WHAT IS THE SCOPE FOR PUBLIC POLICIES ON REDISTRIBUTION AND POVERTY REDUCTION FOR DEVELOPING COUNTRIES IN A GLOBALISATION WORLD?[1]

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> Les politiques de croissance seules sont un instrument assez restreint pour la réduction de la pauvreté. Une intégration du souci distributif peut être la base pour un nouvel agenda politique ayant pour but d'améliorer simultanément la croissance et l'équité. Il est certainement regrettable que les politiques de redistribution soient largement négligées dans la formulation des objectifs du millénaire des Nations Unies et les activités connexes.

The first Nobel Prize Laureate in economics, Jan Tinbergen, argued in one of his last writings, «*Redistribution is the core political issue of the 20th century*» (UNDP 1994). Indeed over the last century industrialised countries increased public policy interventions, built up a welfare state and are spending a substantial amount of their GDP redistributing to other parts of their population. This ranges roughly from about 15 per cent in the United States to 35 per cent in Northern European countries. At the beginning of the 21st century, 3 questions are often posed with regard to public intervention for a welfare state in a context of a globalizing world:

> Can the concept of a national welfare state as developed in industrialised countries be expanded beyond national borders to a system of a global welfare state based on international solidarity and global redistribution?
> Can the current system of welfare states and redistribution be sustained and continue or will it diminish as a consequence of growing globalization?
> Is the current system of welfare states and redistribution in industrialized countries applicable in developing countries and if so can it contribute to faster poverty reduction in these countries?

This paper deals manly with the last question, but in order to put that question in perspective it is necessary to briefly deal with the first two questions, before developing more detailed responses to the last question.

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1 Rolph van der Hoeven (BIT) a assuré le secrétariat de la Commission mondiale sur la dimension sociale de la Mondialisation. Ce papier a été écrit à titre personnel et n'implique ni le BIT ni aucun de ses constituants.

TOWARDS AN INTERNATIONALISATION OF THE WELFARE STATE?

There is a strong plea that the accepted notion of redistribution within national boundaries needs to be taken further on a global scale and needs to be part of a system of global governance in which the UN system and its specialized agencies, including the World Bank the and IMF, all have to cooperate to an integrated system of global redistribution within the context of larger system of global governance. This is for example well argued in the recent report of the World Commission on the Social Dimension of Globalization (WCSDG/ILO 2004). *However despite this report and other pleas for greater international redistribution , research and development of policy alternatives on issues related to global redistribution is still in a embryonic stage*[2]: An efficient system for international redistribution of global resources (including international taxation and development aid) requires a system of international governance, where economic, social and political concerns are treated in an integrated manner and where rights to development of individuals and their families are acknowledged and acted upon by the international community, even in cases where such rights are not fully acknowledged by individual governments. Development aid needs to become a global public good for all people, irrespective of the varying behaviour of their government (Kaul et al. 1999). A system of global economic, social and political rights should complement the current malfunctioning global economic and social framework which is basically founded on two principles, namely the existence (or the potential) of a national welfare state (including national «national redistribution») and an international system of free trade and free capital flows (globalization) which determines the national framework for economic and social policies (Kapstein 1999). But, as is becoming increasingly clear, the issue of redistribution systems in a globalizing and liberalizing world is politically not settled at all[3]. Hence, while not negating the necessity and importance of global redistribution mechanisms, the more reason to focus attention also on public policies, the development of welfare states and issues of national redistribution in poorer countries.

A DIMINISHING WELFARE STATE?

The fear of a diminishing welfare state is based on the argument that a welfare state is costly and inefficient and that it can therefore not be sustained fiscally, not only because of internal political reasons but also because of the fact that globalization sets welfare states in competition with each other, leading to a so-called a «*race to the bottom*» (Deacon, 2000). Although most authors acknowledge indeed such political and systemic pressures to reduce the welfare sate, several authors take a nuanced view on whether the welfare state is undergoing a rapid decline. Atkinson (1999) has pointed out that those criticizing the welfare state do so often on the basis of a theoretical framework which remains rooted in a model of perfect competition and perfectly clearing markets. However such a theoretical framework does not reflect reality and can not handle theoretically any of the contingencies for which the welfare state was created and exists. In effect the whole purpose of the welfare state is

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2 The initial wave of enthusiasm for the agreement reached in the international conference on Financing for Development in Monterey 2002 has not really materialized. ODA percentages have hardly increased, when reconstruction for war damages are excluded from ODA figures, and proposals for new mechanisms for development aid (such as the International Financing Facility) or international taxation (as recently argued by presidents of France and Brazil) do not seem to receive sufficient attention in International Fora.

3 For a further discussion see: Rolph van der Hoeven, 2001,

missing from the theoretical model of market clearance; hence policy options have to be based on a different theoretical model which explicitly includes market, including labour market imperfections. Atkinson's arguments tally well with recent observations by Garret (1998) who argues on the basis of research in 15 OECD countries that if labour markets are well developed, labour and government can coordinate economic policies with redistributive policies and by Rodrik (2000), who argues strongly that a well functioning welfare state can offer advantages in facing the challenges of globalization: Countries opening up and being more engaged in international trade and capital markets need a strong national welfare state in order to be able to buffer the external shocks which comes with greater integration in such markets. And indeed it can be observed that countries which are in top of the Kearns classification of most open and globalized countries[4] also have the highest rates of social spending to GDP. Furthermore social spending still has remained a superior social good in most countries and often debate is more about the content of spending and mechanics of transfers than on the principle of an active welfare state. As Standing(2002) argues: in times of upheaval now, systems of regulation, social protection and redistribution break down - and this happened in the 80's and 90's but economic and social realities call for a search for new forms of regulation, protection and redistribution. This debate on the nature and content of the welfare state in industrialized countries is still ongoing. However in reviewing the question whether developing countries should also roll back their welfare states, the issue is often that these countries have too little rather than too much of a welfare state[5]. Hence we are no way constrained by concerns of the size of the welfare state in highly developed countries in shaping ideas for a welfare state in developing countries.

IS CONCEPT OF WELFARE STATE AND REDISTRIBUTION RELEVANT FOR DEVELOPING COUNTRIES?

The third question was whether the welfare state and issues of redistribution in industrialised countries are of relevance for developing countries. Strictly speaking one would agree with Atkinson and Hills (1991) who argue that systems of social security in industrialised countries are of less relevance for developing countries. But one could also argue that the practical application of different elements of a welfare state develops and changes with the notion of welfare and social security in the course of development process it self. Dreze and Sen (1989) for example, distinguish between «*the task of preventing a decline in living standards*» and «*the enhancement of living standards and the expansion of basic capacity of the population*». Both issues are relevant to the concept of providing welfare, but their relative weight depends on the level of development and the socio economic structure of the society. Such an approach makes the concept of welfare state more dynamic and as relevant for poorer as for richer countries. The notion of the welfare state has then to be an integral part of the notions of good governance, a notion which is so often restricted only to the notion of «good economic management of a country».

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4 Foreign policy,January 2002, 2003, and 2004 issue

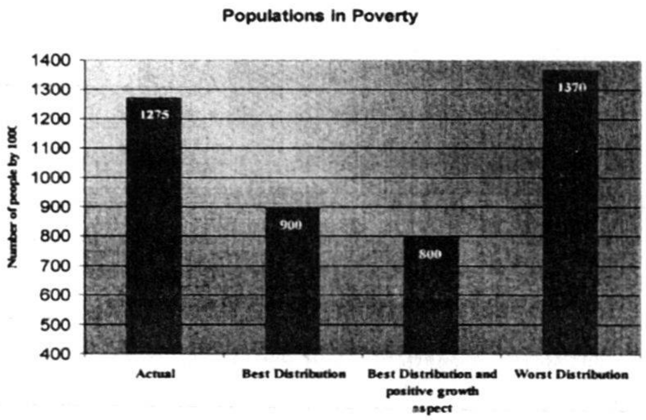
5 Rudra (2002) agrees with other observers that indeed welfare states in developed countries have been more resilient in the wake of current globalization, but that whatever exists as welfare states in developing countries has been reduced. One of the explanations for this is the absence of well established strong institutions and weakness of organized labour in most developing countries.

.......AND ARE NATIONAL REDISTRIBUTION POLICIES IN DEVELOPING FEASIBLE ?

Hence it makes sense to consider issue of public policies and redistribution in the dynamic concept of a welfare state. But before considering issues of redistribution more in detail, we must still clarify one point: It is often argued, especially in an international context, that issues of national redistribution are difficult to deal with, as historic and cultural factors determine too large extent the magnitude of inequality in a given country. We carried out therefore in the ILO a static and dynamic analysis, in which we asked ourselves the question how much lower, respectively how much higher, would the World Bank's global estimate of people living in poverty at the beginning of the 21st century be, if each country at the beginning of the 21st century would have the lowest cq highest level of inequality which each country had itself experienced since 1960's. In this way both historical and cultural characteristics of each country would be acknowledged. The results, of which the details are described in Lübker, 2002 and reproduced in figure 1, were quite revealing. The global estimate of poverty would under the equal scenario decrease from 1.275 billion to 0.900 billion, while in the most unequal scenario it would increase to 1.370 billion. (Another experiment was also carried out in which the lowest inequality scenario was supplemented with a parameter reflecting the outcome of recent research which found that lower initial inequality would lead to higher growth and hence lower poverty; under that scenario, adding to the lower inequality an estimate of the growth enhancing effect of lower inequality, the global estimate of poverty would have dropped another 100 million to 0.800 billion).

These simulated numbers tell us two things:

> firstly that inequality does matter, and even when respecting initial and historical trends, there is an important case to be made for lower inequality,
> secondly that currently inequality is rather high compared to the last decades[6].



Population living on US$1/day or less under different distribution scenarios. Source: Lbker (2002)

6 We do not discuss here the question whether world income inequality has increased or decreased. See discussion in Milanovic (2003) and in Shorrocks and van der Hoeven (2005). Suffice for our arguments for a greater attention to inequality and redistribution is that the majority of the world's population lives in countries were income inequality has increased over the last two decades and that the per capita differences between the poorest and the richest countries have increased and reached levels unprecedented in history.

As redistribution matters we analyse and discuss in the next section options for redistributive policies in various groups of developing countries, as these could have an important impact on poverty reduction and growth. We start with a short historic overview on the relation between growth, distribution and poverty, followed by some static modelling exercises with three experiments of different distribution and growth scenarios and the effects on poverty. This is followed by discussing some typical distributive policies options in developing countries.

GROWTH AND DISTRIBUTION[7]

Of the many issues central to the development process, few have been characterised by the shifts, reversals and re-affirmations that have plagued the analysis of the interaction of growth, poverty and inequality. Evidence that inequality and poverty have risen in many countries in the 1980s and 1990s, including some of the OECD countries, rekindled ever-smouldering controversies. (Cornia, 1999 and van der Hoeven, 2002)

From the 1950s into the 1970s analytical emphasis was on probable tradeoffs between growth and income distribution. This derived in part from the famous «inverted-U hypothesis» which postulated that inequality would rise in the initial phases of development, then decline after some crucial level was reached (Kuznets, S. 1955) Growth theories could be cited in support of the hypothesis, such as the Lewis model of «*economic development with unlimited supplies of labour*». (Lewis, W. A. 1954) Kaldor's growth model, in which capitalists have higher marginal propensity to save than workers, also implies that redistribution to profits raises the growth rate. This model is most appropriate for developed countries, in which the functional distribution of income largely consists of wages and profits, and of less relevance to developing countries, considered here. (Aghion, P.; Caroli, E.; Garcia-Penalosa, C. 1999)

The Chenery and Ahluwalia model of «*distribution with growth*» (Ahluwalia and Chenery, 1974), which came into fashion in the mid 1970's distinguished social groups by asset ownership or mode of access to assets. The interaction between growth and distribution was modelled through «income linkages» between the groups; i.e., via the labour and commodity markets. In simulation experiments with this model progressive redistribution of income and assets led to substantial improvements in the incomes for poverty households, and non-poverty households as well, via increases in aggregate productivity. As a consequence in the 1970s emphasis shifted to the identification of re-distributive mechanisms to reduce poverty without hampering growth.

This focus proved to be short-lived, abandoned with the rise of neo-liberalism and the *Washington Consensus* in the late 1980s. In the Washington Consensus approach, (van der Hoeven and Saget, 2004) growth itself would be the vehicle for poverty reduction, achieved through «trickle-down» mechanisms not always clearly specified. The perceived ineffectiveness of re-distributive measures under the Washington Consensus also led some to advocate targeting public expenditure to the poor, and to judge effectiveness by accuracy

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[7] This section and following sections are partly based on H. Dagdevieren, van der Hoeven, R. and Weeks, J. *Redistribution does Matter: Growth and redistribution for Poverty Reduction* in: Shorrocks, T. and van der Hoeven, R. (eds) (2005): *Growth, Inequality and Poverty – Prospects for Pro-poor Economic Development*, Oxford, Oxford University Press.

of that targeting. However, targeting of expenditures in developing countries is fraught with difficulty. Amartya Sen (1995) argued against targeting public spending for several reasons: 1) information asymmetries reduce the effectiveness of targeting in the presence of «cheating»; 2) the prospect of losing targeted subsidies may reduce beneficiaries' economic activities; 3) targeting may negatively effect the self-respect of the poor; and 4) the sustainability of targeted programs is doubtful, as the potential beneficiaries are politically weak. To the list can be added the formidable measurement problem of identifying who qualifies, serious in industrial countries, and virtually intractable in most developing countries. Targeting public spending is more likely to be effective if the poor are a small proportion of population; i.e., if poverty is not a major problem. For countries in which poverty is widespread, the administrative cost, identification, monitoring, and delivery of programmes may outweigh benefits. This is particularly the case if a country is or recently has experienced conflict.

In the 1990s, both the neo-liberal analysis and the earlier view of a trade-off between growth and equity were challenged by a number of studies. (Milanovic, 1999. Ferreira, 1999, van der Hoeven, 2000, Weeks, 1997) In particular, doubt was cast upon the sanguine view that orthodox macro policies were, by their nature, poverty reducing. Much of the work on the relationship between growth and income distribution in the 1990s is basically empirical and concluded that during recessions inequality rises, that on average positive growth rates are distribution-neutral while lower initial inequality raises the likelihood that growth will reduce poverty. (Ravallion and Chen, 1997)

A recent strand of theoretical arguments involves so-called political economy arguments against inequality and, by implication, poverty (Alesina, and Rodrik, 1994). This analysis predicts a negative relationship between income inequality and growth on the grounds that higher initial inequality would: a) lead to increased public expenditure, because it prompts a demand for re-distributive policies, and b) incite political instability that undermines growth. This excursion into political science is somewhat dubious (Cramer, 2000) For example, it is not at all clear how a society with the power relationships to generate inequality would, at the same time, produce an underclass with the political power to force re-distributive policies upon a government. On somewhat firmer analytical ground it is also argued that inequality has a negative impact on growth through imperfect capital markets, to which the poor have limited access (Aghion, Caroli, Garcia-Penalosa, 1999). In other words, if capital markets discriminate against the poor, potentially profitable activities by the poor are constrained by lack of credit. However the imperfect capital markets argument has practical limits, in that it presumes the poor to be self-employed, or to have the option to become so. While this may apply to a portion of the households in poverty, empirical evidence suggested that during the 1990s those in the lowest income quintile in Latin America, at least, and perhaps elsewhere, were increasingly in wage employment. The idea that most low-income wage earners could escape poverty through self-employment somewhat challenges the imagination, as well as historical trends.

Overall, the literature of the 1990s was relatively limited in its theoretical contribution, and most striking in that it demonstrated, yet again, the ambivalence of economists towards the issues of inequality and poverty. On the one hand, the mainstream literature, with its emphasis upon the efficiency of markets, had a predilection to view inequality and poverty as accidental or occasional outcomes of a deregulated growth process. On the other hand, the persistence and severity of poverty in many, if not most, developing countries brought forth periodic arguments for their alleviation. The shifts in emphasis in the literature reflect the difficulty of reconciling these two.

However there seems to be a growing consensus that countries with an «initial condition» of relatively egalitarian distribution of assets and income tend to grow faster than countries with high initial inequality. This is an extremely important conclusion, because it means that reducing inequality strikes a double blow against poverty. On the one hand, a growth path characterised by greater equality at the margin directly benefits the poor in the short run. On the other hand, the resulting decrease in inequality creates in each period an «initial condition» for the future that is growth enhancing. Thus, any growth path that reduces inequality reduces poverty through redistribution and *via* «trickle down».

HOW DOES REDISTRIBUTION CONTRIBUTE TO POVERTY REDUCTION?

In this section we present the results of a simulation on the impact on poverty in fifty countries, including 10 sub-Saharan countries of three simulation exercises, corresponding to different distributional outcomes: 1) a one percent distribution-neutral increase in per capita GDP; 2) a one percent increase in per capita GDP, distributed equally across income percentiles; and 3) a one percent redistribution of income from the richest twenty percent to the poorest twenty percent. The effectiveness of the outcomes in reducing poverty is judged by the time period required to achieve a given target. In all simulations a «head count» measure of poverty is used. (For details see Dagdeviren, van der Hoeven and Weeks, 2005).

The results of the simulation suggest a typology of countries differentiated by the general strategy that is most conducive to poverty reduction. On the basis of these calculations, the fifty countries fall into three categories (see table 1). In category 1, the 'income redistribution countries', both growth strategies require more than one year to reduce poverty as much as a straight redistribution. For thirty-four of the fifty countries (sixty-eight percent), straight redistribution is the most effective method of poverty reduction.

In category 2 are thirteen «redistribution with growth» countries, for which redistribution is not the most effective poverty reduction strategy, and equal distribution growth is more effective than distribution-neutral growth. For these countries one or both of the growth strategies at least matches the redistribution poverty reduction in less than a year, and the time period for equal distribution growth is the shorter. These countries are characterised either by low per capita income or relatively equal distribution (or some combination of the two). Finally, there is category 3, three «trickle down» countries, for which growth as such is the most effective vehicle for poverty reduction. The defining characteristic of the trickle down countries is that they have more than fifty percent of their population in poverty as a result of their low per capita income. However, it does not follow that all low income countries would fall into this category. If low income is combined with a relatively equal distribution, as for Niger, equal distribution growth may be more effective in reducing poverty, if only marginally so in that specific case.

A. Income Redistribution Countries (34)		
1 Venezuela	13 Egypt	25 Moldova
2 Colombia	14 Lithuania	26 Kyrgyz Rep
3 Mexico	15 Hungary	27 Romania
4 Algeria	16 Tunisia	28 China
5 Brazil	17 Bulgaria	29 Sri Lanka
6 South Africa	18 Jordan	30 Guinea
7 Morocco	19 Philippines	31 Pakistan
8 Dom Rep	20 Czech Rep	32 Indonesia
9 Russian Fed	21 Thailand	33 Slovak Rep
10 Kazakhstan	22 Mauritania	34 Senegal
11 Panama	23 Chile	
12 Turkmenistan	24 Costa Rica	

B. Equal Distribution Growth Countries (13)		
35 Botswana	40 Kenya	45 Rwanda
36 Zimbabwe	41 Nicaragua	46 Niger
37 Nigeria	42 Honduras	47 Belarus
38 Ecuador	43 Guatemala	
39 Lesotho	44 India	

C. Distribution Neutral Growth Countries (3)		
48 Nepal	49 Madagascar	50 Zambia

Table 1 Typology of countries according to effects of redistribution policies on poverty

The simulation exercises demonstrate that for the overwhelming majority of middle-income countries, poverty reduction is most effectively achieved by a redistribution of current income. For these same countries, redistribution with growth would be the second-best option, and distribution-neutral, or *status quo* growth, a poor third. Low-income countries, including most sub-Saharan countries in the sample require a growth strategy, and for most redistribution with growth would be more effective than *status quo* growth.

POLICY EFFECTIVENESS FOR REDISTRIBUTION WITH GROWTH

The major element required to introduce and effectively implement a re-distributive strategy in any country is the construction of a broad political coalition for poverty reduction. The task of this coalition would be the formidable one of pressuring governments for redistribution policies, on the one hand, while neutralising opposition to those policies from groups whose self-interest rests with the *status quo*. How such a political coalition might come about is beyond the scope of this paper. We focus on a less fundamental, but crucially practical issue: the policies that could bring about a redistribution strategy. To be policy relevant, our consideration of redistribution mechanisms must move beyond a listing of possibilities to an analysis of the likely effectiveness of these, which depend amongst others on the initial conditions and socio-economic structure in each country and can determine the extent to which redistribution policies can contribute to poverty reduction as we have shown in the previous section.

Perhaps the most important determinant of the effectiveness of the various measures and specifics of each redistribution strategy is the structure of an economy. This structure will depend on the level of development, which will to a great extend condition the country's production mix, the endowments of socio-economic groups, the remuneration to factors, direct and indirect taxes on income and assets, prices paid for goods and services, and transfer payments. These elements of the distribution system are initial conditions that delineate the scope for redistributive policies. In this analytical context, the implementation requirements of redistributive policies can be summarised in a simple theoretical framework. Define the following terms:

Y desnotes the income of a household, V is transfer payments, T is taxes, k is a set of assets (including human capital), w is a set of rates of return (including wages), p is the price set of goods and services, q is the quality of those goods and services, and S is houshold saving. Then, by definition it follows,

Y =	(V – T)	+ wk	=	pq	+ S
	Transfer payments (unemployment compensation, pensions, child benefits, aid to disabled) & progressive taxes (on income and wealth)	Minimum wages, low-wage subsidies, other labour market regulations, public employment schemes (w); credit programmes for the poor; land reform, education (k);		Subsidies for basic needs goods, public sector infra-structure investment (p); child nutrition programmes (q)	Facilitate future asset acquisition: 'village banks' & other financial services for the poor
	Effective in middle-income countries	Effective in middle-income and some low-income countries		Effective in most countries	Effective in most countries

The effectiveness of tax and expenditure policies (V and T) to generate secondary and tertiary distributions more equitable than the primary distribution depends upon the relative importance of the formal sector. This is for the obvious reason that governments can most effectively apply progressive income taxes to wage employees and corporations. All empirical evidence shows that the formal sector wage bill and profit shares increase with the level of development. Along with the importance of the formal sector goes a high degree of urbanisation, and working-poor urban households are more easily targeted than either the rural poor or urban informal sector households. The experience of a number of middle-income countries has demonstrated the effectiveness of basic income payments for poverty reduction, with an example being the basic pension paid to the elderly in South Africa.
A tax and expenditure based redistribution strategy is most appropriate for middle-income countries, because their per capita incomes are high relatively to the absolute poverty line. These are also the countries whose economic structures make taxation and expenditure instruments effective for redistribution. Such countries would include the larger ones in Latin America (Argentina, Brazil, Chile, Mexico and Venezuela), several Asian countries (the Republic of Korea, Thailand, and Malaysia), and virtually all former socialist countries of Central and Eastern Europe.

To a certain extent, specific economic structures allow for effective use of taxation for redistribution in a few low-income countries that would typically be relevant only for middle-income countries. If the economy of a low-income country is dominated by petroleum or mineral production, then a large portion of national income may be generated by modern sector corporations. This allows for effective taxation even though administrative capacity of the public sector may be limited. The tax revenue can be redistributed through poverty-reduction programmes, though not through transfer payments if the labour force is predominantly rural. Examples of mineral-rich low-income countries with the potential to have done this, albeit unrealised, are Nigeria, Liberia, and Zambia.

Interventions to change the distribution of earned income (wk in the equation above), which alter market outcomes, will also tend to be more effective in middle-income countries. The most common intervention is a minimum wage, though there are many other policies to improve earnings from work. Further mechanisms include public employment schemes and tax subsidies to enterprises to hire low-wage labour. Some of these would be effective in low-income countries (employment schemes), but others might be still less effective because of enforcement problems (minimum wage), targeting difficulties and narrowness of impact (wage subsidies).

Land reform might achieve poverty reduction for rural households, but the relationship between land redistribution and level of development is a complex one. On the one hand, low-income countries are predominantly rural, so if land ownership is concentrated, its redistribution could have a substantial impact on poverty. Further, the more underdeveloped a country, the less commercialised tend to be poor rural households. Therefore, the benefits to the poor from land redistribution in low-income countries are less likely to be contingent on support services. On the other hand, lack of administrative capacity and so-called traditional tenure systems represent substantial constraints to land redistribution in many low-income countries, and especially in the sub-Saharan countries. The usual approach to land redistribution presupposes private ownership, such that it is clear from whom the land will be taken and to whom it will be given. There are few sub-Saharan countries in which private ownership is widespread, making redistribution difficult or impossible without prior clarification of ownership claims. While land redistribution is probably not an effective poverty reducing measure for most low-income countries, a few notable exceptions in Asia (e.g., India and Vietnam) suggest that it should not be ruled out in all cases.

For middle-income countries, experience in Latin America has shown that governments can effectively implement land redistribution. However, the high degree of commercialisation of agriculture in middle-income countries requires that redistribution be complemented by a range of rural support services, including agricultural extension, marketing facilities, and other measures. Perhaps more serious, the relevance of land reform for poverty reduction tends to decline as countries develop and the rural population shrinks relatively and absolutely. For example, at the end of the twentieth century in the five most populous Latin American countries, twenty percent or less of the labour force was in agriculture. Minimum wages may be more relevant than land redistribution in reducing poverty among the landless and near-landless in such countries.

Interventions that directly affect the prices and access to goods and services (pq) could potentially be quite powerful instruments for poverty reduction. Subsidies to selected commodities have the administrative advantage of not requiring targeting, only identification of those items that carry a large weight in the expenditure of the poor. While multilateral adjustment programmes typically require an end to such subsidies on grounds of allocative efficiency or excessive budgetary cost, the rules of the World Trade Organisation do not, as long as subsidies do not discriminate between domestic production and imports). Whether subsidies would generate excessive fiscal strain would depend on the products covered and financing. Again, the level of development of a country is of central importance for the effectiveness of subsidies. In low-income countries with the majority of the poor in the countryside, consumer subsidies are unlikely to have a significant impact on the poor outside urban areas. Basic goods provision in kind can be an effective instrument for poverty reduction even in very low-income countries, by delivering such items as milk to school children. To do so with a non-targeted programme would require a progressive tax system, this would be more likely in a middle-income country.

In all countries the poor suffer from poor health and inadequate education relatively to the non-poor. Expenditures on education and health have the practical advantage that programmes that would help the poor are easily identified, though the specifics would vary by country. However, providing these services to the poor may in some countries be as politically difficult as more obviously controversial measures such as asset redistribution. The same point applies to infrastructure programmes directed to poverty reduction. To the extent that these would reduce public investment in projects favoured by the non-poor, especially the wealthy, they may be no easier to implement that measures that appear superficially to be more radical.

With these generalisations in mind, we consider poverty reduction redistributive policies. Table 2 provides a summary of the discussion, with poverty-reducing measures listed by rows, and the three categories of countries across columns.

Feasibility of redistribution instruments

Country category: Redistributive instrument:	Redistribution of current income + assets (middle-income countries)	Growth with redistribution policies (middle + most low-income countries)	Growth without redistribution policies (very low-income countries)
Progressive taxation	Yes	Yes, for some countries	No
Transfer payments	Yes	Yes, for some countries	No
Consumer subsidies	Yes	Yes	Yes, for some countries
Public employment schemes	Yes	Yes	sometimes
Land reform	Yes, but not always relevant	Yes	Not for most countries
Education + health	Yes	Yes	Yes
Infrastructure + public works	Yes	Yes	Yes

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Table 2 Summary of Feasibility of Redistribution Instruments by Category of Country

The table indicates that for the 'redistribution' countries, a redistribution of current income and assets is the most effective means of poverty reduction, and the methods to achieve this are feasible. For the 'redistribution with growth' countries, the measures for redistribution of current income and assets are less feasible, but instruments to achieve the more modest goal of redistributing the growth increment would be feasible. Finally, most redistribution instruments would not be feasible, or only to a limited degree, for very low-income countries; but for these countries, a growth strategy with no redistributive mechanisms may be the most poverty-reducing path.

CONCLUSION

Poverty reduction has always been a priority of development policy, albeit sometimes only at the rhetorical level. The end of the 1990s brought increased emphasis on bringing the benefits of growth to the poor. However, growth policies alone are a rather blunt instrument for poverty reduction, since the consensus of empirical work suggests that it is distribution neutral at best. Along with emphasis on poverty reduction, a shift occurred in the policy literature towards a more favourable view of policies to redistribution income and assets. An integration of distributional concerns and a priority on poverty reduction could be the basis for a new policy agenda to foster both growth and equity.

This new agenda would be based on three analytical generalisations:

1. that greater distributional equality provides a favourable «initial condition» for rapid and sustainable growth;
2. that redistribution of current income and assets, or redistribution of an economy's growth increment is the most effective forms of poverty reduction for most countries; and
3. that the mechanisms to achieve the redistributions are as feasible as other policies for most countries.

The later point deserves perhaps some more elaboration. As we showed, implementing an agenda of redistribution is often a major challenge and can pose problems, but these problems should not be exaggerated. In many countries they might prove no more intractable than the problems associated with implementation of other economic policies. An effective orthodox monetary policy is difficult to implement if a country is too small or underdeveloped to have a bond market. For example, the absence of a bond market leaves the monetary authorities unable to 'sterilise' foreign exchange flows. Similarly, replacing tariffs by a value added tax would be a daunting task in a country whose commerce was primarily through small traders. Lack of public sector capacity would limit the ability to execute a range of so-called supply side policies: privatisation, «transparency» mechanisms», and decentralisation of central government service delivery. The multilateral agencies have recognised these constraints to adjustment programmes, and typically made the decision that constrained implementation was preferable to non-implementation. The same argument can be made for a redistributive growth strategy: *to achieve poverty reduction, it might preferable to implement re-distributive growth imperfectly than to implement the status quo imperfectly*!

It is therefore to be regretted that redistributive policies have been largely neglected in the formulation of the UN's Millenium Develoment Goals and the various activities related to it[8].

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8 It is interesting to note in this context that the UN 2005 Economic and Social Survey and the World Bank's World Development Report 2006(which is issued in 2005) both have as leading theme inequality and equity.

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