

## **POVERTY, GROWTH, AND SAFETY NETS: A COMPARATIVE REGIONAL PERSPECTIVE**

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Among the most remarkable events in the world during the last half-century has been the notable economic growth, social transformation, and poverty reduction that has taken place in Asia. It was only three decades ago that more than half of the region's population lived below the poverty line, only two of five adults were literate, and the average person could expect to live only 48 years. At present, the proportion of people who are poor is down to one-third, 70 percent of adults are literate, and life expectancy is up to 68 years. And while the region's population has increased from 1.8 billion to 3.0 billion, the number of poor people has dropped from more than 1 billion to about 800 million.

And yet, because Asia is so vast and heterogeneous, its success story does not apply equally to all the countries. There are large differentials in economic and social progress between and within countries in the region. There is a sharp contrast between the countries of South Asia and those in East and Southeast Asia. Even the more dynamic East and Southeast Asian countries have suffered recent setbacks (including sharp increases in poverty) in the aftermath of the Asian financial crisis of 1997 to 1998.

This volume is devoted to the topic of poverty, growth, and safety nets in Asia. The issue contains nine papers, authored by economists, sociologists and anthropologists, covering five countries in the region: India, Pakistan, Philippines, Thailand, and Vietnam. These countries differ enormously from each other in terms of their records on poverty reduction, economic growth, and safety net interventions. For instance, while the incidence of poverty in Pakistan increased from 22.4 percent in 1993 to 31 percent in 1997, in Vietnam it declined from 58 percent to 37 percent over roughly the same period (1992-93 to 1997-98). The growth performance of the two countries was also very different, with the Vietnamese economy growing at about twice the rate of the Pakistani economy (real growth of about 9 percent per annum over the period 1993 to 1997 versus 4.6 percent). While the papers in this issue do not directly address the reasons for this divergent experience, they deal with the rich diversity of issues relating to poverty and growth in the region—from the role of democracy in influencing social inequality in India to the access of health services by the poor in Vietnam.

The paper by Jean Drèze and Amartya Sen addresses the question of democracy and its role in securing economic development and social justice in the context of India. The authors argue for making a distinction between democratic *institutions* and democratic *practice*. While India has been unusually successful (among developing countries) in maintaining and nurturing democratic institu-

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tions, it has not been as successful in promoting democratic practice. The latter has often been compromised by a variety of social limitations inherited from the past, such as high levels of adult illiteracy, caste segregation, and other social and economic inequalities. For instance, while Indian elections are, for the most part, free and fair, some state legislatures are "packed with criminals." While India's legal institutions are first rate, in practice the legal system is "virtually paralyzed by a backlog of millions of pending cases," and legal protection remains beyond the reach of the majority of the poor. India's greatest challenge for the future is to bring democratic practice in closer alignment with democratic institutions and democratic ideals. This will do much to promote social justice and equity.

The paper by Raghav Gaiha and Vani Kulkarni is, in many ways, related to the same issue. Gaiha and Kulkarni focus on decentralization of government as a mechanism for promoting democratic practice and social justice in India. In particular, they address the question: has the revitalization of the village *panchayat* system (as mandated by the 73rd Constitutional Amendment) benefited the poor in India? On the basis of empirical evidence, their answer to this question is a resounding "no." But they are quick to point out that the *panchayat* system has great potential (albeit unrealized) for bringing about social justice and poverty reduction. The failure of decentralization in India has much to do with unfavorable initial conditions, such as caste differentiation and social inequality, and poorly designed organizational structures of local government. High levels of social and asset inequality, combined with low levels of literacy, have meant that decentralization in some states (e.g., Uttar Pradesh) has resulted in the capture of village *panchayats* by influential and affluent interests, and this has made the decentralization process positively anti-poor in these states. At the same time, design features, such as the failure to offer incentives for the bureaucracy to serve the interests of elected *panchayat* members, have resulted in the government bureaucracy in some states taking full advantage of its privileged position to divest village *panchayats* of virtually all their major responsibilities.

The third paper on India—by anthropologist Vinay Gidwani—chronicles an unusual story about how underprivileged caste groups in Matar Taluka (of Gujarat State) broke the historical domination of the powerful landowning castes and increased their prosperity and political power during the last two to three decades. The Patel community, who were traditionally landowners, had consolidated their wealth for over a hundred years by maintaining access to land and credit. But the advent of canal irrigation and green revolution agriculture in Matar Taluka in the 1960s started the rapid economic ascent of two groups, the Bharwads and Vaghris, who had been historically marginalized.

Canal irrigation brought about a huge expansion in the area under paddy, which in turn dramatically increased the supply of dry fodder, because paddy straw—a byproduct of cultivation—is a nutritive food for livestock. The latter in turn encouraged the spread of village-level dairy cooperatives in Matar and sparked rapid growth in the livestock sector. The emerging milk economy in

Matar created an alternative to wage labor for traditionally subordinate groups like the Bharwads. At the same time, the increase in labor demand due to canal irrigation and paddy production augmented the bargaining power of the rural working classes. The increasing prosperity of the traditionally "backward" castes, such as the Bharwards and Vaghris, allowed these castes to begin threatening Patel supremacy in this region. Gidwani's analysis suggests that it is possible for outside forces, including new technologies, to break the traditional "polarization" model—for instance, the model which predicts that those who are initially wealthy have systematically more opportunities to become wealthier than those who are not—and to permit subjugated groups to rise in prominence and prosperity.

Peter Warr's paper on Thailand differs from the three earlier papers in that it focuses squarely on the role of economic growth in poverty reduction. Warr argues that, despite an abundance of cross-country evidence on the strong relationship between economic growth and poverty reduction, there is a deep scepticism in many countries, including Thailand, on the capacity of economic growth to achieve sustained reductions in poverty. For instance, the Thai press, especially in the aftermath of the 1997 financial crisis (when everyone, including the poor, saw their living standards fall), has been arguing strongly that the economic growth of the 1980s and 1990s benefited only the rich, and that poverty was actually worsening during these two decades. Warr maintains that such skepticism arises from confusion between two quite different concepts: absolute poverty and relative inequality. During the decade ending 1995 the Thai economy was the fastest growing in the world. This rapid growth coincided with sharply increased income inequality, but the incidence of absolute poverty fell significantly. Warr maintains, although the rich became richer during the boom times, the absolute incomes of all major socioeconomic groups in the country increased. Unfortunately, the basic distinction between absolute and relative poverty is often blurred in public discussion, leading to great confusion. In assessing the benefits from economic growth, this issue is crucial because it is possible—even common in the early stages of development—for the absolute standards of living of the poor to move in the opposite direction from their relative position. The Thai experience provides a good illustration of this possibility in both directions.

Medhi Krongkaew's paper identifies one group in Thailand that was strangely unaffected by the economic crisis. But the main reason for their being largely untouched by the crisis was that they were not so much affected (positively) by the rapid economic growth of the boom years in the first place. Their lives have been practically alienated from the rest of the population for as long as they can remember. These are the "Ultra Poor" of Thailand who are on the very bottom rung of Thai society, and who seem to have always remained there. Medhi's paper identifies who these people are, where they live, how they have adjusted to the environment around them, and how they are affected or unaffected by various government policies.

The paper by Arsenio Balisacan and Ernesto Pernia also touches upon the

poverty-growth relationship, but in the context of the Philippines. They argue that the Philippines has lagged behind its East Asian neighbors in economic development and improvement of people's well-being despite having had a head-start on them in the early 1960s. While there has been a strong link between agricultural growth and rural poverty reduction in other Southeast Asian countries (such as Thailand and Indonesia), this has not been the case in the Philippines. The latter experienced rapid agricultural growth at the height of the "green revolution" (1960s and 1970s), but this did not result in improved rural welfare outcomes. The main culprits for this failure, according to Balisacan and Pernia, are institutional factors, such as rising levels of landlessness and tenancy, and misguided policies, such as import-substituting industrialization and anti-small farmer (and pro-large farmer) fertilizer and credit subsidies. In addition, public investment in rural infrastructure and agricultural research also tended to disproportionately benefit larger farmers in the Philippines.

Balisacan and Pernia maintain that the Philippine's failure at comprehensive land reform has not been so much due to the lack of efforts by the government but due to the unduly long period of land reform implementation. The long implementation delays and the consequent uncertainty surrounding the program has discouraged the flow of investments into agriculture and encouraged premature conversion of agricultural lands into non-agricultural uses. They therefore suggest that rather than making land reform the centerpiece of the strategy for rural development and poverty reduction, the government should give priority to investments in physical and social infrastructures, agricultural research and technology transfer, small and medium enterprise development, and enforcement of contractual arrangements and property rights.

Bob Baulch and Neil McCulloch's paper on Pakistan challenges the popular perception that poverty in developing countries is a structural, long-term phenomenon. On the basis of longitudinal household survey data, they find that poverty is mostly a temporary phenomenon, with a large proportion of households moving into poverty due to temporary shocks (such as illness or loss of employment) that are reversed just one or two years later. Similarly, many of the people who escape poverty only succeed in doing so for one or two years before a reversal in their circumstances forces them back below the poverty line. In view of this evidence, Baulch and McCulloch argue that the "poverty problem" in Pakistan (but more generally in all developing countries and even industrialized ones) is one involving a large turnover of vulnerable people rather than a hard-core of the chronically-poor.

Interestingly, Baulch and McCulloch find that the determinants of entry into or exit out of poverty differ from those of poverty status. While their results in this area are not unambiguous, they find that the two sets of variables most important in "explaining" current poverty—viz., the demographic dependency ratio and geographic variables—do not influence entries into or exits out of poverty. Baulch and McCulloch's findings have important policy implications. The anti-

poverty programs of many developing countries target the poor by using the characteristics of the currently poor. But if governments care primarily about reducing the poverty headcount, they should instead focus their efforts on increasing exits from and decreasing entries into poverty. The authors argue that focusing anti-poverty efforts on the correlates of poverty status is tantamount to addressing the symptoms rather than the causes of poverty.

The paper by Saurabh Sinha, Michael Lipton, and Shahin Yaqub is closely related to the Baulch and McCulloch paper in that it also is concerned with transitory changes in household welfare. Sinha, Lipton, and Yaqub call these changes "damaging fluctuations," and define it as large changes through time, either expected (e.g., lean agricultural seasons) or unexpected (e.g., drought), which potentially harms household welfare. They argue that such fluctuations are particularly damaging to the poor since they are generally unable to insure themselves against unanticipated shocks (e.g., illness, death of the family bread-earner) or smooth consumption in anticipation of predicted changes (e.g., seasonal food shortages). Sinha, Lipton, and Yaqub identify six types of damaging fluctuations that most affect the poor and jointly account for nearly all fluctuations in poor people's consumption—violence, natural disaster, harvest failure, disease or injury, reduced access to productive work, and worsened terms of trade (especially of food relative to labor).

The final paper by Anil Deolalikar differs from the other papers in that it examines the access of the poor and the non-poor to health care in Vietnam. He finds that even in a country with strong egalitarian ideals and commitment, the poor have less access to health care than the better-off. Further, the relative position of the poor in terms of health care access worsened between 1993 and 1998—a period of rapid economic growth and introduction of a mandatory health insurance program. Deolalikar finds evidence that public health services in Vietnam are becoming increasingly polarized, with the upper income quintiles constituting the majority of users of public hospital-based services and the lower income quintiles being the primary users of commune health centers. He finds such polarization especially problematic in view of the fact that the Vietnamese government spends more than three-quarters of its entire recurrent health budget on public hospitals. What this implies is that the elite capture a disproportionately large share of the public subsidies that go into public hospitals in Vietnam. While this would not be an unusual finding in another developing country, it comes as a bit of surprise in Vietnam, given that country's strong legacy of egalitarianism.