of land reform to prevent an open, or clandestine, reversion to the system of inequality. Every case is sui generis, and for every case new rules have to be developed.

These two examples, which could be supplemented by many more should suffice to bring out the diversity of the difficulties which beset any attempt to devise policies, or, more humbly, to take measures to
alleviate the unevenness of income distribution. But these difficulties notwithstanding, it is, I believe, possible to advance some general suggestions which are close enough to the practical issues of economic policy to form the basis for specific and concrete measures.

At this point a simple distinction may be useful. The problem of income inequality can be approached either at the macro-economic level by policies affecting the economy as a whole; or it can be dealt with at the micro-level, on a case-by-case basis, in the selection, evaluation and execution of individual development projects. This distinction is useful not only as an expositional device; its importance derives from the fact that a frontal attack on uneven income distribution by broad measures of economic policy is not likely except in a revolutionary situation. For in most countries the structure of income distribution is of course associated with the social structure which in turn determines the structure of political power. Therefore any attempt to bring about changes in the distribution of income is bound to run up against economically and politically powerful groups, even in countries in which the need for reforms to improve social justice is widely recognized. Resistance to reforms is likely to be stronger, and more effective, if the initiative toward policy changes comes from abroad, from foreign observers, or advisers, or from national or international sources of development finance. Therefore a strategy, or at least an initial strategy, of "nibbling" at the problems of income distribution through the direction of financial and technical assistance, subjects in which external bodies have considerable discretion may be more successful than advice on general policies giving preference to the economic advancements of the lower income groups.

As a first step, which involves research and intelligence rather than explicit policy advice and guidance, it should be possible to collect, analyze and publish data which measure and compare for a number of countries the rate of growth of income of the lower half (or the lowest third, or 40%) of the population. Information of this sort would constitute a salutary beginning in the move away from the preoccupation with aggregate growth — the international pastime of growthmanship — and substitute for it the more meaningful idea of growth with social justice. A comparison between rates of aggregate growth and growth of income of the lower income groups, defined in some consistent way, would show of course which country deserves a "premium rating" for its growth performance because the income of the low income groups (or sectors, or regions) was faster than the national average and which country's growth performance should be discounted for having been associated with a deterioration of the pattern of income distribution. Such a comparison would also drive home better than any other method the importance of what should be, or at
any rate should become, a basic rule of development policy, i.e., that as a minimum the existing distribution of income must not be allowed to deteriorate, and that every effort should be made to improve it.

I realize that the comparison between national growth rates and growth rates of the income of lower income groups raises a host of issues in welfare economics to which the answers are difficult and essentially inconclusive. For example: is it "better," in some objective way, to have a period of sustained economic growth during which per capita national income grows at 3% per year, and per capita income of the lower income groups at 4%, or a growth pattern in which the national average rate of growth is 7%, but the average of the lower income groups only 5%? Is a high growth rate of the income of the lower income groups more important than the deterioration of the pattern of income distribution which accompanies it (in the second example)? Or is it preferable to achieve a better income distribution with a growth rate, as illustrated in the first example? If I confess that I do not know, I am in good (and large) company — of the great majority of welfare economists. However, I have the feeling that the juxtaposition of the two growth patterns of a high growth rate with a low social justice performance and of a lower growth rate with a high social justice accomplishment, which implies the existence of a measurable trade-off, is in reality hardly ever the way in which the problem poses itself.

A more realistic and more practical way to put the question is to ask: could the higher national growth rate have been achieved without a deterioration in the income distribution? and what can be done to maintain the growth rate while at the same time correcting the distribution of income? In other words, it is doubtful whether the idea of a conscious choice among various combinations of income growth and income distribution is useful and whether the notion of a trade-off, while logically unassailable, has any operational significance. This implies that there is little or no connection between the pattern of income distribution and the rate of growth — a proposition which I suggest can be demonstrated as essentially correct. If it is assumed that in developing countries the rate of private capital formation is favorably affected by a high degree of unevenness of income distribution (because the consumption levels of the poor are simply too low to expect them to save any part of their income), and if it is assumed further that public capital formation cannot adequately compensate for a reduction in private capital formation, except in a fully socialist economy in which all savings are "forced." — then

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the assertion that there is no direct relation between income growth and income distribution also implies that the rate of growth is determined not only by the rate of capital formation, but also by the supply of all other factors such as skill, work incentive and the prospects of economic and social rewards for special efforts. There is of course ample evidence in the analysis of the growth of the advanced countries\(^1\) of the importance of these "other" factors to the growth performance, and the thesis that this is equally true in developing countries is at least a defensible and testable hypothesis.

But to return from the rather slippery road of welfare economics and speculations on the ultimate determinants of economic growth to the subject at hand: it follows from the short comments about the causes of income inequality that the chances are good that social justice objectives can be successfully pursued by public concern with, and public expenditures for, rural development, education, and the elimination of urban unemployment.

The suggestion that economic growth of the agricultural sector should receive increasing attention is based on ample evidence that in virtually all countries for which data are available, the average per capita income in the rural sector is significantly below the national average and that a very high proportion of the lower income groups consists of peasants. Moreover, data on income distribution are likely to underestimate the "welfare gap" between the rural poor and the by and large better off urban population, because income distribution data fail to take into account the scarcity of free public services — in education, public health, and medical services — in rural areas compared with the availability of such services in urban centers. The experience of the last twenty years has shown that the stimulation of agricultural development is difficult and costly — difficult because it requires a variety of services and institutional arrangements such as technical assistance through extension services, credit facilities and institutional changes in the supply of agricultural inputs and in marketing; and costly because the recurrent expenditures of providing these services are in most cases higher than initial capital expenditures which are more likely to become available through foreign aid or foreign loans than financial support of recurrent expenditures. Nevertheless, the breakthrough achieved in the development of seed varieties adapted to the climatic conditions of many developing countries and the prospects that the benefits of this "green revolution" can be adapted

and extended to meet the requirements of other countries open up the possibility that the lag in rural development, which seems to be virtually universal and one of the main causes of the growing inequality between rural and urban income can be eliminated.1

In many countries the support of agriculture will especially require two sets of measures: one, a more even distribution of land and, two, rural public works to absorb some of the rural underemployment. But even without tackling the politically and administratively difficult tasks of land reform and rural public works, much can be accomplished simply by directing a larger share of development expenditures (which must include current as well as capital expenditures) into agriculture. A study of one of my colleagues at the World Bank 2 indicates rather conclusively that agricultural development projects, especially in the form of agricultural credit schemes, irrigation works, and mixed schemes, involving land clearance, the provision of improved seeds or nursery stock, storage facilities, and above all, much extension service, will go a long way toward the elimination of income inequalities. Preliminary results of the study show that in the case of 42 out of the 53 projects investigated the income of the beneficiaries was below the national per capita income when the project was undertaken; after completion of the project the number was expected to be reduced to 33. More significantly, the median income of the beneficiaries of all projects was expected to increase from 40% of the national average to 63%, and, incidentally, from 72% of the national average farm income to 165%. The last two figures indicate that these projects were selected without explicit regard to their income distribution effects. It is obvious that a conscious effort in the selection of projects to the distribution of income would have brought even better results in that respect.

Turning now to the provision of educational services as a means of attacking one of the apparently prime causes of the unevenness of income distribution, it is clear that considerations of income distribution indicate that rural primary education should receive highest priority, to be followed by the provision of education and training at the secondary level for the staff of agricultural extension services, and perhaps by non-formal adult education, aimed at the rural population. This suggestion runs

1 There is on the other hand the distinct possibility that the "green revolution" will at least temporarily lead to a deterioration of the income distribution within the rural sector. There is already evidence in some countries that the richer farmers gain more readily access to the "miracle" seeds and the inputs that go with it than the poor peasants.

counter to the preference which in recent years development economists and educational experts have given to secondary education and vocational training. This preference is a secondary reflection of the preoccupation of the development economists with output, irrespective of income distribution. There is no need to throw it overboard, but to balance it off, in terms of overall budgetary allocation, with increased expenditures for primary education in rural areas.

The third avenue of a direct attack on the unevenness of income distribution is a policy to alleviate urban unemployment, in most countries not only one of the major causes of poverty and misery but also a significant focal point of social tension and political dissatisfaction, especially if not only the urban poor but also members of the educated middle class are unemployed. Development economists have argued that the chief means of curbing urban unemployment must be the expansion of industrial production, if necessary through the persistent pursuit of import substitution policies. This argument overlooks one important drawback: import substitution policies, if they involve articles of mass consumption, might lead to a deterioration of the distribution of real income. More recently the expansion of industrial production for export is being promoted chiefly for the purpose of improving the balance of payments; but its employment-creating effects are also emphasized. The promotion of export industries is of course preferable, on grounds of self-enforcing efficiency, to self-perpetuating import substitution. But in view of the almost insurmountable obstacles in the world markets to a rapid expansion of industrial exports of developing countries and the likelihood that only a few of them will be able to break through the barriers of protection and commercial inexperience, the growth of industrial exports can be relied upon at best as making only a small contribution to solving the problem of urban unemployment. For these reasons one of the major remedial measures of unemployment in developed countries, the provision of public housing, should also have a place, and perhaps an important place, in the economic policies of developing countries — provided architects and construction technologists come up with a revision of their ideas as to what constitutes minimum standards of housing for the lower income groups in developing countries.

However, irrespective of the specific measures, or combination of measures that are taken to alleviate the unevenness of income distribution, it should be clear that they should not involve outright redistributive measures which would be reflected in the price level. For example, price support schemes for agricultural products for the domestic or the export market for the purpose of increasing farm income, the common method of income equalization in the advanced countries, or the introduc-
tion of maximum prices for staple products to keep down the cost of living of the urban population should be avoided because of the effects of the resulting price distortions on the supply and the demand of the controlled products. On the other hand, there is a case for intervening in the price mechanism if the purpose of such an intervention is the stimulation of supply or demand, or the reduction of supply or demand for a limited, or perhaps even for a prolonged, period provided the income distribution effects of such measures are realized.

IV.

In the preceding section the suggestion has been advanced that the distribution of income can be influenced by the selection and preparation of specific development projects. The purpose of this final section of this paper is to propose the outlines of a method, or a set of methods, by which this can be done.

The simplest and in some sense most radical method is to base the selection of development projects not on the size of the total net social return (or total net benefits), but on that part of total returns that accrues to beneficiaries below a certain income level. Whether this approach is easy or difficult depends on the characteristics of the project. In the case of an irrigation project, for example, the evaluation of the project should not be based on the increase in income of all beneficiaries but only of the beneficiaries below a certain income level. Since usually much is known about the distribution of land that can be brought under irrigation and presumably there exists a close correlation between the size of holdings and farm income, the distinction between rich and poor farmers should not be too difficult to establish. If the suggested criterion is applied, the selection would be “warped” in favor of the lower income groups, as against the use of the available water resources for other projects with fewer poor beneficiaries. If it turns out, however, that for technical reasons such as topography or soil characteristics it is reasonable to include a large area of farm land owned by rich farmers and landlords, then the project should be undertaken only if provisions for its financing are combined with provisions for the distribution of lands, or, as a minimum, for the regulation of the land rent so as to assure the tenants of most of the benefits of the project.

In the case of industrial projects, to follow the suggestion to exclude from the evaluation the benefits of beneficiaries over and above a certain income level would in most cases mean that profits would be disregarded; and two other types of benefits would become more important. One is the increase in wage income associated with the project, assuming that workers
would not be bid away from other employment. This type of benefit is itself reflected in the net social return if shadow wages are introduced in the appraisal. The introduction of the increase in workers' income on account of employment in the proposed project is usually done as a reduction of cost, but it can of course be added with the same result on the benefit side. The second modification would be to take account of the increases in the wage bill in the sectors supplying inputs to the new industry previously not produced, or, more generally to include on the benefit side those additions to the income of the lower income groups associated with the project. For example, in the case of a fruit or vegetable cannery, the increased income of poor farmers supplying the fruit or vegetable should be considered a benefit.

An alternative method of taking income distribution effects into account in the evaluation of projects would be to give different weights to the benefits accruing to different income groups and to determine total net benefits and the rate of social return on that basis. This would of course be a practical application of the concept of diminishing marginal utility of income to project evaluation. It could be argued that giving different weights to income at different levels would be less arbitrary than the use of the unweighted total of additional net income which is of course the essence of standard cost/benefit analysis.

A further modification of the second method would be to weigh benefits not by income groups but to use as a basis of distinguishing different groups of income recipients, geographic regions, or sectors, with weights reflecting differences in income among the various regions or sectors.

Finally, improvements in the distribution of income can be achieved by applying shadow cost significantly below money cost to determine the social cost of employing members of the low income groups — which for practical purposes would be the urban unemployed and the rural underemployed — and to use the social cost in the choice of technology in the physical construction of projects. The application of this method would of course result in the more extensive use of labor as against capital equipment wherever there is a technological possibility of such a substitution.

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1 I am somewhat at a loss regarding the treatment of cost reductions of consumption goods generally purchased by the poor. Prima facie it makes sense to count the cost reductions accruing to the poor as a benefit, but I can envisage a number of complexities in concept and in practice which I am not sure can be sorted out on general grounds. (For example, the production of cheap footwear may lead to consumer benefits on the one hand but because of high profits to a deterioration of income distribution on the other; in that case the problem of a trade-off between an absolute increase in the net income of the poor and a deterioration of the distribution of income arises.)
It must be realized, however, that this would increase the money cost of investment (by the difference of shadow wages and money wages) and that this difference should not be included in the capital cost of the project (and should be passed on the consumers of public facilities if a policy of full cost pricing is applied) but should be absorbed by the fiscal authorities as an exhaustive expenditure, similar to the cost of other welfare expenditures.

I fully realize that the preceding suggestions for the application of income distribution considerations are bound to run into all kinds of conceptual and practical difficulties. These difficulties should not, however, be considered as insurmountable, because even their rough and ready application would make a significant contribution to the solution of one of the major problems of development for which so far a solution seems to have eluded the development economists and the practitioners of development policy. After all, it must be remembered that the objective of development is not simply the increase in per capita income but the elimination or at least mitigation of poverty and human misery.
Resumen: Desarrollo y distribución del ingreso. — En vista de la distribución desigual del ingreso en países subdesarrollados cabe preguntar, entre otras cosas, (1) ¿cuáles son las razones de las desigualdades en el ingreso en países en desarrollo? (2) ¿por qué se ha hecho hasta el momento tan poco o nada para reducir dichas desigualdades? (3) ¿qué se puede hacer realmente? El autor comenta las dos primeras preguntas, pero el objetivo principal del presente trabajo consiste en dar algunas contestaciones preliminares a la tercera pregunta. Opina que se podría influenciar la distribución del ingreso a través de la selección y preparación de proyectos especiales de desarrollo, y diseña los métodos que se prestarían a llevar ésto a cabo.
