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GROWTH is a besieged deity. An increasing number of economists and policy-makers are becoming convinced that it is imprudent for a country to devote all its efforts toward maximizing the rates of overall growth—and wait for the benefits to trickle down to all sections of the population. Trickle-downism is thus on the wane. Developing countries are now being warned that rapid growth is liable to take too long to alleviate the miseries of the poor, and that for long periods rapid growth may indeed worsen the lot of large numbers—hence they should launch “direct attacks” on poverty.

This new advice rests on two assumptions: first, that developing countries have indeed been preoccupied with growth to the exclusion of distributive questions and that it is this single-minded pursuit of overall growth which has kept the governments from undertaking programs that might have benefited the poor; second, that “direct attacks” on poverty—consisting of special programs to improve health, sanitation and nutrition, and to provide drinking water, low-cost housing and the like to larger numbers along with large-scale rural public works that provide jobs and convert local labor and materials into productive assets—that these will alter the character of growth and ensure that henceforth its nature is such as to benefit the poor. Neither of these premises is valid. I will argue that the reasons why growth has been such as to have primarily benefited the well-to-do are much more fundamental and that direct forays against poverty—even if they consist of large and expensive programs—will not alter the character of growth unless they are accompanied by a thoroughgoing political transformation involving drastic redistribution of income, assets and the control over institutions. Finally, I shall argue that such a transformation would make growth more meaningful and not decelerate the rates of overall expansion.

II

Leading Pakistani economists who were closely associated with the high rates of growth of the Ayub period and Western advisers who were in Pakistan in the early sixties are now saying
that their determination to achieve high growth rates was misplaced and that their euphoria over the rates which were achieved misled them into believing that the country was well on the way toward solving its economic problems. The dramatic events of 1971 that broke Pakistan asunder have attracted much attention to these laments.

Consider, however, the counter-examples of Ceylon and India. Decision-makers in these countries have never been mesmerized by growth rates. Ceylon has been engaged in a costly, sustained and very “direct” attack on poverty for the last two decades. Successive governments have been providing subsidized health, education, transport services and food, with little regard for the effects of these subsidies on the country’s ability to grow, on its ability to adjust to the declining prospects of its principal exports and on its foreign indebtedness. Yet economic discontent—especially among the educated youth—erupted in large-scale violence two years ago, and today the country’s economic policies are stalemate. With neither growth nor structural transformation, and with a severe problem of short-term indebtedness, Ceylon is finding it extremely difficult to continue its direct attacks on poverty.

In the last 25 years Indian leaders—Nehru in particular—have displayed a lively concern for the poor. There is scarcely a proposal for channeling a larger proportion of the benefits of growth to the poor that has not been enacted and for which institutions, procedures and controls have not been devised. Special programs have been formulated to help the dispossessed tribes and castes; numerous laws have been enacted to redistribute land and to reform tenurial arrangements; the controls that have been instituted to ensure that resources are used only for setting up industries of high priority have been so comprehensive that—quite literally—not a single industrial unit (other than the purely household enterprise) has been established and operated without government approvals and sanctions at every step; corporate laws have been codified and tightened; inheritance, wealth and gift taxes have been introduced and the rates of income tax have been made steeper and steeper. A legion of commissions and committees have often been in session examining the effects of the country’s economic policies on people in different income groups and in different regions. Yet today official documents tell us that the number of people living in abject pov-
Property has not been diminished in spite of 25 years of development effort—that still 200 to 250 million subsist on a diet that is deficient even in calories—and that the controls and programs which were instituted to channel benefits to the poor have in fact ensured them for the rich and the powerful.

These counter-examples document the obduracy of economic forces and suggest that before the debate between growth and distributive justice becomes more strident we must correctly summarize the experience of the last two decades. One danger is that sloganeering about equity will choke off all growth: a nervous self-consciousness arising from the apprehension that they may be accused of being obsessed with growth—that their progressive bona fides may be called into question—may paralyze governments and keep them from taking decisions that are needed for higher productivity. Indian industrial policies have been paralyzed in precisely this way for the past two years. The equally grave danger is that some governments will henceforth embellish their plans with a few programs attacking poverty directly—and then sit back with the feeling that indeed they have taken the necessary steps to alter the character of growth. Valuable time can thus be lost in both ways: by decisions that are deferred and by decisions that place their faith in a few ornamental programs.

III

The experience of the last two decades teaches us that the distribution of income, assets and influence over institutions determines the character of subsequent growth. Given the extremely unequal distribution of incomes and assets, industries are set up to produce goods which the rich want, while import policies aim either at importing the materials needed for producing these goods or at importing the goods themselves. This point can be documented by examining the kinds of consumer industries that have been established in India, Pakistan and Ceylon over the last two decades; it is even more dramatically brought out by considering the pattern of growth in countries such as Brazil, Colombia, Peru and Rhodesia where the richest five percent receive 38, 40, 48 and 60 percent respectively of total income. It is hardly surprising that industries do not get established for meeting the needs of the poorest 20 percent who, in the four countries listed above, receive only 3.5, 2.2, 4.0 and 4.0 percent of total income.
Indeed, the extent to which the richest five percent affect the pattern of what is to be produced in the manufacturing sector—the sector that often attracts the most enterprising and which directly or indirectly absorbs a very large share of the government's promotional efforts and resources—is even greater than their high shares in total income. The poorer sections spend a much larger proportion of their incomes on basic necessities like foodstuffs and coarse clothing than do the richer sections. The share of the latter, therefore, in the market for industrial goods is generally 10 to 20 percent higher than their share in total income.\(^1\)

Controls over the establishment and operation of industries and over the distribution of resources that are in short supply (such as foreign exchange), or efforts to present projects meeting the needs of the poor in a more attractive light by, for example, shuffling shadow prices—none of these is able to counter the overwhelming pressures of the marketplace. Private entrepreneurs do not set up units to produce goods that the poor need, but instead offer goods which they cannot afford. And if governments undertake to supply these goods on the assumption that they must accord a greater weight to the needs of the poor than the poor are able to exercise through the market, they soon run into resource problems of the kind that have plagued Ceylonese governments.

This lesson has an important corollary. The longer redistributive steps are delayed the larger the proportion of resources—enterprise, skilled manpower, capital equipment, foreign exchange—that will have congealed in industries catering to the demands of the rich, and the more difficult it will be to reorient the pattern of industrial production. Efforts to reorient this pattern forcibly will result in much unutilized equipment and major dislocations of labor. The economy is not akin to a simple and versatile machine like a lathe that can be quickly made to change from boring holes to chiseling rods just by turning a few knobs and replacing one part or two by another. Rather it is like an educational system which has been patterned over a few decades

\(^1\) The rich industrialist and the decision-maker in poor countries often ask “Which of the things that we are producing is particularly inessential or luxurious?” As their consumption aspirations are influenced by the consumption standards of the developed countries they find it difficult to identify goods as luxurious or superfluous. It is the wrong question, put to the wrong people. Instead, we should ask the very poor about what they need or what they would want in the foreseeable future. Once this is done we at once realize how much of the country’s total investment effort has gone into goods that are so very distant from the horizons of the poor and so very irrelevant to their needs.
on the system of a former colonial power. Decades will pass before the system is transformed, the teachers are retrained, new syllabi and texts are developed, new schemes of scholarships and stipends are devised, new facilities are acquired and new examination methods are developed.

Apart from the fact that they do not command much purchasing power, the poor are numerous, dispersed and unorganized. Because of these features many conventional measures are of little avail. Minimum-wage legislation is an example: it does not help the unemployed and may, in certain situations, actually swell their ranks; even for those who have a job off-and-on, legislating a minimum for the wage that they receive on the days on which they are employed is little help because the number of days for which they have a job is not guaranteed; nor can such legislation be enforced in the myriad fields and small establishments in which the vast majority of workers are employed. Moreover, as they are dispersed and unorganized and have little to fall back on, the poor can seldom agitate and bargain collectively—as industrial laborers, who are in the richest third of the urban population, can.

More far-reaching measures than minimum-wage legislation—measures such as land reforms—also fail primarily due to the fact that the poor are unorganized and dispersed. I shall note later on that the laws attempting to reform land tenure and ownership have been flawed. The basic reason, however, why land reforms in many countries have not fulfilled their original promise has been their paternalistic character. The expectation has been that the patterns of land ownership and operation can be transformed by passing laws in national and state capitals, by relying on itinerant officers to implement them and by making the reforms justiciable. In brief, the expectation has been that outsiders—the distant legislator, the itinerant officer, the scholarly judge—can transform the most important feature of village life, the ownership and operation of land. But how are such men to monitor every lease, to examine the precise relationship between each sharecropper and his landlord, to ascertain the extent to which each landlord actually tills his own land? And how is a lowly tenant—who must continue to live in the village long after the officer has driven off; whose lease, in all probability, is an oral one; who is, most likely, illiterate, weak and indebted to his landlord—to gather written evidence, muster witnesses and accuse
his landlord in an open court that passes all the Western norms of justiciability?

In a milieu of this kind—in which the poor are desperately poor, in which they are dispersed and unorganized—almost everything a government does ultimately ends up benefiting the rich and powerful more than the poor and the weak. Credit agencies that are set up ostensibly to free the poor tenant and small farmer from the rapacious hold of the money-lender end up channeling the majority of their funds to the large landlords—who themselves often combine the roles of landlord, trader and money-lender, who are often in a position to finance their own investments, and who, therefore, loan the extra (official) funds that they receive to those who do not have equal access to institutional credit and must, for that reason, pay higher interest rates. Canals that are dug to provide water for all end up providing to the large and strong a much more adequate and reliable service than to the small and weak. State trading corporations that are set up to wipe away the profits of intermediaries end up working through agents who, it later turns out, are none other than the traders these agencies were meant to replace. Public sector enterprises that are established with the hoary objective of ensuring the commanding heights of the economy for the state end up working inefficiently and thus ensuring even higher profits for private units in the same industry that manage to work efficiently. And so on.2

Thus, the pattern of growth can only be changed if the distribution of income, of assets and of the control over institutions is drastically altered. And here a blunt truth must be faced: a drastic alteration of this kind can only be brought about by a government that derives its strength from the dispossessed. A leadership that exists on the sufferance of a privileged group such as the army, or of the rural organization which is in the hands of the kulaks or large landowners, or which is dependent for its finances on the very industrialists and urban rich whose privileges it denounces—such a leadership can do little.

Political change will have to be accompanied on the purely

economic plane by innovations of many kinds, particularly new forms of organization and new types of financial assets. The need for the former is illustrated by the sorry state of government-owned enterprises in countries such as India and Ceylon. Unless these can be made to function well, industrial progress—including the production of goods that are needed by the poor—will be thwarted. State-owned enterprises with enormous amounts of capital locked up in them will remain riddled by poor management, labor-management duels, inter-union rivalry and unproductive relations between them and their supervising ministries, while large private industrialists—who alone in the private sector can now muster the resources required by plants producing fertilizers, steel, aluminum and so on—are hamstrung, not allowed to establish or expand their enterprises in the name of reducing inequalities and preventing the concentration of economic power.

In the interim period during which steps have been initiated to curb the incomes of the rich through, for example, ceilings on urban property and the like, the need for new forms of financial assets is also obvious. Unless new financial assets are created, for example, government paper that provides an adequate hedge against inflation, the rich in countries such as India and Ceylon will begin to transform their wealth into foreign accounts and into assets (such as diamonds) that can be easily concealed and transported. Such developments can only have deleterious effects on the economies of these countries.

IV

If such a political and economic transformation is indeed brought about, if income, assets and the control over institutions are indeed redistributed, will all this retard growth? In the literature and public discussion on growth one comes across three apprehensions about the likely effects of egalitarian policies: (a) that these will divert scarce organizational, administrative and other talent—the talent and time of those who will be trying to implement the policies as well as of those who will be engaged in circumventing them; (b) that the average savings rate of the economy will be lowered, partly because the rich, who account for most of the economy’s household savings, will not be able or willing to save as much, and partly because the government’s budgetary resources will be frittered away in subsidies as they
have been, for example, in Ceylon; and (c) that incentives to work and invest will be reduced.\(^8\)

The first apprehension—that egalitarian measures may divert scarce administrative and entrepreneurial talent—seems incontrovertible when one considers the amount of time that hordes of officials seem to spend implementing laws and regulations intended to redress the balance between the rich and the poor. Thus, for instance, many observers in India have been so discouraged by the Indian experience in land reforms—by the apparent time and effort that have gone into them and by what has been accomplished—that they are saying that instead of expending its time and resources on such far-reaching measures as ceilings, the government should focus on issues like regulation of rents and tenancy reform. The fact, however, is that disproportionate administrative and other effort has not been taken up by these measures either because they are egalitarian or because they are far-reaching. On the contrary, such effort as has been put into them has been made necessary (and rendered futile) by the exceptions, exemptions and loopholes that have been incorporated into the laws. The spate of land reform legislation enacted by Indian states and in Pakistan over the years constitutes an excellent illustration of this fact. If tenancy laws are enacted which exclude sharecroppers from the definition of “tenants;” if laws intended to confer occupancy rights on tenants insist that the tenant can acquire these rights only after 12 years of uninterrupted tenancy; if laws limiting rents are passed without any provisions for security of tenure; if landowners are allowed to evict tenants and resume land for “personal cultivation” and the latter is defined so loosely that the owner need not even stay in the village to establish his status as one cultivating his own land; if tenancy laws are passed that explicitly exclude new tenancies from their coverage; if ceilings apply to individuals and not households; if the intention to impose ceilings is announced long before they are enacted and if generous grace periods are allowed in which landlords may dispose of their land in any way; if such laws are passed and if no effort is made to organize or mobilize those who will benefit from the legislation—then obviously much administrative effort will have to be set aside for

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\(^8\) Mr. McNamara has commented briefly on the second and third apprehensions in his recent address to the Governors of the World Bank. See Robert S. McNamara, “Address to the Board of Governors,” International Bank for Reconstruction and Development, September 25, 1972.
implementing the laws. And those who might lose under the laws will devote at least as much effort to taking advantage of the loopholes that have been so generously provided as in busying themselves with productive tasks. But clearly there is nothing inherent in egalitarian measures that requires such inordinate diversion of administrative and other resources.

As for the savings apprehension, its arithmetic is clear enough: household savings account for 60 percent to nearly 100 percent of the gross domestic savings in different developing countries and the rich are responsible for most of the household sector’s saving. Household savings surveys in different countries suggest that the rate of saving rises very rapidly with income: while the poorest households have negative savings, the richest five percent turn out to save 40 to 50 percent of their income. The conclusion seems simple and straightforward—until one examines the true nature of “savings” and then of incentives.

In surveys from which such results are borrowed, the concept of “savings” includes the acquisition of assets such as houses, gold, silver and jewelry, and consumer durables (such as air-conditioners, cars, radios, furniture, etc.). About 30 percent of household “savings” identified in these surveys consists of assets such as these three. Glorifying this kind of “saving” as being necessary for growth is, as Gunnar Myrdal has so often emphasized, to become a prisoner of words. Indeed much of the “saving” of the rich is just “consumption”—and consumption of goods, like smuggled gold, that are a direct drain on the economy’s balance of payments and of goods, like some of the consumer durables, that have a high import content and the production of which requires much capital. On the other side—if the potential effects on output are any criterion—much of the “consumption” that the poor would undertake if some income were to be redistributed in their favor, and which we are told is undesirable because it will diminish the rate of savings in the economy, is more akin to “investment” than to consumption. More food, better health services, modest amounts of protection against the elements, better public transport—all these will improve productivity, reduce absenteeism and improve labor discipline.

The reader will notice here a case of double counting: elsewhere I have noted that a large part of the consumption of the rich consists of goods that are capital- and import-intensive. Yet here many of these appear as a part of “savings.” The discrepancy is deliberate, for the “savings” concept referred to in the text does in fact characterize many surveys and thus underlies the inferences that are drawn from them.
The definition of "savings" apart, the savings apprehension must be examined in the context of the character of growth in any economy. Those who fear a fall in the rate of savings reason as follows: growth requires investment; net inflows from the rest of the world apart, investment requires savings; to obtain savings we must retain inequalities and ensure a high and secure rate of return to savings. Moreover, they argue that the rich will not save unless they are able to enjoy the incomes from such savings in the form of luxury consumption; hence we must not stifle the consumption of such goods and services in the economy.

Two points should be noted in this context. First, the goods (air-conditioners, private automobiles, etc.) and services (foreign travel, accounts in foreign banks, etc.) that the rich demand are capital-intensive as well as import-intensive. As capital and foreign exchange are both scarce, this strategy—of inducing the rich to save by offering luxury consumption standards in return—may well be an inefficient way of maximizing the growth of employment and, indeed, of output itself. The second point is more fundamental: whom does the growth that results from this strategy benefit? The rich provide not only the savings but also command a disproportionate amount of total effective demand in the economy. Consequently, as was emphasized earlier in the article, their tastes and requirements determine the pattern of production; thus the growth that results from their savings is directed primarily at catering to their demands.

For reasons of space, I shall not deal with the question of the effects egalitarian measures may have on public savings beyond noting the following points: (a) subsidies—such as the ones used in Ceylon—are certainly not necessary for pursuing egalitarian and employment-oriented goals; if the laws are unambiguous, land reforms, ceilings on the ownership of urban property, alteration in the relative prices of labor, capital and foreign exchange, etc., require minimal public expenditure; (b) these measures may well increase the total levels of output and hence, if the fiscal system is at all responsive to aggregate production, the government's revenue receipts.

This point is made forcefully by Dudley Seers and his associates in "Towards Full Employment, A Programme For Colombia," International Labour Office, Geneva, 1970—especially Chapter 10. Some of the luxuries that the rich consume are labor-intensive: handicrafts of various kinds (jewelry, carpets, hand-embroidered textiles) and services of domestic servants are cases that are often cited. Each of these must be examined in itself for, apart from their apparent labor-intensity, they have little in common. Jewelry and many kinds of textiles are highly import-intensive. The artisan and laborer employed in many of these labor-intensive industries—carpet-weaving is a case in point—are notoriously underpaid; intermediaries and financiers, who are by no means poor, appropriate disproportionate shares of the price of the product. The real incomes of domestic servants and the numerous attendants on estates place them among the richest 30 to 40 percent of the population. Moreover, in considering these cases we must not assume that if these goods and services were not being produced those currently employed in producing them would be unemployed. A different set of goods would be demanded and labor needed to produce these.
As for incentives, the first question to ask is the following one: how many times must the incomes of the rich be of the incomes of the poor for the former to have adequate incentives? Such figures as are available (and which are known to understate by a considerable margin the incomes of the richest in a country) indicate that for countries with per capita incomes of less than $200, average incomes among the richest five percent are anywhere from 10 to 35 times those of the poorest 20 percent in each country. The corresponding multiples for countries with per capita incomes between $200 and $350 range from 13 times to 73 times with an average around 31 times. Yet the corresponding ratio for the United States is said to be around 5:1, while visitors to China report that the highest salaries in an enterprise are seldom more than three to four times the lowest. These data with their related evidence on savings rates, growth rates and the like hardly suggest that high multiples have been conspicuously successful in inducing the rich to exert themselves.

Moreover, may it not be that relatively high incomes and high consumption standards for the richest constitute a disincentive for the masses? May they not convince the masses that the system does not reward their labor and sacrifices proportionately? And may this conviction not ultimately incite the masses to destroy icons like nonviolence, parliamentary methods and constitutionalism?

The second point is equally fundamental. In the end it is hardly satisfactory to justify high incomes and high consumption standards for the few by asserting that they provide the few with incentives to engineer a pattern of growth which ensures high incomes and high consumption standards for the few.

The last two decades thus teach us that the poor will not obtain a proportionate share in the benefits of growth until the character of growth is radically altered, that this alteration can only be brought about as part of a major political transformation and that were such a transformation to be brought about there is little reason to suppose that it would affect the rates of overall growth adversely. The conclusion that the character of growth cannot be altered unless the political milieu is thoroughly transformed is not a counsel of despair. It does not imply that the developing world must sit back for years and wait for distant
political changes. In many countries the leadership can initiate the transformation now.

India is an outstanding case in point. Mrs. Gandhi’s unique rapport with the Indian masses puts her in a position to transform her party into a party of the masses—a party that mobilizes the dispossessed so that they may acquire the self-confidence to assert their rights and the capacity to police the reforms, a party whose members work with the masses in constructive programs, a party that is no longer dependent on money raked in from the very rich, a party whose dedication to the interests of the masses is proven by the life-styles and the social practice of its members. The last is not to be dismissed lightly; on the contrary, it is the logical place to begin. So many in India are so desperately poor that very large resources must be deployed if the government is to effect any perceptible improvement in their lives. The resources that are needed are so large that even those who are not well-to-do by any absolute standard (for example, factory workers who, as was noted above, are in the richest third of the urban population) must be asked to share the burdens. How will the leadership make groups such as industrial labor accept sacrifices in their modest real incomes when these groups—and indeed the people at large—know that the very leadership that now wails against “the lack of commitment” in the privileged section of the population and which reminds workers that just having a job is a privilege is itself in many ways the most privileged group?

To persuade an alert and well-organized group like industrial labor to accept sacrifices for the very poor, the political leadership in India, Ceylon and other countries must give up its present life-styles—its insistence on living in luxury houses, on traveling in air-conditioned comfort, on receiving imported cars, telephone services, electricity and other amenities at rates far lower than are charged to the people they are meant to represent and serve. It will have to eliminate the impression which now pervades many a country, that while denouncing all sorts of privileges the leaders have feathered their personal nests and those of their relatives by the unabashed use of the privilege sans equal, that of dispensing patronage—a privilege that has been greatly enlarged by the spate of controls that has been instituted in most countries over the establishment and operation of industries and the use of scarce resources like foreign exchange.
Unless the leadership in these countries initiates such a transformation little will come of the "direct attacks" on poverty. Governments like Mrs. Gandhi's will have won elections on brave and bold slogans and then locked up the promises of reform in almirahs of resolutions. They will have introduced bills with sweeping and even with revolutionary objectives and then incorporated caveats which nullify the laws completely. They will have proclaimed the necessity of sweeping institutional change and then frittered away valuable time in the theatrics of nationalizing one industry or another. Finally, they will have launched bold programs for helping the poor and then, as they cannot effectively tax the privileged on whom they depend, be unable to raise the resources these programs require.