



Overseas Development
Institute

*Enabling Growth and
Promoting Equity:*

Targeted growth policies or redistribution?

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Enabling growth while promoting equity

- Demanding agenda – hard to develop the policy package for one.....
 - Critical in the context of the global financial crisis - opportunity to ‘build back better’
- Growth and equity – on their own – are necessary but not sufficient for sustained national development
- Macro enabling, regulatory and investment environment *versus* targeted growth policies *versus* redistribution – what will best achieve dual goals?

Focusing on targeted growth policies versus redistribution.....

- Crucial debate when thinking about how best to
 - stimulate economic growth
 - maximise the potential that poor producers, workers and entrepreneurs have to contribute to growth
 - extend the benefits of growth to poor people
 - directly - tangible opportunities they have the assets, agency and capabilities to respond to
 - indirectly – through progressive fiscal policy
- Crucial (but false) debate – not a case of macro enabling *OR* targeted growth policies *OR* redistribution – all needed
- Low income developing countries cannot do all at once
- Policy priorities must be identified (given fiscal space, state-citizen contract, structure of economy and society) - acknowledging the sequencing and trade-offs required

Ingredients for the policy package (1)

- A pace and pattern of growth needs to be inclusive, broad based, pro-poor and green
- Achieving this is a difficult and long term project
 - identifying and attaining quick wins necessary - to sustain political compact
- Identifying the right policy package depends on understanding of context - multidisciplinary analysis can help
- The macro environment matters
 - optimal inflation, exchange rates, fiscal policy, predictable application of the rule of law, institutions governance, appropriate regulatory frameworks
- The political economy of a country, vertical and horizontal solidarity and the state-citizen contract matter
- Markets aren't always self-correcting - the state must address barriers (poor) people face accessing key markets
 - improve infrastructure and access to transport
 - identify and address institutional, social and cultural barriers

Ingredients for the policy package (2)

- State investment in public goods and infrastructure can “crowd in” private investment in low income developing countries
- Agency and choice matter
 - supported by asset ownership, agency and capabilities – they tilt the terms of trade by which poor people engage in markets in their favour
 - poor people want jobs, not to run their own business or to receive safety nets - but conditions of employment matter
- Climate change matters for growth and equity
 - the most vulnerable are the hardest hit by climate change
 - green growth offers options to respond to the financial crisis

Ingredients for the policy package (3)

- Redistribution is important to enable inclusive growth
 - Inequality and inequity undermine growth, social cohesion and development outcomes – how much is a society prepared to tolerate? Social protection can address poor people's risk and vulnerability, build their assets and facilitate their integration into markets
- Externally exhorted change is unlikely to be sustained
 - Governments need to build a national policy consensus, or have the power to drive through (and maintain) unpopular change
- Policy continuity and coherence is important, donors must
 - resist 'policy stampedes'
 - allow southern governments space to develop coherent and context relevant policies

Questions for discussion

- **Question 1: Can enabling growth and promoting equity go hand in hand?**
 - Can you describe examples of where governments have implemented redistributory policies that have avoided compromising growth or have even enhanced it?
 - What were the critical policy measures/interventions?
- **Question 2: Do you see any opportunities for countries in the South to ‘build back better’ from the crisis?**
 - (reshaping policy to restructure economies for the medium term while protecting vulnerable populations now, promoting growth with redistribution/ pro-growth redistribution)