Growth Policies and Income Distribution

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March 1985

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by

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Abstract

This paper develops the view that in a wide variety of situations in developing countries, there is not likely to be a serious conflict between efficient growth policies and the objective of alleviating poverty and reducing income inequalities. In the first part of the paper a number of conceptual issues are clarified to bring out the central concern of the paper which is the effect of growth policies on income distribution, as distinct from the effect of income distribution policies on growth. The conventional view of the "trade-off" between "growth" and "equity" suggests that these two effects would be symmetrical. The author shows, however, that this view is too simplistic and leaves out a number of important "initial conditions" which affect the issue. The second part of the paper distinguishes the ex post record of growth and income distribution from the ex ante appropriateness of economic policies to the initial conditions of the different countries.
Examples are drawn from various types of economies including Brazil, Korea, Sri Lanka, Taiwan and Thailand.
Growth Policies and Income Distribution

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I. Introduction

The 1970s may be characterized by pessimistic views about the capacity of economic growth to alleviate poverty and promote income equality in the developing countries. It was commonly held at that time that rapid growth had done little to reduce the number of people living below the poverty line in these countries; that this poverty in the absolute sense had persisted because the "trickling down" effect on the poor within each country had been painfully slow. Further, it was believed that economic growth would also tend to worsen income distribution in a relative sense by benefitting the better-off more than the poorer income groups; thus, up to a certain level of per capita income, economic growth would tend to reduce the share of income accruing to the poorest 40 percent of the population. The conclusion frequently drawn was that "growth-oriented" policies of economic development should be supplemented and modified by "equity-oriented" policies to reduce income inequalities more directly and immediately. 1/

The 1970s provided a useful antidote to the mindless type of "growth-manship" of the 1950s and 1960s obsessed with the "league-table" of growth performance among different countries. By then, it came to be generally accepted that economic development was not merely a matter of growth in terms of per capita income, but must be defined in relation to a country's capacity to pursue its chosen policy objectives, notably the alleviation of poverty and the reduction of income inequalities. Beyond this unexceptional proposition however, the 1970s have left behind somewhat ambivalent attitudes towards growth and income distribution. On the one hand, few economists would nowadays care to subscribe to the 1970s rhetoric about "dethroning" growth; it is generally recognized that if the prime objective of economic development is to be the alleviation of poverty, growth must be present. On the other hand, in the aftermath of the 1970s discussions, few economists seem entirely comfortable about advocating all-out growth policies without feeling the need to tone them down with qualifications from the standpoint of income distribution.

The aim of this paper is to re-examine how far the whole-hearted pursuit of growth policies needs to be balanced with qualifications from the standpoint of poverty alleviation and income distribution. We shall attempt to develop the view that in a wide variety of realistic situations in developing countries, there is not likely to be any serious conflict between efficient growth policies and the objective of alleviating poverty and reducing income inequalities.

The paper falls into two main parts:

In the first part, a number of conceptual issues will be clarified to bring out the central concern of the paper which is the effect of growth
policies on income distribution, as distinct from the effect of income
distribution policies on growth. The conventional view of the "trade-off"
between "growth" and "equity" suggests that these two effects would be
symmetrical. We shall however show that this view is too simplistic and
leaves out a number of important "initial conditions" which affect the
issue. We shall try to show that while income distribution policies may
adversely affect growth, growth policies need not adversely affect income
distribution. Our analysis will be conducted in terms of income distribution
in functional and sectoral terms. We shall argue that this approach has
considerable advantages for the purpose of economic analysis and policy over
the approach which focuses on the size of the distribution of income.

In the second part of the paper, we shall distinguish the ex post
record of growth and income distribution from the ex ante appropriateness of
economic policies to the initial conditions of the different countries. We
shall illustrate the application of our argument with examples drawn from
various types of economies including Brazil, Korea, Sri Lanka, Taiwan and
Thailand.

II. Clarification of the Issues

A. The Limitations of the "Trade-Off" Approach

In order to clarify the issues, it is necessary to define the initial
conditions of a developing country before we introduce a policy change either
in the direction of more "growth" or in the direction of more "equity". These
initial conditions include:
(i) The endowment of resources, in particular, the abundance or scarcity of labor relative to natural resources.

(ii) The distribution of ownership of these resources and other assets including human capital.

(iii) The rate of saving and investment (including external capital).

(iv) The general level of efficiency with which available resources are used and invested, allowing for a realistic degree of "distortions" in the allocation of resources.

Given these initial conditions, one may picture the country as having an initial level of per capita income, an initial rate of growth and an initial pattern of income distribution, before the policy changes are introduced.

The notion of a "trade-off" between "growth" and "equity" is predicated on growth policies which rely on increasing the initial level of saving and investment. The conclusion is drawn, that given the initial level of income of the country, the pursuit of growth policies beyond a certain point would necessarily be at the expense of the "equity" objective, by diverting the resources which would otherwise have been available to raise the present consumption of the poor into more saving and investment directed towards future output. Hence the need to add qualifications to an all-out pursuit of the growth policies by considering the effect on poverty alleviation and income distribution.

The notion of "trade-off" theory, based on the assumption of a tightly binding resource constraint, would view the effect of growth policies on income distribution and the effect of income distribution policies on
growth in a symmetrical way. Thus, it would allow that up to a certain point, poverty alleviation programs, say, in the form of giving a wider access to health and education to the poorer income groups, might have a favorable effect on growth by improving labor productivity. But beyond this point, a further pursuit of such programs would necessarily slow down growth by diverting resources required for investment into the extension of social welfare programs and the redistribution of income to the poor. Hence the question whether one wishes to proceed with the "growth" policies or "equity" policies beyond a certain point would depend entirely on one's value judgments of the relative desirability of these competing objectives.

In contrast, the position taken in this paper is that there is considerable scope for further positive analysis. Before one is driven to make an ultimate moral choice between "growth" and "equity" objectives, the issues need to be examined in a realistic context given the different initial situations in the developing countries. The reason for this is that the "trade-off" approach concentrates entirely on one of the four initial conditions set out in our list, viz (iii), the initial level of saving and investment on the assumption of a tightly binding resource constraint. When we bring in the other initial conditions particularly (i) and (iv), we shall have a somewhat different view of the effect of efficient growth policies on income distribution.

Successful growth is not merely a matter of increasing the ratio of saving and investment to GDP (on the assumption of a fixed capital-output ratio) but depends crucially on how efficiently and productively the investible resources are used; that is to say, successful growth depends to a significant extent on efficient economic policies. In many cases there is no
close statistical association between the rate of growth and the ratio of saving and investment among the developing countries. Rapid growth has been possible in many of these countries without any belt-tightening exercise of increasing savings and investment which would necessarily cut back resources for poverty alleviation and income re-distribution. Rather, rapid growth seems to be either the result of efficient policies which raise the productivity of the resources or the outcome of a favorable conjunctive of circumstances, such as: the possession of abundant natural resources; a favorable world market demand for the primary exports based on these resources; and the pursuit of economic policies that either encourage or at least do not excessively discourage the expansion of these exports. That is to say, growth is more intimately connected with the initial conditions (i) and (iv) on our list than with the initial condition (iii).

B. "Distortions" and the Efficiency Frontier

Let us start with condition (iv), the initial level of efficiency with which the available resources are used and invested including a realistic degree of "distortions" in the allocation of resources. The "trade-off" approach implicitly assumes away the distortions and imagines the economy as already being on its production possibility curve or "efficiency frontier". Only then shall we have a "trade-off", because with a given maximum attainable output, a further increase in investment and growth must necessarily draw resources away from poverty alleviation and income distribution programs; and vice versa. This is a clearly unrealistic assumption for most developing countries, which are riddled with distortions in the allocation of resources, particularly policy-induced distortions created by import-substitution
policies, pursued by most countries in varying degrees. Starting from a realistic situation, there would be considerable scope for pushing ahead with more efficient growth policies to remove many of the policy-induced distortions with very little additional resource cost. The effect of more efficient policies would be to raise the productivity of the existing volume of investment and increase output significantly without drawing additional resources from the poverty alleviation programs. In fact, we shall find that in a country such as Sri Lanka, efficient growth policies, such as increasing exports, would have helped to make its social welfare programs more sustainable.

So far our argument has been that there need not be any "trade-off" between the "growth" and the "equity" objectives when we are pushing further in the direction of more efficient growth policies. But would a similar lack of "trade-off" hold in moving further in the opposite direction, i.e., in the direction of more efficient poverty alleviation and income distribution policies? Theoretically, it is possible to further the objectives of poverty alleviation and income distribution by using the same amount of resources more efficiently, say, by introducing improvements in the administration of social welfare programs. But in practice, the extension of social welfare programs almost invariably requires additional resources which must come out of savings and investment. We have, however, argued above that there frequently is only a tenuous link between investment and growth. So within reasonable limits, this need not seriously undermine growth.

In our view, damaging effects on growth are often likely to come from distortions in the allocation of resources introduced by the rapid extension of direct poverty alleviation and social welfare programs. Typically, pushing
further ahead with social welfare and income distribution policies tends to go together with the intensification of government price controls and rationing of the "essential" commodities which ultimately reduce the economic incentives to produce these same commodities. At a macro-economic level, the extension of social welfare programs and food subsidies, with a limited capacity to increase taxation, typically leads to budget deficits, domestic inflation and balance of payments difficulties, consequently requiring extensive controls over foreign trade which in turn discourage export production.

This possible conflict between growth and income distribution objectives, given income distribution policies, is not, however, the primary focus of this paper. For our purpose it is sufficient to note that the effects may be asymmetrical. The possible adverse effects of income distribution policies on growth do not invalidate our main argument that there need not be any "trade-off" between growth and income distribution when more efficient growth policies are being pursued.

C. Different Initial Resource Endowments

Let us now turn to the crucial role of the initial condition (i), the initial resource endowment and the abundance or scarcity of labor relative to the natural resources possessed by a country.

For a country, starting from the initial condition of abundant labor, the absence of a "trade-off" between "growth" and "equity" is easy to see. For such a country, the promotion of efficient growth would require the use of relatively more labor-intensive methods of production. This applies not only to domestic production but also, more importantly, to the expansion of the labor-intensive exports which are needed to exploit the comparative advantage
provided by abundant labor. Thus efficient growth policies would tend to
increase the demand for labor in two ways: firstly, through the "substitution
effect" of using more labor per unit of output relative to other factors of
production; and secondly, through the "growth effect" of the expansion in
total output. The combined effect is strongly in the direction of raising the
absolute level of wages per head and the relative share of wages to other
types of income. If we can approximately identify the wage earners with the
poorer income groups, efficient growth policies would tend to have a favorable
affect on income distribution.

The story is more complicated for the countries starting from the
initial conditions of abundant natural resources. We may distinguish two
cases: (a) countries producing mining, plantation and other large-scale
agricultural exports; and (b) countries producing peasant exports.

(a) Mining and plantation production which is conducted in large-
scale units, employ wage labor. Here the expansion of these primary exports
would tend to increase the share of rent relative to wages through the
"substitution effect". But, the "growth effect" would still increase the
demand for labor, provided that the rate of expansion in exports is high
enough to raise wages or at least to increase employment at the same wage
level. Thus generally, one would not typically expect the decline in the
relative share of wages to be large enough to depress the absolute level of
wages. But it is also important to stress the converse point, that an
unwillingness to press home the comparative advantage offered by abundant
natural resources would lower growth below a country's full potential level
and thus adversely affect the demand for labor and the level of wages.
In the meantime, however, population would be increasing rapidly, changing the factor proportions available to the country over time. When we then consider the appropriate policies for the re-investment of the expanding rent incomes, we shall find the efficient growth path moving towards a more labor-intensive direction, thus reducing the possible area of conflict between the pursuit of the growth and the income distribution objectives. If, as frequently happens, the rent income from the expansion of primary exports is used to promote import-substituting manufacturing industries with highly capital-intensive methods of production that can survive only through protection, this inefficient growth policy would not only slow down further growth by discouraging the export expansion, but would also worsen income distribution. Typically, the effect of import-substitution policies encouraging the highly capital-intensive manufacturing industries located in the urban centers is to reduce the absorption of additional labor while maintaining high wages for those who are already employed in the modern sector. Such policies also artificially inflate the profits and the "rents" of the favored industrialists. All these factors would tend to raise the incomes of the better-off sections of the urban population relative to the poorer groups in both towns and rural areas.

(b) Countries with a relatively abundant supply of land, producing peasant exports. Peasant agriculture is conducted on a more labor-intensive basis than large-scale estate agriculture, and employs mainly family labor rather than wage labor. Thus the income distribution effects would depend on the farm-gate price which the peasant producers receive and the volume of their output. Under free market conditions, efficient growth policies would lead to the expansion of peasant exports based on the comparative advantage
offered by a relatively abundant supply of land. This would tend to improve income distribution by increasing both the prices received by the peasant producers and the volume of output from the extension of cultivation. In many peasant export economies, however, there are government marketing boards which exercise monopoly controls over the export of peasant products, such as coffee and cocoa, fixing the price paid to the peasant producers below the world market price. The profits from the marketing boards are then used to promote import-substituting manufacturing industries employing capital-intensive methods of production. Here again it is not difficult to see that while the pursuit of efficient growth policies would tend to improve income distribution, inefficient policies not only slow down growth but worsen income distribution by increasing the urban-rural income gap.

D. Functional and Sectoral Income Distribution and the Statistics of Income Shares

The remaining initial condition (ii) on our list, the initial pattern of the distribution of ownership of property and assets, has been the main focus of attention for those who would like to try to reduce income inequality directly by the redistribution of land ownership. For our purpose of studying the effect of growth policies on income distribution, the perspective is rather different. Our conclusions concerning the direction of changes in the functional and sectoral income distribution are largely unaffected by the initial pattern of property ownership. Thus growth policies which raise the absolute level or relative share of wages would tend to improve income distribution, with any given initial pattern of property ownership. Similarly, growth policies which raise the price of agricultural products paid
to peasant farmers would tend to reduce the urban-rural income gap, with any given pattern of land ownership among the peasant farmers.

This is not to deny the truism that if property ownership had been distributed more equally initially, then the subsequent growth policies would have resulted in an even more equal distribution of incomes. Nor, it is our purpose to deny that the inequalities of income distribution in some countries, notably in Latin America, are mainly due to unequal land ownership. In fact, our argument is that because existing income inequalities in some Latin American countries are due to unequal land ownership, they cannot be attributed to growth policies as such. Thus the prevalence of inequalities in asset and income distribution does not provide a valid argument against the pursuit of more efficient growth policies. The corollary of our argument is that inefficient economic policies, particularly the import-substitution policies encouraging the growth of uneconomic domestic manufacturing industries, would not only slow down growth but would also aggravate the existing income inequalities due to unequal land ownership.

By now it should be apparent that we have been analyzing relative income distribution in functional and sectoral terms and that the income shares defined in this manner are different from the share of income accruing to the poorest group in a statistical sense, i.e., the size distribution of income. But these different definitions of the share of income accruing to the poorer groups will tend to move in the same direction. For example, we should expect the income share of the poorest 40 percent, and, at worst, the absolute per capita income of this group not to go down when the level or the share of wages rises or the share of rural incomes increases relative to urban incomes.
We prefer to work in terms of the functional and the sectoral income distribution for a number of reasons. First, the share of income accruing to the poorest group in the population is an *ex post* statistical measurement which is not directly amenable to economic analysis. Further, while we may hope to affect the functional and sectoral income distribution by economic policy before the event, income distribution is necessarily an *ex post* measurement, frequently available many years after the actual events.

Secondly, the available cross-section comparisons of the income share of the poorest groups among different countries, are no more than a snap-shot picture taken at one point of time. Few developing countries possess comparable distribution information at two points in time, let alone a series of estimates to establish a trend. Thus if we are interested in the direction of change in income shares over time, we shall have to take recourse to a theoretical analysis about the probable direction of change in the functional and the sectoral income distribution over time. Given the rapid growth of population over time, we shall also find that we need continuously acting economic policies to raise wages and improve the functional income distribution; the benefits of a once over redistribution of the existing land and assets could soon be eroded by rapid population growth. From an economist's standpoint, the most important use for measurements of income distribution is as a check on whether economic growth in overall terms has not adversely affected the absolute income level of the poorer section of the population. As we have seen, there are alternative ways of checking this in terms of functional and sectoral income distribution.
Finally, we may be interested in the relative income distribution as a method of locating the source of discontent and social and political tensions in the course of economic development. For this purpose, all the usual approaches to relative income distribution—statistical, functional and sectoral—are too broad to locate accurately the exact area of tensions; this can be done only by detailed case studies.

E. The "Trickling-down" Effect and "Equity"

The thrust of our argument has been that economic growth promoted by efficient policies, would tend to raise the absolute level of income of the poor and alleviate poverty. It may therefore be asked why some writers in the 1970s were so pessimistic about the capacity of rapid growth to alleviate poverty. One reason for this was that highly aggregative figures were used, comparing the rapid economic growth in the developing countries as a whole with the small reduction in the total number of people in poverty as a whole. When, however, we disaggregate the figures, two salient facts become quite clear. Firstly, growth rates differ among different countries and as a rule, the middle-income countries have enjoyed markedly higher growth rates than the low-income countries. Secondly, poverty is concentrated in the low-income countries and the bulk of the population living below the poverty line is to be found in the populous countries of South Asia and Sub-Saharan African countries. Thus it has been calculated that some 80 percent of the total population living below the poverty line is to be found in the low-income countries and that while about half the population of these countries are
living below the poverty line, only some 20 percent of the population in the middle-income countries are in this position. 1/

The conclusions one may draw from these broad facts are that the rapidly growing middle-income countries have been able to reduce the incidence of poverty within their own boundaries, as we might have expected from our preceding analysis; and that the reason why poverty has persisted in the low-income countries is not due to a slow "trickling down" process but simply that growth has been stagnant and there has not been much to trickle down. Indeed, the terminology used for the "trickling down" process is misleading. In real life, income does not trickle down from the higher- to the lower-income groups like water, through the largesse of the rich and the redistributive capacity of the government social welfare programs. Rather, rapid growth and expanding employment provide the poor with the opportunities to move up the occupational ladder from low productivity subsistence occupations to lower paid occupations in the market economy and eventually to higher paid positions.

One further point on terminology. In this paper we shall avoid using the term "equity" (except in quotes) to denote a more equal pattern of income distribution in terms of relative shares. In any situation of fairly rapid growth, it is impossible for everyone to simultaneously move up into better paid occupations with high productivity. Some individuals or groups would

move up while leaving the others behind. Now the group left behind would still have the same absolute amount, but in relative terms, its share in the increased total output would decline. On the other hand, those who moved up have become better off, though this does not necessarily mean that growth always benefits the better-off more than the poor. Before we can judge morally whether this process of economic change is "equitable" or "inequitable", we would need a great deal of further information. We would, for instance, need to know the degree of upward economic mobility and the length of time the same individuals are stuck in the lower income groups; whether access to education and opportunities to move upward have been open to everyone on the basis of individual talents and ability and not on any arbitrary considerations such as membership in particular political parties or ethnic groups. Thus the term "equity" may be best avoided or used merely as a short-hand term disassociated from its moral overtones.

III. Ex Post Outcomes and Ex Ante Policy Orientations

Developing countries are frequently classified as "growth-oriented" or "equity-oriented" countries on the basis of their different statistical records of growth and income distribution. 1/ But this method of classification must be treated with great caution.

Firstly, the statistical record may not give an accurate picture of the actual economic performance of a country. Growth figures recorded over a

period of time seem to be firm enough, but we may get a different picture of
the relative growth performance of a country when we use purchasing power
parity adjusted figures. The cross-section comparisons of the share of income
of the poorest 40 percent gives only a snapshot picture of the process and
does not tell us about the direction of change in income distribution over
time. Thus the share of income of the poorest 40 percent in a country, even
if it is high compared to other countries at a given date, may be rising,
falling or constant over a period of time.

Secondly, even if the statistical records give an accurate picture of
the economic performances of the different countries, it is still misleading
to deduce the policy orientation of a country from ex post outcomes of its
growth and income distribution. "Orientation" implies an ex ante choice of
policy objectives. Thus the term "growth-oriented" country implies that this
country has attached a greater priority to the "growth" objective relative to
the "equity" objective and has set out to achieve it by raising its saving and
investment, drawing resources away from direct poverty alleviation and income
distribution programs. As we have suggested above, there is only a tenuous
relationship between the rate of growth of a country and its ratio of saving
and investment to GDP. In actual fact, most of the high growth performances
recorded by the ex post statistics is rarely due to "growth-oriented" policies
in the strict sense. They are either due to a whole-hearted pursuit of
efficient growth policies raising the productivity of resources; or, they are
due to the favorable initial conditions of abundant natural resources combined
with a buoyant world market demand for the type of primary exports which can
be produced by these resources.
There are, however, countries which can be genuinely described as "equity-oriented" countries, in the sense that they have deliberately set out to pursue poverty alleviation and income distribution objectives. They may or may not achieve a high degree of income equality as recorded in ex post statistical records. Even if they are shown to have low growth and a high share of income for the poorest 40 percent, their low growth performance may not necessarily be due to the diversion of resources away from saving and investment to social welfare programs, but may be due to inefficient growth policies arising from policy-induced distortions. Further, an ex post record of high income equality may not be due to any deliberate policy to promote income equality, but may be merely a by-product of the application of efficient growth policies given an initial situation of abundant labor. Conversely, an ex post record of high income inequality may not be due to "growth-oriented" policies in the strict sense but may be a reflection of the initial unequal distribution of land ownership.

It is an open question whether the ex post statistical records would show a strong association between high growth performance and a low share of income accruing to the poorest 40 percent. Our argument is that, even if this is true, we cannot deduce the possible conflict between the pursuit of the "growth" and "equity" objectives ex ante, from the ex post statistical records of growth and income distribution. In order to study this question we need to start from the initial conditions of each country and evaluate the ex ante appropriateness of the policies pursued, relative to the initial conditions. Our conclusion is that when we do this, we shall find that there is little conflict between the policies required to promote growth and the policies required for poverty alleviation and the reduction of income inequality. We
shall also find that in the negative direction, inefficient growth policies, notably in the form of import-substitution policies pursued through protection, would tend to retard growth and aggravate the existing income inequalities in every type of situation.

We shall now turn to some empirical examples to illustrate the application of this argument in a wide variety of situations. Our first example, the economies of Taiwan and Korea, represents economies which started from the initial conditions of abundant labor and show an *ex post* record of high growth combined with high income equality. Our second example, Brazil, represents a country which started from the initial conditions of very abundant natural resources and shows an *ex post* record of high growth with low income-equality. Our third example, Sri Lanka, represents a country which starting from the initial condition of relatively abundant natural resources has genuinely followed "equity-oriented" policies. Our fourth example, Thailand, represents a peasant export economy which started from the initial condition of a relatively abundant land and shows an *ex post* record of high growth with high income equality.

The *ex post* statistical outcomes of growth and income distribution for these countries are given in Table 1. Mexico is added for comparison with Brazil, and Malaysia is added for contrast with Sri Lanka. Figures for export growth are given to illustrate a close association between the rate of growth in GDP and the rate of growth of exports which underpins our argument. An Annex table of growth and income distribution for the other countries for which income distribution figures are available is appended to the paper.
Table 1: Growth, Income Distribution and Export Growth in Selected Economies

<table>
<thead>
<tr>
<th>GDP Average Annual Growth Rate</th>
<th>Share of Poorest 40 Percent</th>
<th>Exports Average Annual Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiwan 9.2 8.0 a/</td>
<td>21.9 (1971)</td>
<td>23.7 9.3 b/</td>
</tr>
<tr>
<td>S. Korea 8.6 8.6</td>
<td>16.9 (1976)</td>
<td>34.7 20.2</td>
</tr>
<tr>
<td>Brazil 5.4 7.6</td>
<td>7.0 (1972)</td>
<td>5.3 8.8</td>
</tr>
<tr>
<td>Mexico 7.6 6.4</td>
<td>9.9 (1977)</td>
<td>3.4 8.6</td>
</tr>
<tr>
<td>Sri Lanka 4.6 4.5</td>
<td>19.2 (1969-70)</td>
<td>4.6 0.1</td>
</tr>
<tr>
<td>Malaysia 6.5 7.7</td>
<td>10.6 (1970)</td>
<td>6.1 3.8</td>
</tr>
<tr>
<td>Thailand 8.4 7.1</td>
<td>15.2 (1975-76)</td>
<td>5.2 9.1</td>
</tr>
</tbody>
</table>

a/ Figures for the economy of Taiwan only for 1970-1978.


A. The Economies of Taiwan and Korea

Economies such as Taiwan and Korea started from the initial conditions of abundant labor after the Second World War and have recorded very high rates of growth and a high degree of equality in income distribution. Those who favor the "trade-off" approach between "growth" and "equity" would try to explain the experiences of these countries in terms of "special factors", such as the large inflow of US aid and the successful implementation of land reform programs.

According to the "trade-off" approach, the large inflow of foreign aid released these countries from the resource constraint and thus enabled them to follow both the "growth" and the "equity" objectives. An alternative interpretation is that while US aid was clearly very valuable to the economy of Taiwan given its desperate circumstances of the early 1950s, it was needed most as a reconstruction and short-run stabilization aid. US aid helped the
economy of Taiwan to ease its balance of payments deficit and inflation, both by increasing the supply of commodities and reducing the supply of money through the requirement to deposit counterpart funds. But even in the shorter run the mere availability of aid by itself would not have been sufficient to stop inflation and launch Taiwan's economy on its path of rapid growth. It had needed appropriate domestic economic policies to control inflation. In particular, we should mention the economy of Taiwan's pioneering effort of introducing very high nominal rates of interest which successfully attracted private cash holdings into bank deposits and brought inflation under control. It is interesting to note that during the 1953-63 period inflation grew apace in Korea although it was receiving equally large inflows of US aid. Korea started on its path of rapid growth only when it followed the example of the Taiwan economy after 1963. The high interest rate policy served not only to increase domestic savings, but also to discourage capital-intensive methods of production, and provided the incentive for substituting labor for machines where it could be done without affecting quality and efficiency. Thus it required appropriate domestic economic policies to lay the foundations for the labor-intensive pattern of economic growth, so successfully pursued by the economies of Taiwan and Korea.

Many writers have singled out the land reforms in the economies of Taiwan and Korea as the *sine qua non* of their success in achieving an equal income distribution. Now, no one would deny the equalitarian effects of the redistribution of land ownership where it is politically and administratively feasible. But what has to be emphasized is that in the early 1950s, the fundamental problem facing the economies of Taiwan and Korea (as in many other Asian countries) was how to cope with a rapid growth in population on top of
an already high density of population on a limited supply of land. This fundamental problem could not have been solved simply by a once-over redistribution of land, for population growth would have soon eroded its benefits. What was required was more far-reaching and continuously acting policies raising the productivity of resources through a labor-intensive pattern of agricultural development. The economy of Taiwan was notably successful in solving the problem by launching a steady stream of innovations, making a more intensive use of land and labor both in the growing of the existing crops and in the introduction of new crops such as asparagus, mushrooms and fish farming. This was greatly assisted by the improvements in the rural infra-structure and the network of marketing, credit and information for its farmers.

This labor-intensive pattern of agricultural development was powerfully reinforced by the various reforms in trade policy which enabled the economies of Taiwan and Korea to switch from import-substitution policies to their well-known success in the expansion of labor-intensive manufactured exports. The high-rate-of-interest policy which discouraged the highly capital-intensive large-scale type of manufacturing industry greatly assisted the expansion of employment, not only for the urban population working on a regular basis in the manufacturing sector, but also for the part-time and off-farm workers from the rural areas. By the end of the 1970s, the economies of Taiwan and Korea had transformed themselves from labor-abundant countries to labor-scarce countries with rising real wages and productivity. This highly equal pattern of income distribution was automatically brought about as a by-product of rapid growth successfully taking advantage of the initial conditions of abundant labor.
In terms of our distinction between *ex ante* choice of policy objectives and *ex post* outcomes, it cannot really be said that Taiwan and Korea deliberately set out *ex ante* to promote income equality with growth. Their land reforms were made possible through a favorable conjuncture of political forces (including external pressure by US advisers). Nor was there much attempt to redistribute incomes through the tax system; for instance, the tax system of the economy of Taiwan was broadly neutral, with the progressive effect of income tax balancing out the regressive effect of commodity taxes.

The lessons suggested by the economies such as Taiwan and Korea is that, given the initial conditions of labor abundance, efficient policies for promoting growth and for a more equal distribution of incomes are two sides of the same coin. For efficient growth policies require a labor-intensive pattern of growth and with a given distribution of property ownership (whether equal or unequal), this would tend to promote a greater equality of incomes. Continuously acting policies promoting a labor-intensive pattern of growth tend to raise the absolute level of wages and the share of wages relative to the share of rent incomes in the total national income; this, in fact took place in Taiwan in the 1970s.

It is not presumed that it will be easy for other developing countries to follow this example; both the organizational and the political difficulties of launching a successful labor-intensive pattern of growth are formidable. But these practical difficulties should not obscure the basic proposition that in principle, there is no necessary conflict between policies to promote growth and policies to promote a more equal distribution of incomes in a labor-abundant type country. Since rapid population growth is turning
most developing countries into labor-abundant countries, the example of the economies of Taiwan and Korea is far from being a special case. 1/

B. Brazil

Countries such as Brazil and Mexico are examples of the middle-income countries which started out in the 1950s with abundant natural resources and have frequently been described as "growth-oriented" countries on the basis of their record of rapid growth and an unequal distribution of incomes.

The "trade-off" approach implies that their poor showing in income distribution is the necessary consequence of growth-oriented policies, requiring a high proportion of their income to be saved and invested at the expense of poverty alleviation and the income distribution objective. Actually, Brazil and Mexico did not save more than the average for the countries at their income level (around 20 to 25 percent of their GDP between 1960 and 1980). The economy of Taiwan saved a higher proportion and yet managed to have a more equal distribution of income. Argentina saved roughly the same proportion as Brazil and Mexico but has shown a markedly lower growth rate. This illustrates our argument that there is no necessary relationship between the rate of saving either with an unequal distribution of income or with a high rate of growth. A more satisfactory explanation of the ex post

1/ For useful detailed accounts of the economies of the economies of Taiwan and Korea, see W. Galenson (ed.), Economic Growth and Structural Change in Taiwan, Cornell University Press, Ithaca, N.Y., 1979, particularly Ch. 7, by I. M. D. Little; and J. C. H. Fei, G. Ranis and Shirley W. Y. Kuo, Growth, with Equity, The Taiwan Case, the World Bank and Oxford University Press, New York, 1979. For a fuller exposition of the argument in this paper see H. Myint, "Comparative Analysis of Taiwan's Economic Development with other Countries", Academia Papers, Taipei, Volume 10, No. 1, March 1982.
economic records of these Latin American countries may be sought in their initial resource endowments and the economic policies pursued. Here we shall confine ourselves to the case of Brazil.

A large part of Brazilian economic growth may be explained in terms of the exploitation of abundant natural resources. Instead of pursuing a whole-hearted export expansion policy to exploit its comparative advantage in resource intensive primary exports, Brazil followed import-substitution policies for domestic industrialization in the early post-war decades. Its subsequent moves towards export expansion policies have been in fits and starts and may be described as only a partial retreat from import-substitution policies. Now these import-substitution policies, far from promoting the maximum growth rate permitted by given resource endowments, have not only hampered growth but also have aggravated existing income inequalities which are deeply rooted in regional income disparities and unequal land ownership.

The reasons why import-substitution policies would aggravate existing income inequalities are not too difficult to see. The import-substitution process consists of using the rents derived from natural resources to subsidize the protected manufacturing sector. As more and more of the rent income, which could have been used for investment in domestic agriculture or in strengthening the comparative advantage in the export industries, is diverted to the uneconomic and highly capital-intensive manufacturing sector, the resources at the command of the government become increasingly limited. In order to discriminate in favor of the modern manufacturing sector, discriminatory measures then have to be taken against the agricultural sector and the rural areas where most of the poorer people are to be found. These discriminatory measures take various forms: (i) in the market for goods, by
controlling the price of food and agricultural products in order to keep down
the urban cost of living; (ii) in the market for capital funds, by providing
cheap loans to the manufacturing sector which increases the scarcity of
capital and raises the rates of interest for poorer people who can borrow only
from non-institutional sources; (iii) in the market for labor, by maintaining
an artificially high wage level in the modern sector through the minimum wage
laws and the support for the labor unions which reduces the capacity of the
modern sector to absorb labor and depresses earnings outside the modern wage
economy; (iv) by an unequal provision of public services and infrastructure to
the urban and the rural areas; and (v) by attempts to cope with the resulting
policy-induced disequilibrium situation by rationing the scarce goods and
foreign exchange -- intentionally or unintentionally discriminating against
the poorer section of the population.

These effects of import-substitution policies on growth and income
distribution may be illustrated by contrasting the two periods of Brazilian
growth: the 1947-62 period which represents the pure import-substitution
phase; and the 1967-74 period sometimes described as the "Brazilian miracle"
which represents a partial switch from import-substitution to export expansion
policies.

During the 1947-62 period Brazil's GDP grew at 6 percent a year,
manufacturing output at 10 percent and agricultural output at 4.2 percent.
Brazil's exports stagnated because of import-substitution policies. Some
writers have interpreted this as a successful case of growth through import-
substitution brought about by an internal "balanced growth" between the
domestic manufacturing and the domestic agricultural sector, providing an
alternative engine of growth to international trade. But what really seems to
have happened was that the growth of the manufacturing sector was subsidized by exploiting abundant natural resources. Thus agricultural output grew simply by bringing in more of the abundant supply of land under cultivation while the yield per hectare and output per man stagnated. While the favorable initial conditions of abundant natural resources provided the impetus for growth for some time, the import-substitution process ran out of steam by the early 1960s, plagued by the usual balance of payments problems. This phase ended with runaway inflation and political instability.

In contrast, the second phase of growth during the 1967-74 period represents a partial retreat from import-substitution policies. Brazil's GDP grew at a much higher rate of 11 percent a year, the manufacturing sector growing at 13 percent while the agricultural sector maintained its average rate of growth of 4.2 percent a year. But this time exports grew rapidly, thanks to various policy reforms. These included: the devaluation of the currency and the adoption of the "crawling peg" system; the reduction of protection and the correction of anti-export biases in policy; and the introduction of far-reaching tax reforms which contributed to macro-economic stability. Manufacturing exports grew very rapidly at 42 percent a year, from $163 million in 1967 to $1.9 billion in 1974 at current prices. There was also a notable expansion of primary exports; in particular, a new line of export. For example, soybeans and soy products expanded at a remarkable rate of 42 percent a year, from $53 million in 1969 to $2.3 billion in 1980. This was made possible by the government's policy of actively exploiting the potential comparative advantage in this line of primary export by research and development into high yielding varieties and better soil management and fertilizer application.
Apart from showing a much higher growth rate, the second period (1967-74) had shown a much more favorable effect on employment and income distribution. During the first period of growth (1947-62), manufacturing employment grew only at 2.6 percent a year, about 0.27 times the output growth rate. In the second period (1968-73), the rate of manufacturing employment shot up to 6.5 percent a year, at about half the rate of the output growth rate. There is evidence of an acute shortage of labor throughout the country both in urban and rural areas and also of dramatic increases in the real wage rates in the early 1970s. There was also a shift of workers out of low-income occupations and sectors to higher-income positions up the occupational ladder. The poorer section of the population must have gained in absolute terms, whatever the relative position. ¹/

If this view of the Brazilian case is accepted, there would seem to be no necessary conflict between policies to improve income distribution, at least in terms of the absolute level of income of poorer groups. The effect on relative income shares is less clear. But given Brazil's rapid population growth which is eroding its initial favorable land-man ratio, the future path of efficient growth would be moving in a more labor-intensive direction. Thus the conclusion drawn from the economies of Taiwan and Korea will become increasingly relevant and there would be a convergence of the policies to promote growth and policies to provide a more equal distribution of income even in terms of relative income shares.

C. Sri Lanka

Sri Lanka started from the initial condition of a fairly rich endowment of natural resources, similar to a Southeast Asian country like Malaysia rather than to the Indian sub-continent. Sri Lanka has recorded a moderate rate of growth combined with a high share of income accruing to the poorest 40 percent of population. During the 1953-63 decade this share was about 14.5 percent, rising to 19.3 percent in 1973 before falling to 16.1 percent in 1978-79.

Sri Lanka may be appropriately described as an "equity-oriented" country since it has followed a policy of redistributing the rents from its natural resources earned by the export sector to achieve a high level of social welfare. The question at issue is to what extent the Sri Lankan example represents a genuine case of "trade-off" between "equity" and "growth".

There are those who would argue that Sri Lanka's moderate growth rate (between 1960-78) was no worse than a "middling performance" to be expected from a low-income country like Sri Lanka. They contend further that it was amply compensated by the improvements in life expectancy and education as the result of using the resources which would otherwise have been available for investment to promote growth. Sri Lanka's social welfare expenditures have been heavy, averaging over 6 percent of GNP and accounting for over half of the government budget during the period. Using the "trade-off" approach, it has claimed that even if Sri Lanka were to invest the whole of this social welfare expenditure, the resultant growth would take a long time to reach that level of per capita income which would be normally associated with its present level of longevity and education. "The overall impression is one of a long
haul in matching social welfare achievements of Sri Lanka with income growth." 1/

In order to get a proper perspective, it is necessary to begin with Sri Lanka's initial conditions in the early post-war decades. It should be noted that Sri Lanka was a relatively rich country in 1960. Its per capita income at that time was $152, twice that of India ($68), much higher than of Thailand ($97) and equal to that of Korea ($154). If we use purchasing-power-parity adjusted rates a la Kravis and associates, Sri Lanka's per capita would have been higher than that of Brazil and Malaysia. 2/ Thus Sri Lanka has not always been a poor country to be put in the same category with the other South Asian countries. Although it had the makings of a middle-income country like those of Southeast Asia, it has fallen to the low-income category of South Asia through the pursuit of inappropriate policies. This impression is strengthened when we use the Kravis-adjusted figures for Sri Lanka's growth rate. It then turns out that, instead of a growth rate of 2 percent a year between 1960 and 1978, Sri Lanka shows a negative growth of -1.2 percent a year. This is all the more remarkable since Sri Lanka's ratio of exports to GDP declined from 44 percent in 1960 to 27 percent in 1982. Other things being equal, this should have raised the Kravis-adjusted growth rate by increasing the weight of the non-traded to the traded goods in GDP. This


suggests that Sri Lanka's policies must have been more damaging to its growth than is generally recognized.

Sri Lanka started out not only enjoying a relatively high level of per capita income but also a high level of social welfare, measured by the standard indicators. (i) In 1948 Sri Lanka's life expectancy at birth was 54 years comparable to that of Japan (57.5 years) and higher than that of India in 1981 (51 years). (ii) In 1950, Sri Lanka's primary and secondary school enrollment as a percent of the population between 5-19 years was 54 percent - very high in the developing world at that time. It was much higher than the percentage for India (19 percent), Korea (43 percent) and compares with that for the Philippines (59 percent). (iii) Even in 1950 Sri Lanka had an impressively low rate of infant mortality, 77 deaths per thousand live births, compared with 102 for the Philippines and 91 for Malaysia. Up to about 1960 Sri Lanka was able to achieve this high level of social welfare by redistributing rents from natural resources earned by the export sector without discouraging the expansion of exports. After 1960 however, the introduction of "equity-oriented" policies in full force coincided with increasingly unfavorable policies towards the export sector and her ability to maintain a high level of social welfare was eroded.

Surjit Bhalla has conducted a detailed statistical analysis to show that while Sri Lanka's level of real income and social welfare as measured by six standard indicators in 1960 was higher than those of comparable countries, its performance in improving upon that level since then, however, has been
mediocre. 1/ Bhalla argues that the number of people living below the poverty line which was already low in 1960 may actually have become higher in 1975. He also points out that by 1979, Sri Lanka's school enrollment rate of 74 percent had fallen behind Korea (94 percent) and the Philippines (85 percent). By the 1980s Sri Lanka's infant mortality rate of 43 per thousand was overtaken by Malaysia (30 per thousand) and the Philippines and Thailand (54 per thousand) have also considerably narrowed Sri Lanka's lead in low infant mortality rates. 2/

What then are the factors which have contributed to Sri Lanka's record which has turned out to be mediocre both for economic growth and for social welfare? The conventional "trade off" approach would attribute Sri Lanka's low growth to its low saving and investment which is regarded as a necessary and worthwhile cost to pay for its social welfare expenditure. But this is not convincing since Sri Lanka's ratio of saving to GDP was 11 percent in 1960 and 17 percent in 1978 which are not exceptionally low percentages. The alternative explanation which is more plausible, is that Sri Lanka's welfare programs became increasingly unsustainable after the Korean war boom because of her budgetary weaknesses ultimately derived from her "inward-looking" attitudes both towards foreign trade and foreign investment. Sri Lanka shows an extremely low rate of export growth of 0.1 percent a year during the 1970-82 period, and as we have already mentioned, the ratio of its exports to GDP declined from 44 percent to 27 percent.


Sri Lanka's inward-looking, import-substitution policies are logically distinct from its social welfare policies. In theory, a country could pursue Sri-Lankan type social welfare policies while pursuing efficient trade policies which would have improved its growth and budgetary position. But in practice, and in the political setting of Sri Lanka, the social welfare policies and the inappropriate trade policies powerfully reinforced each other. Thus the import controls introduced in 1962 were motivated by the usual desire to encourage domestic industrialization through import-substitution. But they gave an extra function to the multi-purpose co-operatives which became monopoly distributors and provided the mechanism for rationing essential consumer goods such as rice, textiles, soap, footwear and kerosene for cooking and lighting. Conversely, the motivation behind the nationalization of foreign-owned plantations, transport and banking enterprises may have been the desire to redistribute incomes from foreigners to the nationals. But, it had the effect of retarding the growth of exports.

One can illustrate the consequences of Sri Lanka's import-substitution-cum-social-welfare policies by comparing its performance with that of Malaysia. In 1960 these two countries were very similar to one another. Malaysia's per capita income (at official exchange rates) of $280 was higher than Sri Lanka's per income of $152, but as we have mentioned in terms of Kravis-adjusted dollars, Sri Lanka enjoyed a higher per capita income of $961 compared with Malaysia's $888. Moreover, both countries had similar size populations, resource endowment and shared a common export commodity - rubber. Since the 1960s Malaysia has followed fairly "outward-looking" policies towards foreign trade and investment despite its declared objective of redistributing incomes in favor of the Malays -- as opposed to the
foreigners, including the ethnic Chinese. Thanks to its outward-looking policies, Malaysia's exports expanded at a fairly high rate; in particular, the productivity of the rubber industry increased as a result of research and development, helping it against the competition from synthetic rubber. Further, given its open-type economy with flexible adjustments to changing world market conditions, Malaysia has been able to switch into new lines of primary exports, such as palm oil. (Recently, however, Malaysia's export growth has been moderated due to inappropriate policies.) In contrast, Sri Lanka's exports stagnated and the frequent complaint about the unfavorable terms of trade since the Korean war boom concealed the strait-jacket effect of its inward-looking policies which impaired its capacity to switch into new lines of exports. By 1978 Malaysia's per capita income level, both at official exchange rates and in Kravis-dollars, had risen to a level two-and-a-half times higher than the per capita income of Sri Lanka. The share of income going to the poorest 40 percent of the Malaysian population in 1970 was 10.6 percent — about half the share for Sri Lanka of 19.2 percent, but the Malaysian poor were receiving a smaller share of a much larger cake. 1/

Moreover, because of a much stronger budgetary and balance of payments position, Malaysia's policies to promote the social welfare of the poor rural population were sustainable. In contrast, Sri Lanka has gone through a series of "stop-go" episodes, with successive finance ministers trying to reduce rice subsidies despite fierce political resistance. In one

1/ Dividing the share of GNP accruing to the poorest 40 percent in Malaysia and Sri Lanka in 1970 by 40 percent of their respective populations, we obtain the per capita income figures of the poorest 40 percent in Malaysia and Sri Lanka as $96 and $60 respectively at official exchange rates.
particularly bad episode in 1973-74, because of a crop failure and a lack of adequate foreign exchange reserves, an emergency cutback caused a sharp reduction in living standards, reflected by a rise in the infant mortality rate from 45 per thousand in 1971 to 51 per thousand in 1974. Thus Sri Lanka's "equity-oriented" policies have not been as much of a success story as is popularly supposed, of redistributing incomes "before the dividend of growth is realized".

If our interpretation of Sri Lanka's case is correct two things stand out. First, it is highly treacherous to use cross-section comparisons of income distribution at one point of time to appraise the success of a country in achieving the "equity" objective since this does not tell us anything about the direction of change in income distribution over time. We obtain a very different perspective when we start from the initial conditions and try to trace the effects of the policies over a period of time. Secondly, the "trade-off" approach conducted on the assumption of the prior attainment of the "efficiency frontier" within a closed economy model, is particularly unsuitable when applied to a small country riddled with various policy-induced trade distortions. By exploiting its comparative advantage in trade, Sri Lanka could have more efficiently converted its resources into exports and through indirect exchange obtained either more rice for the social welfare programs or more machines for investment for future growth. Thus the resource constraint assumed by the "trade-off" approach can be greatly eased through an increase in productivity brought about by the removal of various trade distortions.
D. Thailand

Our last example is Thailand which started from the initial condition of fairly abundant land and has shown a good record both in growth and in income distribution brought about mainly through the expansion of peasant exports.

Thailand is a rare example of a peasant export economy which has permitted a network of private middlemen to handle the marketing and processing of the peasant products instead of adopting the system of state agricultural marketing boards, widespread in other peasant economies in Asia and Africa. Because of this Thailand has avoided the deleterious effects of the state marketing board system on growth and income distribution.

Firstly, state agricultural marketing boards generally tend to inhibit export expansion by fixing the prices paid to peasant producers well below the world market prices for their exports. ¹/ To this one must add the "dead-weight" burden of the administrative inefficiencies of the monopoly state procurement agencies which also falls on the peasant. The adverse effects of state agricultural marketing boards can be seen in the sharp decline of Burma's exports (which grew at the negative rate of -1.6 percent per annum during the period 1960-70 and at the rate of 1.9 percent during the period 1970-82) and Ghana's exports (which grew at 0.1 percent a year during 1960-70 and at the negative rate of -4.7 percent during 1970-82). This poor

¹/ The African peasant export producers received only about one-third to one-half of the world market prices for their products during the period 1970-80, see Accelerated Development in Sub-Saharan African, World Bank, Washington, D.C., 1981, p. 56.
export performance is reflected in the poor growth performance of these countries. ¹/

Secondly, since governments tend to use the profits from the state agricultural marketing boards to subsidize the modern manufacturing industries located in the towns and expanding the civil service, the income inequalities between the urban middle classes and the rural poor tend to widen.

In contrast, by maintaining a fairly open economy and permitting the economic incentives to operate for its peasant farmers through the market network, Thailand has been able to expand its exports rapidly. This included not only the traditional exports such as rice, but also new lines of peasant exports such as maize and tapioca. Recently, Thailand has also started to increase its exports of labor-intensive manufactures.

This high and steady rate of export expansion has not only promoted rapid economic growth but has had a favorable effect on income distribution. The share of income accruing to the poorest 40 percent of population was 15.2 percent for Thailand (1975-76) compared with 16.9 percent for Korea (1976). This favorable cross-section comparison has been corroborated by detailed studies based on household surveys conducted in 1962/63, 1968/69 and 1975/76 which cover the lower 80-90 percent of the income distribution, including the poverty group. It has been found that the incidence of poverty was sharply reduced from 57 percent to 31 percent of the population between 1962 and 1975. There has also been a noticeable reduction in interregional differences

¹/ Burma's rate of growth in GNP per capita was only 1.3 percent a year while Ghana's showed a negative rate of growth of -1.3 in GNP per capita, see World Development Report 1984, World Bank, Washington, D.C.
in incomes and the urban-rural income gap, thanks to a sustained rise in rural incomes in three out of the four main regions making up the country. 1/

Thailand's example is important for the following reason. The peasant export economies of Africa and South Asia are still relatively rich in natural resources, though perhaps not on the scale of Latin American countries. On the other hand, they do not have to contend with the legacy of unequal land ownership and the "bi-modal" pattern of agriculture in which the latifundia co-exists with minifundia. Thailand's example has shown that in this type of situation, the expansion of peasant exports through the extension of cultivation to the unused land, made possible by improvements in transport and marketing, can promote both rapid growth and a more equal distribution of income. Just as the expansion of employment and rising wages played a crucial role in combining growth with income distribution in the economies of Taiwan and Korea, the expansion of peasant exports and the higher prices paid for the peasant products played a crucial role in combining growth with income equality in the Thailand case.

III. Conclusion

In summary, these brief case studies have highlighted the importance of relating initial conditions with the ex ante appropriateness of the policies pursued. When we do this, we shall see that there is very little conflict between the pursuit of "growth" and "equity" objectives whatever may

have been the actual outcome in terms of growth and income distribution as
given by the *ex post* statistical record. The example of the Taiwan and Korean
economies suggests that their high income equality is a by-product of applying
efficient growth policies to their initial conditions of labor abundance.
Under these initial conditions, efficient policies for growth require no
sacrifice of income distribution goals. Brazil's *ex post* record of high
growth is shown to have resulted not from "growth-oriented" policies, in any
strict sense, but mainly from its abundant natural resources. Conversely, its
income inequalities are not so much due to growth policies as to the
historical legacy of regional disparities and unequal land ownership. We
concluded that the inefficiency of Brazil's import-substitution policies has
had the effect of not only slowing growth but also aggravating the existing
income inequalities. The Sri Lankan case shows the alternative example of an
economy guided by genuinely "equity-oriented" policies. Here the actual
performance both in growth and improvements in social welfare is less
admirable upon closer inspection, due mainly to the combination of social
welfare policies and inefficient growth policies. We concluded that
Sri Lanka's social welfare policies would have been more sustainable had it
followed a more efficient policy of export expansion. Finally, in the record
of Thailand's growth we see the result of the application of efficient growth
policies to the initial conditions of relatively abundant land combined with a
uniform system of small peasant farmers.

The country examples presented here point to the need for a re-
evaluation of growth and income distribution in developing countries, whereby
the appropriateness of the policies concerned is viewed not solely from
*ex post* statistical evidence but also from the evidence of initial conditions
and the orientation of the policies pursued.
GDP Per Capita, GDP Growth and Income Shares of the Lowest 40 Percent

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\(^a/\) GDP per capita for Costa Rica is corrected since the value in the WDR 1984 was incorrect.