Macroeconomic Policy, Growth And Poverty Reduction

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Editor

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INTRODUCTION TO MACROECONOMIC POLICY, GROWTH AND POVERTY REDUCTION
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Lively controversies continue on the effect of orthodox structural adjustment policies on growth and poverty reduction. Critics argue that the macroeconomic policies associated with structural adjustment have produced neither significant growth nor poverty reduction. Often the poor are directly harmed by such policies as severe slumps in output and employment follow. Even when growth occurs, it is frequently slow and its impact mitigated by rising inequality.

Much of the recent debate in development circles has centred on the relationship between growth and inequality. The traditional position—now widely questioned—has been that some degree of inequality is a spur to growth because it motivates greater work effort, savings and investment. A more recent position argues exactly the opposite: inequality impedes growth by restricting access to such productive assets as land and human capital and lowering productivity. Most recently, the traditionalists have mounted a counter-attack, contending that “growth is good for the poor” because, in part, growth does not worsen inequality: the poor benefit as much as the rich.

No doubt, the nature of this debate clouds some of the policy issues involved—especially by positing some necessary connection between “growth in general” and “inequality in general”. The real issue is determining the set of policies that each country should implement in order to achieve both growth and greater equity. The set might contain some policies that are more conducive to growth and others that are more conducive to lowering inequality. The challenge is to construct a policy package that achieves the optimal impact in terms of reducing poverty.

The papers in this volume explore this issue in the context of determining the relationship between macroeconomic policies, on the one hand, and growth and poverty reduction, on the other. As noted in the acknowledgements, either the United Nations Development Programme or the International Labour Office has commissioned each paper in the volume. Together, the papers cover a number of regions in the world. The papers by Griffin, Griffin and Brenner, and Weeks examine sub-Saharan Africa; the papers by Alarcón and Berry examine Latin America and the Caribbean; and the paper by Khan examines Asia and the Pacific. The papers by Griffin and Ickowitz and by McKinley explore some of the same themes as the other papers but from a more general perspective.

The papers take similar approaches to determining the relationships among macroeconomic policies, growth and poverty reduction and come to many of the same conclusions. In comparison to the positions of the so-called “Washington Consensus”, these papers are noteworthy for taking a more critical or independent view of conventional wisdom. Many of the points they have raised are now more widely endorsed and are similar to those associated with what has been labelled a new “Post-Washington Consensus”. The issues raised by this volume remain timely and relevant since the positions comprising the “Post-Washington Consensus” have come under sharp attack and have yet to consolidate themselves as any kind of broad “consensus”.
A critique of structural adjustment

A number of the papers take an explicitly heterodox approach to restructuring economies. Their orientation is more growth-oriented and more employment-intensive than is customary. Many of them are critical, explicitly or implicitly, of the standard policy package for structural adjustment. Instead of favouring reliance on the liberalisation of prices, they emphasise the importance of boosting investment, i.e., increasing public investment that is complementary to private investment, and stimulating private investment further through a more efficient allocation of credit.

This implies a more favourable attitude toward expansionary fiscal policies and greater acceptance of fiscal deficits, as long as they are sustainable, and of inflation, as long as it is kept moderate. In reforming state-led economies to provide greater scope to market forces, the heterodox position focuses less on privatisation of state-owned enterprises than on encouraging the growth of new private-sector enterprises—particularly those that are small-scale and employment-intensive.

Emphasising investment

In order to finance greater investment, many of the papers advocate reliance primarily on domestic resource mobilisation. Depending on official development assistance or inflows of private capital to jump-start growth is considered ill advised. Some resources can be mobilised by tilting public expenditures more towards productive investment—in human capital as well as in physical and natural capital. Public policies can also create an environment more conducive to broad-based private investment, through either more favourable macroeconomic policies or more equitable redistribution of assets. With greater opportunities for investment, people save more and/or work more to expand their asset base.

A number of the papers emphasise the importance of fostering such investment opportunities among the poor. This is based on the unconventional view that the poor are fully capable of saving—and also of building up their productive assets through greater application of labour—if they are afforded the profitable opportunities to do so. A major theme of many of the papers is that given the correct mix of public policies, there need be no inherent trade-off between equity and growth. As a result of an examination of the development experience of East Asian economies and the findings of a number of recent research efforts, this formerly heterodox view is now becoming more widely accepted. In fact, it is now more generally believed that a high degree of inequality—particularly in the distribution of assets—in fact impedes growth.

Macroeconomics and redistribution

Some of the papers in this volume extend the standard analysis further by linking inequality with human development instead of merely with growth. The evidence for a positive relationship between greater equality in the distribution of wealth and more human development is found to be fairly compelling. Particular stress is placed on greater equity in the distribution of land and housing, both of which are critically important productive assets for the poor. More research work is needed however to demonstrate that poverty reduction—a more specific objective than achieving equity—can be made consistent with increased growth and human development.

Most of the papers agree that a rise in inequality can pose a serious impediment to poverty reduction, and some present evidence that in a number of cases sharply rising inequality—often coupled with slow growth—has accompanied structural adjustment
policies. Of particular concern is a worsening of inequality that is brought about by the declining share of income of poor households.

Such a trend indicates that unless a country’s growth is exceedingly rapid, its development strategy and macroeconomic policies will tend to reproduce poverty rather than reduce it. The character of its growth, in other words, is likely to be ‘anti-poor’ rather than ‘pro-poor’. Most of the papers agree that ‘macro’ policies can have as much impact as—if not more than—targeted anti-poverty programmes. But what do they claim is needed to make growth more pro-poor?

The general answer given by most of the papers is that three conditions should be created: a concentration of growth in economic sectors that can directly benefit the poor, an enabling environment that promotes their employment and real incomes and enhancement of their basic human capabilities. The papers generally agree that macroeconomic policies can influence whether growth is pro-poor, but that such policies cannot be a substitute for an equitable distribution of productive assets. Provided that measures are taken to help secure the poor’s access to productive assets, such as land, housing and equipment for micro-enterprises, employing macroeconomic policies to then help raise the returns to these assets is considered the most useful approach.

**Macroeconomic Reform and Employment**


He points out that there are three distinct paths of achieving structural adjustment of an economy. The first path, which is the route often recommended by conventional policies, is to allow market-determined relative prices to rapidly reallocate the existing stock of productive resources. Getting relative prices right is the central prescription of such a policy package.

This approach assumes that resources can remain fully employed and output can be maintained at the same level during restructuring, but Griffin argues that such a scenario is unlikely unless there is a significant increase in investment in expanding profitable sectors—an increase that more than compensates for the loss of productive resources in contracting unprofitable sectors. Thus, structural adjustment requires a growth strategy in order to succeed, and for this, getting prices right is not nearly adequate.

The reality of structural adjustment in sub-Saharan Africa has been associated, however, with a drastic drop in production instead of stability of production. Despite rhetoric to the contrary, a second path has, in effect, been followed, which Griffin calls “structural adjustment through contraction”. This path has led to widespread economic contraction, high unemployment and massive poverty.

According to Griffin, a third path should have been followed—“structural adjustment through investment”. Such an investment-led path is based on simultaneous expansion of all sectors of the economy, but at differing rates. Hence, restructuring has to be based on a growth process, not on contraction of the economy. Griffin points to China and Vietnam as examples of such an approach.

The key is to implement policies that boost investment and allocate it efficiently. Griffin identifies two broad areas where improvements can be made. The first is public
investment, which is poorly allocated in sub-Saharan Africa. He advocates its reallocation to building up rural and urban infrastructure and human capital—forms of investment that are complementary to private investment instead of being competitive. The second area for reforms is private investment, which is inefficiently allocated mainly because of poorly functioning capital markets. The pricing of credit is not the major problem, but rather most people’s lack of access to credit, at any price. The emphasis, Griffin believes, should be on channelling credit to encourage the emergence of new private sector enterprises, particularly those that are small-scale and employment-intensive.

**Macroeconomic Policy for Growth**

The paper by John Weeks, “Macroeconomic Policy for Growth, with Reference to Africa South of the Sahara”, concurs with Griffin in advocating an investment-led growth strategy and tries to determine what macroeconomic policies are best suited to promote it. Through testing various assumptions in a macro model, Weeks advances a set of heterodox, but pragmatic, policy recommendations that contrast with the orthodox package customarily proposed by multilateral financial institutions.

Whereas the orthodox approach stresses the role of relative prices in achieving optimal allocative efficiency, the heterodox approach maintains that most markets in sub-Saharan Africa do not operate efficiently. If left unregulated, markets are therefore unlikely to generate ‘appropriate’ price signals and even if they did, structural obstacles would prevent private agents from responding to them.

By testing the heterodox position on macroeconomic data for Africa, Weeks reaches a number of counter-conventional conclusions. He claims that investment is the driving force of growth, but that investment responds only weakly to relative price changes, such as those in the real rate of interest. The most important determinant of investment is growth itself. Exports are found to stimulate growth, but neither exports nor imports respond strongly to changes in the real exchange rate. In fact, a real devaluation tends to have a contractionary effect on African economies by lowering essential imports. A rise in the government deficit does indeed tend to raise the real rate of interest, but because private investment does not respond robustly to the interest rate, it is not “crowded out” by the government deficit. In addition, when the interest rate is raised, domestic saving does not necessarily increase. Instead of stimulating growth by contributing additional resources, foreign assistance is found to depress it by lowering domestic savings and investment.

All of the above findings run counter to the policy conclusions usually derived from the orthodox macroeconomic model. For the typical African economy—characterised by low growth, moderate inflation and substantial trade and fiscal deficits—the heterodox model would recommend a pragmatic policy mix of monetary restraint, fiscal expansion (instead of fiscal restraint) and controlled devaluation (instead of exchange rate liberalisation).

In order to reduce the inflation rate, the government would be advised by the heterodox model to lower the rate of growth of the money supply (i.e., practice monetary restraint), and use a “crawling peg” mechanism to carefully regulate devaluation (i.e., controlled devaluation). These two policies would have a contractionary impact on the economy that would have to be counteracted with a drop in the real rate of interest
(instead of the usual recommendation to raise it) and, most importantly, with an increase in public investment (i.e., fiscal expansion).

The heterodox policy package assumes that if fiscal expansion generates government deficits, these deficits do not necessarily have a strong impact on increasing inflation and that inflation does not necessarily dampen growth. What is critical is that growth be stimulated so that it can, in turn, boost private investment. Public investment plays a leading role in stimulating growth by inducing greater private investment, both domestic and foreign, and by counteracting the contractionary effects of such policies as import-depressing devaluation. If properly designed, public investment, such as labour-intensive public works, can in fact help lower the need for capital imports. Growth also serves to raise the share of savings in gross domestic product, which can then be used to finance the additional investment.

The crucial contrast between the orthodox and heterodox approach is that whereas the orthodox approach places priority on reduction of the fiscal deficit as a primary means to stabilise prices, and is concerned about public investment crowding out private investment; the heterodox approach subordinates deficit reduction to achieving the growth-inducing impact of increased public investment and is willing therefore to accommodate moderate levels of fiscal deficit and inflation. Consequently, the heterodox approach criticises the conventional policy package of deficit cutting, exchange rate liberalisation and high real interest rates as anti-growth.

**Domestic Resource Mobilisation and Enterprise Development**

The paper “Domestic Resource Mobilisation and Enterprise Development in Sub-Saharan Africa” by Keith Griffin and Mark D. Brenner expands on the theme of investment-led structural adjustment introduced in Griffin’s earlier paper “Macroeconomic Reform and Employment” by focusing on how resources can be mobilised for such a growth strategy.

The paper maintains that although official development assistance to sub-Saharan Africa has been substantial, it has been ineffectual in accelerating investment. Moreover, foreign direct investment’s contribution of resources has been negligible and is expected to remain so. Hence, the financing of an investment-led strategy has to come from domestic resources.

These resources can be mobilised in part by altering the composition of government expenditures to promote what is conventionally regarded as current consumption—such as expenditures on health and education services—but what in fact is human capital accumulation. A significant portion of investment can also be undertaken by mobilising under-utilised labour for public works projects.

Most importantly, public policy can indirectly promote greater domestic resource mobilisation by fostering a more favourable climate for private investment. This assumes that people tend to save more if profitable investment opportunities are made available to them, and also save more if they possess productive assets, such as land or a house, in which they can invest. Hence, public policy should encourage broad, equitable ownership of productive assets. In this context, the paper proposes that small businesses, most of which are in Africa’s large informal sector, can play a critical role in an investment-led growth strategy.

The State has an important role to play in fostering growth by making credit accessible to small enterprises and informal producers. On their own, credit markets
cannot be expected to allocate resources efficiently. Therefore, targeted credit programmes in particular have a useful role to play: they have demonstrated the ability to reach disadvantaged groups, such as women and the poor, while at the same remaining economically viable.

The paper also calls on public policy to recognise the important role of home-based enterprises. In this regard, the paper maintains that housing should be regarded as a productive asset, and credit supplied to housing construction in order to both enhance people’s productive capacities and satisfy their material needs. Targeted credit programmes for housing should thus be reconceptualized as entrepreneurial development programmes.

Public investment in human capital is vitally important for creating investment opportunities since the market for human capital does not operate efficiently. According to Griffin and Brenner, such investment and the expansion of small enterprises go hand in hand. Credit programmes are most effective, for example, when borrowers have some basic level of education that enables them to be literate and numerate.

The paper puts particular emphasis on launching nation-wide public works projects to boost the overall rate of investment. Guaranteed employment programmes should be targeted, they maintain, as much as possible at the poor. The paper goes further in advocating that such capital formation be combined with progressive wealth redistribution by turning over to the poor the ownership of the assets that they have created.

Finally, the paper maintains that resource mobilisation can be aided by commercialising state enterprises. While agreeing that such enterprises often incur substantial losses and thereby drain public finances, the paper argues for reforming rather than privatising them. If the enterprises cannot be successfully reformed, they should then be declared bankrupt and closed down.

The thrust of all these policy recommendations is to mobilise more domestic resources to increase the level of both public and private investment and improve their composition. By stimulating growth, such domestic investment can then begin attracting and successfully utilising significant inflows of foreign capital.

Macroeconomic Policies and Poverty

The paper by Azizur Rahman Khan, “Macroeconomic Policies and Poverty,” goes further than the papers by Griffin and Weeks in focusing on the linkages between macroeconomic policies, growth and poverty reduction instead of primarily on the linkages between macroeconomic policies and growth. The context is an analysis of the experience of ten Asian countries.

Khan’s paper contends that the success of economic growth in reducing poverty cannot be taken for granted but depends on a number of factors, such as the sectoral composition of growth, the translation of growth into increases in personal income, and progressive changes in the distribution of personal income. Moreover, the interaction of macroeconomic policies and the circumstances of each country vitally affects the efficacy of these factors in reducing poverty.

The paper maintains that the impact on poverty of the same macroeconomic policy can vary depending on the specific circumstances of each country, and it therefore cautions against drawing universally applicable conclusions. It also contends that
general sweeping statements about the growth of per capita GDP and changes in distribution are not usually helpful in identifying what specifically causes reductions in poverty. In Asia, where most of the poor are located in rural areas, growth of rural per capita personal income is a better predictor, for instance, of reductions in poverty than the growth of per capita GDP for the whole country.

Similarly, a general increase in income inequality does not necessarily worsen the condition of the poor unless the relative loss of income is concentrated among them instead of among households higher up in the distribution. It is possible for inequality to increase at the same time that poverty is reduced, but poverty could be curtailed much more quickly if inequality were diminished by channelling more resources to the poor.

Khan asserts that macroeconomic policies can have an important effect on reducing inequality, but it is unwise to rely on them alone to carry out redistributive measures. Much of the impact of policies depends, for instance, on social institutions such as the system of land holdings or corporate ownership.

The ten country case studies provide a number of illustrations of how growth in GDP might not translate into poverty reduction. A frequent reason is stagnation in rural incomes. Also, in some cases, rapid growth can be accompanied by an increase in poverty when there is a sharp deterioration in inequality that directly immiserates the poor. Sometimes, the pursuit of rapid capital accumulation to fuel future economic growth can work against the current interests of the poor by forcing them to lower their own consumption in the name of supplying more funds for investment. In such a case, increases in personal incomes are likely to lag behind increases in GDP.

A general rule is that a high rate of GDP growth may be necessary for poverty reduction, but it is not necessarily sufficient. Such growth must be translated into increases in personal income in sectors of the economy where the poor are concentrated.

The paper reviews the effects on poverty of various macroeconomic policies that are associated with rising food prices, reform of the trade regime, increases in public expenditures, price stability, and integration with the global economy. One of Khan’s major points is that the impact of policies can vary depending on the structure of the economy and on who the poor are. For example, if the poor are net buyers of food—which is likely to be the case for the urban poor—then rising food prices are bound to adversely affect them; if, however, the poor are agriculturists who are net producers of food, they are likely to gain.

**The Macroeconomic Context of Poverty Reduction in Latin America and the Caribbean**

Similar to Khan’s paper, the paper by Albert Berry, “The Macroeconomic Context to Promote Social Development and Combat Poverty in Latin America and the Caribbean,” examines the effect of economic reforms on growth and inequality and identifies on this basis the most important policy initiatives that can contribute to poverty reduction. According to the paper, what are crucial are not only growth that is more rapid, but also growth that is translated into productive employment and wage increases among low-income workers.

The economic reforms in the region have led to more outward-oriented and less interventionist models of development, but the impact has been only moderate rates of economic growth and marked deteriorations of income distribution. The biggest
beneficiaries of reforms have been the richest 5-10 per cent of the population. As a consequence, little progress has been achieved in reducing poverty.

Greater export orientation has not contributed to more employment because exports have not been particularly labour-intensive while import liberalisation has contributed to worsening income distribution. Contrary to expectations, the dismantling of protectionist systems and the opening up of trade have done little to benefit poorer agricultural workers. As a result of trade liberalisation, real wages among workers have fallen and earnings differentials between unskilled and skilled workers have widened markedly.

The factors that have caused growing inequality in the distribution of income are technological change, more open trade regimes, the dismantling of labour institutions and the “socialisation” of private debts by the state. Berry identifies trade and labour market reforms as the factors most clearly linked to rising inequality.

Given the disappointing record in terms of growth and distribution, Berry maintains that carefully planned public policies are needed to counteract this situation. He attaches a great deal of importance to improving the distribution of education and human capital since problems in this area have been the single most important source of inequality in the region. He also argues that governments need to exercise more direct control over the process and the effects of technological change and to provide greater support to small and medium enterprises as an important means to generate employment and reduce poverty.

One of the most controversial areas of reform has been labour-market institutions. In Latin America, unions have been an important line of defence for workers and have contributed to counteracting sharply rising inequality. But Berry agrees that strong unions have been associated with some labour market inefficiencies and that some regulations, such as provisions for severance pay and strict protection against worker dismissals, might have been prejudicial to employment and the growth of small and medium enterprises. However, many labour market regulations, he believes, have continued to have a beneficial effect and should be maintained. This appears to have been the case with regard to minimum wage legislation, for example. One of the more successful policies to reduce poverty has been emergency employment policies, which have been implemented in a number of countries and have been relatively low-cost and well targeted.

National Poverty Reduction Strategies in Latin America and the Caribbean

A complement to Berry’s paper, the paper by Diana Alarcón, “National Poverty Reduction Strategies of Chile, Costa Rica and Mexico: Summary of Findings,” examines the development experiences of the three countries in order to document the interrelations among three types of policy interventions against poverty: the basic development strategy of a country, its macroeconomic policies, and its targeted programmes.

The paper emphasises that a country’s strategy of development and its associated macroeconomic policies can have as much effect as—and in many cases more effect than—targeted interventions. In fact, if the country’s development strategy and macroeconomic policies continuously reproduce poverty, targeted interventions can do little to reverse the situation.
Like other writers in this volume, Alarcón stresses that for growth to substantially reduce poverty, it should have a pro-poor character. This has implications for sectoral growth: the sectors in which the poor are concentrated need to grow, either through their own dynamic or through strong links with other expanding sectors. This happened to some extent in Costa Rica because its export crops were produced on small-scale units and in Chile because its manufactured exports were relatively labour-intensive.

In addition to pro-poor sectoral growth, what is needed is a favourable enabling environment that generates employment opportunities for the poor, increases their access to productive assets and, particularly for the self-employed, expands their access to credit and support services.

A third critical condition for poverty reduction is building up the human capabilities of the poor through provision of such basic social services as primary health care, primary education, nutrition and family planning. This was a strong tradition in Chile and Costa Rica even before the mid-1970s. But in the 1970s and 1980s, the military government in Chile altered this strategy through more restrictive targeting of benefits and greater decentralisation of service provision.

A fourth condition for poverty reduction that Alarcón mentions is success by a country in inserting itself into the global economy and managing its external indebtedness—a point that has gained greater relevance in recent years because of increased international financial instability. In this regard, Costa Rica and Chile have appeared to fare better than Mexico.

Inequality has traditionally been high in Latin America. In accord with Berry, Alarcón points out that economic reforms in recent years in Chile and Mexico have been associated with rising inequality. She asserts that increased growth rates can help reduce poverty in spite of rising inequality, but a growth pattern that is associated with low or declining inequality would be much more effective.

Alarcón examines the targeted poverty-reduction programmes of the three Latin American countries and concludes that the most effective programmes have attempted to incorporate the poor into the economic mainstream rather than rely on income transfers. Efficient targeting of benefits is always a problem but the more successful cases appear to rely on self-targeting or targeting of resources to economic groups, such as the producers of non-traditional export crops in Costa Rica, or to specific economic activities. Moreover, successful targeting to particular groups seems to occur on the basis of the prior achievement of universal coverage of basic social services—a strength in both Chile and Costa Rica.

Reforming Macroeconomic Policies to Promote Poverty Reduction
The paper by Terry McKinley, “The Macroeconomic Implications of Focusing on Poverty Reduction,” examines whether macroeconomic policies should be geared specifically to promote poverty reduction—namely, whether they should be used to influence the character of growth so as to channel a disproportionate share of resources to the poor.

McKinley criticises the conventional approach to macroeconomic policies on a number of points: focusing inordinately on short-term stabilisation, undercutting the
long-term basis for economic growth and ignoring the redistributive effects of growth policies. But he argues further that even economic growth is not a meaningful end in itself. What is important is whether growth is translated into human development—and into the reduction of poverty in particular.

He contends that, in general, there has been an over-emphasis on economic growth as the main determinant of poverty reduction. This approach has assumed that the functioning of market mechanisms, undistorted and unfettered by governmental intervention, would solve the poverty problem. But such an approach ignores the constraints imposed by inequality in the distribution of income, wealth and human development. Inequality not only makes it more difficult to reduce poverty, but, according to recent evidence, also reduces economic growth itself.

McKinley contends that under certain circumstances there need be no trade-off between equity and growth. Boosting the current consumption of the poor at the expense of investment might restrict growth, but investing in the poor, he believes, need not do so. Therefore, a central policy issue becomes how to ensure that investment in the poor is growth enhancing or at least growth-compatible. The conclusion is that two general inter-related sets of policies are needed: i) redistributing assets to the poor, such as land and human capital, and ii) using macroeconomic policies to help raise the returns to these assets.

This implies an activist pro-poor public policy that is geared to redirecting investment to the poor and explicitly evaluating macroeconomic policies in terms of their impact on poverty. Such a pro-poor strategy would favour channelling resources to the relatively low-productivity economic activities in which the poor are currently engaged. But the long-term solution would be to enhance the ability of the poor to find employment in the higher-productivity growth sectors of the economy.

**Inequality, Growth and Human Development**
The main assertion of the paper by Keith Griffin and Amy Ickowitz, “The Distribution of Wealth and the Pace of Development”, is that a more equal distribution of wealth tends to accelerate the pace of human development rather than retard it. It thus supports the position of a number of recent papers—including some in this volume—that have contested the traditional view of a trade-off between equality and growth and have pointed to the development experience of East Asian countries as historical evidence.

An important difference is that whereas the traditional view examines the relationship between income inequality and growth, the Griffin and Ickowitz paper focuses on the relationship between wealth inequality and human development. They do this because they regard i) productive wealth as the basis for generating income and ii) an increase in income as a means to human development, not an end in itself. An additional point is that because there are diminishing marginal returns to human development from increases in income, a more equal distribution of income can enhance overall human development. When Griffin and Ickowitz focus on the relationship between wealth inequality and human development, they find the evidence even weaker for a trade-off between equality and growth than is found by the conventional analysis.

The two authors examine the political reasons for why inequality might impede growth but find the economic reasons more compelling. They agree with recent research findings, for example, that the higher the initial inequality in the distribution of land, the
slower the economic growth. A more equal distribution of land gives people collateral with which to borrow for productive purposes, particularly for investing in the human capital of their children. The authors also agree with the well-documented position that greater and more equal investment in human capital increases growth.

Griffin and Ickowitz emphasise an additional point: having land gives people greater motivation to supply labour, save and invest, and this also stimulates growth. Because of surplus labour in many agrarian economies, the poor are capable of supplying more labour but need a productive outlet to motivate greater work. Griffin and Ickowitz also counter the traditional view that because greater savings is the basis for growth, income should be channelled to rich people because they allegedly save more than poor people. The poor are fully capable of saving more, they assert, but need a productive asset in which to invest their savings. Land is such an asset. Moreover, land’s more equal distribution can increase growth because smallholdings in developing countries are often more productive than large ones. The authors also assert that it is easier and quicker to redistribute natural capital such as land than to redistribute physical capital.

Evidence is less abundant to document a positive relationship between greater equality in the distribution of physical capital and growth than between the distribution of natural capital and growth. However, Griffin and Ickowitz point out that small and medium enterprises can create more employment per unit of capital and can have higher productivity of capital than large enterprises. Their greater labour intensity can contribute to a more equal distribution of income. If redistributing physical capital proves difficult, government policies can still help, they believe, by promoting broader access to financial capital, removing restrictions on the growth of small and medium enterprises and providing incentives for employment-intensive patterns of growth.