Africa Growth Initiative at BROOKINGS

Growth, Inequality, and Poverty Reduction: Africa in a Global Context

Tuesday, June 15, 2010, 3:30 pm – 5:00 pm

Africa Growth Initiative at Brookings, 1775 Massachusetts Ave NW, Washington, DC

Inequality and poverty are widely recognized as two of the most difficult and pressing development problems. Unfortunately, the dynamics between these conditions are not well-understood, and empirical evidence is often lacking due to data constraints. Augustin Fosu, Deputy Director of the United Nations University - World Institute for Development Economics Research presented a seminar at Brookings on "*Growth, Inequality and Poverty Reduction: Africa in a Global Context*," hosted by the Africa Growth Initiative. Fosu's research paper studies over 80 countries with available data from the 1980s to the present to analyze the roles of growth, income, and inequality in driving poverty trends. His presentation stressed that the aim of this research is to develop stylized facts, rather than an overarching theory of poverty reduction. In his opening remarks, he affirmed that growth is the most powerful driver of poverty reduction.

Fosu first presented his descriptive data, which showed that African countries have decreased poverty levels from 1996 to 2005, after increases from 1981 to 1995. These recent reductions are similar in magnitudes to South Asia's, which had decreases over the whole time period, and the trends are the same whether the $1.25 or $2.50 poverty threshold is used. His results also show a wide range of poverty reduction success in Africa, with countries appearing between the 3rd to 10th performance deciles worldwide, with the majority between the 5th and 9th decile. Fosu then presented his regression estimations, which determined the elasticities of poverty with respect to income and inequality. These elasticities demonstrate how much a change of a given magnitude in income or inequality will affect poverty rates and in what direction. The elasticities show a wide range among African countries, some of which have had strong income-generating growth that has reduced poverty and others that have had growth with rising inequality and little poverty reduction.

For the purpose of illustration, he focused on three countries: Tanzania has had weak income growth despite moderate GDP growth, and thus rising poverty; Cote d'Ivoire has had reasonable income growth, but rising inequality has led to poverty increases; and Ethiopia has had falling inequality and has reduced poverty. In each of these cases, his simulations show that reversing these distinguishing factors will change the poverty reduction outcomes. Finally, he underscored the panoply of determining factors for poverty reduction by comparing Burkina Faso to Chile. Both countries have had moderate GDP growth and falling inequality. However, Chile's higher initial income, 10 times greater than Burkina Faso's, has led to greater poverty reduction. Thus, he concluded, while raw GDP growth matters, one must also consider initial income and inequality, as well as their respective rates of change.

The discussion portion of the event touched on technical issues as well as policy implications. One attendee asked whether the use of the rigid thresholds accounts for discrepancies as in the Chile/Burkina Faso comparison. Fosu agreed that the thresholds can affect the results, and that income growth could bring many people closer to the poverty levels without bringing them above. However, he argued that the signs of the elasticities should be consistent regardless, although their magnitudes may very.

When asked about the policy implications of his work, Fosu said that he hopes these dynamics of poverty reduction receive greater attention. He pointed out that another paper by Xavier Sala-i-Martin has also brought attention to poverty improvements in the last 15 years. Opportunities for further research include looking at cases where the relationships in this work are broken. From a policy perspective, income and inequality profiles do matter for progress, and so policies must be targeted at the country level, cognizant of important idiosyncracies, to transform growth into poverty reduction.