

SOCIAL & DISTRIBUTIONAL ISSUES

Look at poverty, inequality, social indicators; labour market (Chris Manning); regional (sub-national) development; environmental issues. See socio-economic indicators file for summary stats.

Key issue: these the development objective. GDP a means to this end. But how good a means? How well does GDP proxy them?

Some notion of 'decent living standard'. Inevitably subjective; whether Millenium Development Goals, Human Development Index, etc.

What's included? Some arbitrary poverty line, monetary equivalent? Plus education, health, sanitation, housing? And dealing also with 'poverty of despair'? What about human/political rights, environment standards? Sen, 'development as freedom', etc.

But note also appeal of simplicity, single measures; like HDI, etc.

And, most important, what sort of policies are needed?

Measurement issues:

1) Poverty:

Various measures, national v/s international; \$1/day, etc. Also expenditure v/s income, household v/s individual. Data sources.

Need objective, comparable measures as much as possible.

Absolute v/s relative measures. Mean different things: former destitution; latter inequality.

Choice of deflators important; different consumption patterns.

'Pro-poor growth'; ie, growth which is distributionally in favour of the poor. What objective function?

Important to have LT consistency of measures; but also updates. So need two sets of series.

Measures highly responsive to income growth; but elasticities vary.

In poverty, v/s near poor/vulnerable; see Balisacan example (O/H).

Need to know about 'churning'.

Need to know the socio-economic correlates of poverty incidence. Eg, gender, region, family circumstances, etc.

2) Education & health:

Input v/s output measures; which are preferable?

Eg, enrolment ratios, hospital provision, expenditures; or literacy, education quality; life expectancy, IMRs.

Levels and rates of change.

Summary UN measure: HDI. Appeal of simplicity. But caution, issues of weighting, calibration.

Are econ and social indicators correlated?

Yes, generally; though non-linear (why?).

But enough outliers that need to study social indicators separately. Also, don't always get correlations among social indicators.

Is there a typology of outliers?

High econ, lagging social: typically resource rich countries, or those with high levels of entrenched inequality. Note also that some social indicators lag, not ST responsive.

High social, lagging econ: generally cases of strong early commitment to social, but econ policies don't deliver growth; eg, Sri Lanka, Phils.

Note also that can apply to within as well as between countries.

The Southeast Asian record

Refer to summary social indicators.

1) Poverty

Levels and rates of change follow GDP closely.

Very little absolute poverty in Singapore; low in Malaysia. High in some others, especially poorer mainland SE Asia.

Faster reductions in higher growth economies; also varies depending on growth episodes. And converse; impacts of the crisis.

Example: Indonesian record, 1976-2004; see handout.

Note variations in growth-poverty elasticities:

Ravallion, 47 LDCs, 2.5

Balisacan, Phils, 1.3-1.6

Cline: China, 2.9; Indonesia, 3.0; Philippines, 2.2; Thailand, 3.5.

East Asia generally does well; why, and why differences among them?

2) Education & health

Generally follow econ indicators, but more diverse picture.

Not as directly and immediately amenable to growth.

Depend more on history, institutions, govt expenditure priorities, culture (eg, female autonomy appears to be very important).

See also country-specific issues. Eg (and why?):

Philippines - quite good on education, weaker on health, poverty.

Thailand - achieved universal primary quite quickly (nation building, etc), but historic underinvestment in post-primary.

Vietnam - egalitarian commitment to universal literacy; though until recently closed off to rest of the world.

Indonesia/Malaysia - historic under-investment in colonial rule; highly uneven; resource-rich economies. But rapid catch-up; note also among the most even gender ratios in Moslem world.

Note international context: SE Asian record good; but not as strong as earlier NE Asian (Japan, Korea, Taiwan) record, of low inequality, very strong education. Also, difficult to generalize for whole region.

3) Inequality trends and issues.

Recall context; Kuznets inverted U relationship? Hypothesized that growth initially unequalizing, shift out of subsistence agriculture to urban, industry. Then equalize, as sectoral differences narrow, institutions develop.

Empirical evidence mixed: 'the decisive factor in determining whether inequality increases or decreases is not the rate of economic growth but rather the kind of growth.' (Fields)

Note also separate issue of reverse causality. Traditional view that inequality conducive to growth - higher investment, higher incentives to work, acquire skills. But more recently challenged - high inequality disruptive, destabilizing; unfulfilled skills, etc. Empirical evidence mixed, inconclusive.

SE Asian evidence mixed.

Initial conditions important: S/H rice economies of Thailand, Myanmar, Java generally more egalitarian. Compared to plantation economies of Malaysia, Philippines, off-Java. No major land redistributions, except for Indonesian nationalizations; Phil programs limited impacts.

See outcomes: Mal high, small declines; Phils high, no clear trend; Thai low then rising (sectoral and regional story); Indo, VN low, no clear trends; Sing quite high, rising.

Explaining social outcomes

Growth dominates; impossible to get major social improvements without it.

But is also a 'growth plus' story; as indicated by poverty elasticities.

So what else is important? Here the 'East Asian' model is relevant.

Difficult to generalize, but the following generally important:

i) Type of growth: labour-intensive, 'inclusive', EO, comparative advantage, combined with minimal interference in labour markets. Results in strong employment growth, high poverty elasticities.

Provides also a link to trade and poverty literature.

ii) Supply-side, quality of public goods. Especially early provision of mass public education/literacy. Enables the poor to participate. Issues related to govt expenditure priorities and composition. Eg, Indonesia, quite low expenditures; but education well targeted, more than health.

Singapore employed public housing. Expenditure v/s tax instruments.

Note also 'South' v/s 'East' Asian models. Now changing, but earlier East Asia more effective on poverty reduction: higher growth, more labour-intensive growth, more widespread education.

Digression: Note also that govts typically better at delivering effective education than health outcomes. **Case study** of latter in Ahlburg & Flint; good illustration of in-depth study of econ-social interactions.

GDP/growth and health/improvement relationship still significant. See econometric estimates on relationship between pci and reductions in child mortality.

But other variables important, especially quality of, access to, public health facilities.

Vietnam and China, strong emphasis on primary health care, 80-90% access. Thailand - major improvements since 1960s.

Infrastructure important - eg, Indo. 1980-95, % of population within one hour of public health rose 75-93%.

Immunization highly cost effective; in A-P, 1980-2000, % children immunized increased from 10-85%. Case for subsidies (eg, VN).

Biases in public health subsidies. Eg, Indo, top quintile received 28% of public subsidies, 41% of public hospital patients (but targetting better in education). Philippine biases also.

Access to safe drinking water, sanitation.

Key role of gender equality, female autonomy, education. Eg, in Phils, CMR 8x higher for children of women with no/little education.

iii) Distribution of assets important.

iv) tax/expenditure regimes; latter more important.

See earlier discussion of growth/inequality relationships. Especially special NE Asian case of agrarian origins of low inequality; partly relating to deliberate land redistribution.

This the aggregate economy wide picture. Need to also look at the micro picture, among individuals. Need household data. Generally find the story as predicted: poverty levels and changes a function of human capital (of household head), asset holdings, labour force experience, occupation, regional location, etc. See Balisacan.

Will discuss regional poverty issues later.

Dynamics, episodes, adjustment to shocks

Two episodes particularly interesting , both with SE Asian examples.

1) 1980s liberalizations.

Presumption in popular literature that liberalization harms the poor, benefits the rich: increased prices, withdrawal of subsidies, etc.

But evidence from Indonesia especially, also Philippines, doesn't support this view. Why?

i) If reforms are successful, growth accelerates, therefore lower poverty. This the Indo story, 1982-87.

ii) Removal of past distortions also removes biases against the poor. Eg, protection for capital-intensive industries (Indo, Phils); agricultural extension (infra, R&D) for 'favoured' regions (eg, low-land rice, Phils).

iii) Need to maintain directed social supports for the poor, eg, education; possibly food prices in transitional period.

These arguments less applicable to Malaysia, Thailand; not such a pronounced regime shift; and Mal always actively pro-poor.

2) Economic crisis of 1997-98

Serious impacts for affected, marginalized groups; head count poverty measures increased sharply, by about 1/3 in worst case (Indo).

But not as bad as initially feared; eg, with some exaggerated forecasts (ILO, 50+% increase projected). Why? Story varies across countries.

i) Generally urban economy worst affected; cf rural where most of the poor reside.

- ii) Rural also benefitted from other factors. ER depreciation boosted cash crop exports; good rains as El Nino ended (unrelated to crisis!).
- iii) Labour market adjustments critical. Specifically, whether adjusted via price (real wage) or quantity (ie, unemployment). Korea, unionized, more rigid labour market, effect via latter; Indo, flexible labour market, mainly via former. This outcome obviously more beneficial for poor. See Manning.
- iv) Traditional sharing support networks, cf formalized welfare in the West.
- v) Although formal welfare systems under developed, some crash programs quite successful. This where democracy/social policy can be useful. Eg, stay-at-school programs quite effective; cheap rice; public works programs (mixed).
- vi) In general growth began to recover quite quickly; an almost V-shaped recovery.
- vii) Labour-scarce with large ST immigrant workforce economies able to restrict inflows; eg, Sing, Mal, also Thai. Though diplomatic constraints.

Case study: ethnic distribution, affirmative action (AI) programs; the Malaysian approach. Important, controversial issue; arguably the developing world's most durable and successful AI program. Others attempt to emulate, eg, post-apartheid South Africa.

History: large ethnic differences (Indo too); serious disturbances May 1969; introduced NEP in 1970. Two key objectives: need to maintain growth; want employment and wealth to more accurately reflect ethnic distribution. Bumi population approx 60%, share holdings 2%, to rise to 30% by 1990. Set ethnic targets/quotas for employment, university education, etc.

Evaluation:

Maintained growth; this the key; ie, didn't resort to distributional game.

Achieved significant asset redistribution, Bumi share rising from 2% to about 20% (though a debated figure).

Income and social differences among ethnic groups have narrowed.

Arguably removed/ameliorated a source of social tensions.

Investments in productivity of the poor most effective: big push for education, at all levels; health; rural/ag devt (recall Mal #1).

Distribution more contentious: arguably created a 'rentier' Bumi class; those with political connections benefited greatly, but intra-Bumi inequality has risen.

Moreover, poor non-Bumi groups largely missed out on programs. Eg, Indians, indigenous Borneo groups (Ibans, Dayaks). Especially as very large immigrant workforce depressed relative earnings of the unskilled among these groups.

Note also continuing loss of high-skill non-Bumi professionals.

Two key conclusions:

i) Generally successful, but need a sunset clause; AI programs need an exit strategy, replaced by a general program concentrating on social disadvantage regardless of ethnicity. Politically difficult.

ii) Limited general applicability, highly doubtful that would work elsewhere (eg, Indo), owing to special features of Mal:

- open economy, consistently good macro, hence efficiency checks;
- reasonably good institutions, and democratic within UMNO, so further checks on excesses;
- initial capital stock majority foreign owned; with rapid growth and high domestic savings, able to increase shares of all ethnic groups (non Bumi included); so as much as transfer from foreign to domestic as from Bumi to non-Bumi.

Poverty alleviation: some general policy lessons

Growth essential.

Labour-intensive growth important; ie, implications for openness/trade regime, and labour market.

Targeted expenditure/subsidy policies, especially in education and health, perhaps also public housing.

Gender equality crucial.

Progressive tax policies; though probably more important if institutions are weak is to ensure at least tax compliance.

Regional distribution/equity issues. See next section.

Distributional programs may work. But much 'window dressing' (eg, land reform); danger of capture.

Other micro-level interventions: see Balisacan O/H.