Overseas Development Institute

Policy brief

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The MDGs and equitable growth

Key points

- Economic growth matters for the achievement of the Millennium Development Goals, but how growth is distributed is key
- Specific policies are needed to ensure that poor people can participate in, and benefit from, economic growth
- Such policies should increase the assets of the poor and tackle inequalities in markets. Progressive taxation and pro-poor public spending on health, education and social protection are all vital

'Growth is important for the MDGs, but governments must focus on how the opportunities and benefits are distributed'

The link between economic growth and the achievement of the Millennium Development Goals (MDGs) lies in how the opportunities and benefits created by growth support the human development of the poorest people. How has growth contributed to the MDGs to date?

MDG1: poverty and hunger

High growth in China and India has accounted for most of the global reduction in income poverty and, therefore, for most of the global progress on MDG1 since 2000.

Cross-country studies confirm that growth goes hand in hand with improvements in the incomes of poor people overall. But averages conceal disparities. Often the poorest segment of the population does not benefit from growth as much as the population as a whole. This can contribute to increased inequality, which in turn can undermine the impact of growth on poverty reduction.

Policy-makers must work out how to encourage growth, but ensure that poor people are included in, and benefit from, growth. Examples of success in ensuring poor people have that chance include the East Asian countries, and others such as Mauritius, that have used industrial policy to encourage local industries and the expansion of low-skilled employment.

Redistribution is also a key part of the story. Social protection can support progress on MDG1 by increasing incomes in the short term and contributing to higher incomes in the longer term. Brazil's 'Bolsa Familia' social protection scheme is a prime example, allowing poor people to build up their assets and their level of health and education. Social protection can also have a positive multiplier effect on growth. In Mexico, for example, the 'PROGRESA' cash transfer scheme is improving income and assets, not only for households receiving transfers, but for neighbouring households as well.

This policy brief draws on ODI's work on growth and equity:

http://www.odi.org.uk/work/themes/inequality

MDGs 2-7: education, gender, health and the environment

The link between growth and MDGs 2-7 is less direct, but this does not mean that growth is not important. Achieving MDGs 2-7 requires public services – in health and education for example – that are free for users. Ideally, the provision of public services should be funded through progressive taxation and government revenue, which is generated through growth, while the provision of public services can, in fact, stimulate more of that growth. Fast growing Asian countries, for example, have experienced a virtuous circle of increased growth leading to higher public expenditures on both primary and secondary education and higher enrolment rates, in turn stimulating further growth.

As with MDG1, the impact of growth and government spending on MDGs 2-7 will be filtered through existing inequalities. So public investment in services has to prioritise the poorest, and tackle long-standing economic, political and social inequalities, if the benefits of growth are to contribute to progress on these MDGs.

Policy recommendations

At the national level, leaders must feel pressure to raise money from tax payers, and then allocate resources in ways that benefit the poor. At local level, governments must be held accountable for the quality of services they deliver. Without this, the distribution of the benefits of growth to support progress on the MDGs will not be effective.

The specific policies to ensure that the poor benefit from growth vary across the goals, but include:

MDG1:

- Increase the assets of the poorest people so that they can grasp new opportunities presented by growth. Examples include land reform, access to secondary education and access to credit.
- Tackle inequalities in employment and other markets. Examples include: investment in transport infrastructure; incentives to the private sector to hire those from disadvantaged groups, and priority public investment in education for their children; and targeted programmes to improve agricultural productivity for the poorest.
- Give the private sector incentives to promote growth that offers opportunities for poor people. Examples include investment promotion policies and tax incentives.
- Develop social protection schemes that protect incomes and help poor people to build up their own skills and assets. Examples include cash transfers linked to school or health clinic attendance, schemes to protect incomes against business failure or climatic shocks and minimum wage policies.

MDGs 2-7:

- Develop systems of redistributive social spending to support achievement of MDGs 2-7. Examples include building up an efficient and effective progressive domestic tax system, and investing in publicly funded health and education services.

Growth on its own is not the 'royal road' to the MDGs – the link between the two is distribution. It is vital to set in train a political process that will lead governments and the private sector to distribute the benefits of growth more fairly, supporting human development outcomes and in turn, the achievement of the MDGs.

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Useful resources

This policy brief draws on ODI Briefing Paper No. 60, 'Economic growth and the MDGs', written by Claire Melamed and Kate Higgins of ODI, and Andy Sumner, Research Fellow, Vulnerability and Poverty Reduction Team, Institute of Development Studies at the University of Sussex. For a full version of the Briefing Paper, please go to: **http://bit.ly/odibp60**

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