

## **Book Reviews**

*Redistribution with Growth.* By Hollis Chenery, Montek S. Ahluwalia, C.L.G. Bell, John H. Duloy and Richard Jolly. London: Oxford University Press. 1974. (Published for the World Bank's Development Research Centre and the Institute of Development Studies at the University of Sussex) 304 pp. Price £ Stg. 1.40.

In the first development decade of the Third World countries, the growth of the GNP has been beyond the expectations of their policy makers. However, the very idea of growth is debatable mainly because of the neglect of the distribution aspect. It is realised that without redistribution policies, one-third of the Third World population would not benefit from growth. Does equitable distribution mean lower growth? Is it possible to achieve both an equitable distribution and a growth of the GNP simultaneously? How should a policy package for redistribution be prepared so that it has the least depressing effect on growth? What problem does a developing country face in adopting redistribution policies? The book under review attempts to answer these questions.

The general theme of the book is that distributional objectives should be treated as an integral part of the overall development strategy. The book, which consists of 13 chapters contributed singly or jointly by the authors (the only outsider being D.C. Rao who has contributed Chapter VII), is divided into three parts, namely: Reorientation of Policy, Quantification and Modeling, and Annex and Bibliography. The first eight chapters are devoted to Reorientation of Policy while the remaining five chapters are devoted to Quantification and Modeling. The Annex gives the experiences of India, Cuba, Tanzania, Sri Lanka, South Korea and Taiwan with redistribution and growth. A comprehensive bibliography completes the book.

The general problem of inequality in the Third World is discussed in the first chapter, which is contributed by Ahluwalia. It is very rightly pointed out that the data, on the basis of which conclusions regarding income inequality can be drawn are very defective. However, since no better data are available, tentative conclusions regarding the relative and absolute inequality have been drawn. To ascertain the factors responsible for the growth of income for different groups of the people, a cross-country regression is employed. Population has been divided into three groups—top 20 percent, middle 40 percent and the lowest 40 percent. It is interesting to note that the per capita growth rate of the economy has a substantial positive effect on the poorest 40 percent of the population. However, it is surprising that the coefficient of per capita income is statistically insignificant for the other two groups. This

is contrary to the expectations that higher growth in per capita income benefits the higher income groups more than the low income groups. The author does not explain this problem. This might be due to cross-country study, and thus results may not be representative of any country in the Third World. Thus, it cannot be taken as conclusive evidence, as suggested by the author on page 29, to reject the hypothesis that high rates of economic growth have an adverse impact on relative inequality. Other explanatory variables used in the regression are: primary and secondary school enrollment rates, rates of growth of the G.N.P. and population, and the share of agriculture in the G.N.P.

The second paper, by Ahluwalia and Chenery, sets out the economic framework to analyse the effect of growth on distribution. It is suggested that instead of judging the performance of the economy on the basis of unweighted G.N.P. growth rate, a weighted index of the G.N.P. growth rate should be constructed. Income accruing to different groups of the people should be weighted in accordance with the social objectives of the economy. Based on this index the past performance of thirteen countries is analysed. The results differ across the countries in the sense that some countries on this index show trend towards inequality, while others show the trend towards equality. In some cases, weighting did not change the performance. A discussion of redistributive policies, i.e. increased investment in human capital, transfers of income, distribution of initial assets, and reallocation of investment, is also included in this chapter. But, are these policies politically feasible? Bell discusses this problem in the next chapter. When the rich are politically strong, why would they allow asset redistribution and investment reallocation? After a discussion of the possibilities, like rich landlords vs. rich industrialists and the elite among the rich, it is concluded that a planner can work on behalf of the poor. But the planner is also restricted in formulating policies by politicians who may be serving the vested interests. Thus only those policies will be successful which have the least political resistance. On this ground, therefore, reallocation of investment is preferred to asset redistribution.

The scope of policy intervention is the subject-matter of the fourth chapter which is contributed by Ahluwalia. Six areas of intervention are distinguished, viz. factor market, ownership and control of assets, taxation of personal income and wealth, provision of public consumption goods, intervention in the commodity markets, and the state of technology. Since the employment elasticity is below unity in many of the Third World countries, the suggestion of reducing wages to increase employment will lead to impoverishment of the labourers. Raising of capital cost is preferred, for this could lead to increase in employment because of a change in relative cost. The author has suggested that the wages to educated people should be lowered to reduce the number of the unemployed educated, because then higher studies will not be very attractive. However, it would lead to brain drain, already a severe problem in many of the developing economies. The government can interfere in the market to keep the prices of the essential goods at low level. However, domestic production may be curtailed, and if the essential goods are imported, who will bear the burden of the subsidy? Progressive taxes, distribution of initial assets, and reallocation of investment can bring about a distributive impact on the economy.

The formulation of a strategy to achieve desired redistributive effects has been discussed in the next three chapters, written by Bell, Duloy and Rao.

Basic to the strategy formulation is the identification of target groups in both urban and rural areas. Identification is important due to spill-over benefits from one group to the other, called 'leakages' by the authors. Without demarcating clearly the target groups, fruits of a suggested policy may not reach the desired group of people. In the rural sector, credit should be made expensive because the institutional credit at subsidised rates flows to big landlords and not to the peasants. Similarly, for the urban sector, specific policies should be adopted so that small scale and informal sectors are promoted.

International dimensions of the inequality problem are discussed in the ninth chapter contributed by Jolly. It is suggested that imported rich-country technology creates and sustains a local enclave of rich country patterns of income, consumption and production. International agencies can influence the recipient countries to bring about the distributionary policies.

The second section of this study consists of five chapters. Planning models are discussed in the first three chapters and are followed by a discussion on data collection and research directions in the 12th and the 13th chapters. After pinpointing the weaknesses in the existing models regarding distribution and suggesting that multilevel, sectoral and regional planning should be done, a model of growth incorporating redistribution is presented. Salient features of the model are (a) that the economy should be divided into different socio-economic groups, and (b) their growth rates of per capita income be studied. The rate of growth of a socio-economic group depends on (a) own savings (b) productivity of capital, (c) wage linkages, and (d) population growth rates. This is basically a simulation model. Three redistributive strategies, viz. wage restraints, consumption transfer and investment reallocation are evaluated on the basis of this model, and it is concluded that, in the long run, the strategy of investment reallocation is superior to the alternatives.

Reorientation of growth with redistribution requires new data and redirected research. Data should be collected to enable the study of poverty and inequality. Also, they should be gathered at a disaggregated level by mode of production, by sector, and within the sector by size. Research should be geared to the policies aiming at removing poverty.

The last section of the book Annex includes country experiences regarding distribution and growth of India, Cuba, Tanzania, Sri Lanka, Korea and Taiwan. The experience of these countries suggests that distribution has improved with growth. However, it is not possible to conclude from their experiences that distribution was improving in the Third World in general. It is observed that improvement in distribution has been preceded by a redistribution of the assets. Deliberate manipulation of prices, education and other government policies have been instrumental in bringing about the improved redistribution.

This book is very useful, and opens up a very wide area of research. The book includes very good suggestions regarding redistribution, and merits attention of planners and serious minded researchers all over the Third World.

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