Poverty & Development in LDCs: some policy suggestions

Ronan Lyons – Junior Sophister

The sheer extent of the problem of poverty in the world, in a time of unprecedented wealth, is very disturbing. Ronan Lyons discusses this issue. He opens with an evaluation of GNP as a measure of development, before discussing the issues of income distribution and the extent of poverty in LDCs. He then recommends nine pillars of policy initiatives, which would help to reduce levels of poverty in LDCs.

And it's true we are immune
When fact is fiction and TV reality
And today the millions cry
We eat and drink while tomorrow they die.
Bono, Sunday, Bloody Sunday (1983)

There's a world outside your window
And it's a world of dread and fear
Where the only water flowing is the bitter sting of tears...
Well tonight thank God it's them instead of you.
Band-Aid, Do They Know It's Christmas Time? (1985)

Economics, so far as they regard only inanimate things, serve only the low purposes of gain; but where they regard human beings they rise higher.
Langhorne, Plutarch (1770)

Introduction

The related issues of poverty, of development and of less developed countries (hereafter LDCs) are undoubtedly top of the planet's agenda in the 21st Century. That nearly 1.5 billion people live on less than 'a dollar a day' (Todaro, 2000), i.e. one in every four individuals, surely takes precedent over any other issue, political or economic. The eradication of poverty, although very much in the realm of possibility, still seems a distant dream. Although there are no quick-fix solutions to the problems of underdevelopment and of poverty, this essay discusses the issues involved. First, it considers the merits and limitations of GNP as a measure of development, suggesting more inclusive alternatives. Next, the essay deals with the issue of income distribution and the nature and extent of poverty in LDCs. The following section proposes policies that would increase the quality of life for the poor of the LDCs, based on the theoretical and empirical findings of the earlier sections. The final section summarises the findings.

GNP and the measurement of development

With the growth of development economics and the establishment of economic development as the goals of states, it is important, as Langhorne noted, not to forget the end in the midst of so many means. Development is the process of improving human beings' quality of life (Todaro, 2000). It implies a high physical quality of life for all (Ray, 1998), self-esteem and freedom to live one's life as one chooses (Todaro, 2000). Although the ideal society comprises more than merely each having enough income, this is the base on which such a society can be achieved. Consequently, material well-being has become the focus for economists and policymakers (Ray, 1998). Chief among the 'vital statistics' bandied about is Gross National Product per capita per annum (hereafter GNP), which is the total amount produced by an economy in a year, divided by the total number of people living in that economy. This varies from country to country, with West European countries, North America & Japan being the 'richest' countries in the world under this measure, while the poorest countries are located in sub-Saharan Africa, Latin America and Asia. It is this latter group that has the unenviable tag of 'Less Developed Countries'.

What are the advantages of using GNP as a proxy for development? It seems logical that if, per person, national income is bigger, people have greater means with which to ensure their quality of life. Literature shows that per capita income is positively related to a wide range of quality of life indicators, such as civil liberties and democracy (Easterly, 1999). As Easterly notes, wealthier is healthier. Nonetheless, when Easterly (*ibid.*) applies different methodologies for effects fixed to a country and for first differences, to correct for cross-sectional distortion and reverse causality, very few indicators showed a consistent robust positive relationship with GNP growth[1]. To summarise, the rationale behind using GNP was simplistic: richer countries have better quality of life indicators, so the poorer countries should become rich and the quality of life would follow. The approach implicitly assumed that aggregate economic forces could positively affect development outcomes (Ray, 1998).

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[1] While indicators such as life expectancy showed no positive relationship, Easterly also found no relationship between crime, racial tensions or separatist movements and income, although pollution and corruption increased with income, even accounting for fixed effects (*ibid.*).

Problems with the usage of GNP as a proxy for development arose in the 1960s and have persisted. Firstly, GNP comparisons in their crude form reflect the vicissitudes of the exchange rate market, a market not known for the explicability of its trends. This has been shown by the famous 'Big Mac Index', which shows price variance between countries of a good with similar input costs in all countries. It shows the value of many LDCs' currencies to be underestimated. Economists have developed the Purchasing Power Parity (PPP) theory to overcome this problem. PPP estimates, for example, showed both India's and Nigeria's 1997 PPP GNP to be between three and five times as great as the ordinary GNP figures (Todaro, 2000).

Another important criticism of GNP as a measure of development is that it always places an unequal weighting on the richest quintiles of the population. If the richest 20% control 60% of GNP and the poorest only 5%, then GNP growth intrinsically places a regressive weighting of these percentages on the income growth of those quintiles. Consequently, a government aiming to maximise GNP growth will rationally choose to maximise the growth rate of the richest quintile's income (Todaro, 2000). This can be compensated for. Depending on the social welfare function, a utilitarian would place an equal weight of 0.2 for each quintile's income growth (as opposed to 0.6 and 0.05 in the raw GNP measure), while a Rawlsian weighting system would place greater importance on the growth of income of the poor, and less on the rich (perhaps reversing the raw weightings, so that the poorest account for 0.6).

Even if we change GNP to account for PPP and weighting towards the poor, problems remain. GNP shows no indication of income distribution or of poverty. It is possible that an island of ten people could be a statistically rich island, but in truth all the income is in the hands of one and the other nine live in absolute poverty. In many LDCs, something less extreme but showing the same trend exists, as will be discussed later. Secondly, many 'bads', such as the destruction of forests or cleaning up pollution[2], are implicitly included as goods in GNP, as they constitute the consumption of resources. Thirdly and conversely, many transactions necessary for the survival of the poor, such as subsistence farming, go unreported. Although they are critical for the well-being of many, they are left out of GNP measures. It is estimated, for example, that up to 20% of India's economy is in the 'informal' sector (Ray, 1998).

[2] Although cleaning up pollution itself is a good, an economy that has to spend $100m on cleaning up after polluting firms has forgone the opportunity cost of, say, infrastructural projects that could improve quality of life, had the pollution not occurred.

What are the alternative measures of development, then, given the shortcomings of GNP? Many alternatives stem from Morris' Personal Quality of Life Index (PQLI) of the 1970s (Easterly, 1999). One of the best known of these is the UN's Human Development Index (HDI). This incorporates figures for GNP (adjusted after $5000 because of the principle of diminishing marginal utility), life expectancy at birth (thus including infant mortality rates) and levels of education (both literacy and school enrolment) into a measure of the quality of life in a particular country. Note that GNP is still used as a fundamental part of the measure, and thus remains central throughout the discussion. The problem with devising such measures is the abstract nature of many quality of life indicators, e.g. the quality of government, feelings of self-worth/safety. In this regard, the attempts by Morris, the UN, the New Economic Foundation *et al.* are to be welcomed as bringing an accurate measure of development closer to reality.

Income Distribution & the Nature and Extent of Poverty

One of the limitations of GNP discussed earlier was that it fails to differentiate between different distributions of income, and hence often hides the extent of poverty. For a given level of income per capita, a more unequal income distribution implies more in poverty. Size distribution of income shows total incomes of all households/individuals, regardless of the income source (Todaro, 2000). Three common measures are derived from this. Firstly, there is a simple ratio of the income shares of the bottom 20% to the top 20%. In a perfectly equal society, this ratio would be 1:1. In reality, the ratio shows much variation, 4:98 in India (Deininger & Squire, 1996), but 27:1 in Paraguay (World Bank, 1998).

The second measure is the Lorenz curve. It shows the cumulative percentages of population and of national income. On the *x*-axis, the cumulative shares of national income are shown. Cumulative population is depicted on the *y*-axis. A perfectly equal society will have a Lorenz curve equal to the 45° line from bottom left to top right of the box, i.e. the poorest 40% of the population have 40% of national income, etc. However all societies' Lorenz curves lie to the right of this line. The further right the Lorenz curve is, the more unequal the income distribution is. Nonetheless, not all Lorenz curves are comparable. They can intersect, and therefore it is not always possible to say which income distribution is preferable.

The final measure stemming from size distribution of income is the Gini coefficient. It is the total of absolute differences between all pairs of incomes,

divided by the population squared and mean income (Ray, 1998)[3]. Graphically, it is the ratio of the area between the Lorenz curve and the 45° line to the total area under the 45° line. The smaller that ratio, the more equal the distribution in a society. There is no obvious relationship between income levels and the degree of inequality in LDCs (Todaro, 2000; Ray, 1998; Deininger & Squire, 1996). Although Kuznets' famous inverted-U hypothesis seemed to show that inequality increased at first before decreasing as development continues, Deininger & Squire (1996) found no such curve in over 90% of countries studied. Easterly (1999) finds evidence that the bottom quintile's share of income improves with growth.

The discussion above assumes that by reducing inequality, society is made better off. Is this a reasonable assumption? After all, economists from Mill to Johnson have argued that a country should worry first about growth before moving on to the issue of equality (Sundrum, 1990). Karl Marx, for example, wanted capitalism to bring society as far as it could, before communism could be successful in redistributing. This assumes that a trade-off exists between an economy's growth and equality of income distribution. For example, some argue that an unequal distribution will lead to a higher savings rate among the rich, increasing investment in an economy and causing higher growth. In essence, the argument is that governments should not redistribute, and should instead focus on maximising growth, leaving the benefits to trickle down to the poor. Apart from the limitations of growth maximisation as a tool combating poverty, as discussed earlier, there is much evidence to suggest that such a trade-off need not exist.

Ray (1998) cites two reasons for minimising inequality. Firstly, there is the philosophical justification for greater equality, as expounded by Rawls. Given the choice, and not knowing the outcome, people would choose a society with an equitable income distribution over an unequal one, because of risk-averse human nature. At a basic philosophical level, an equal society is more appealing to live in. Furthermore, those who are altruists would be aware of the negative utility effects of seeing people starving in the streets or on TV. It is rational to want to minimise these effects, by reducing inequality.

Secondly, regardless of this, inequality itself tends to impact on a society's economic performance. Ravallion (1999) has shown that 'if inequality is sufficiently high, countries which would have very good growth prospects at low levels of inequality may well see little or no overall growth' (p.10). Also, if more people are

[3] Namely, $G = (1/2n^2\mu)\Sigma^{m}_{j=1}\Sigma^{m}_{k=1} n_j n_k |y_j - y_k|$

involved in the economic markets, participation in development will be greater. Rather than there being a trade-off between growth and inequality, it seems that the opposite is true. Datt & Ravallion (1996) note that the promotion of growth and the reduction of poverty were, in general, positively affected by the same variables. There is also evidence to suggest that in democratic societies, there is a positive relationship between inequality and redistribution (although the median voter hypothesis seems inadequate to explain this) (Milanovic, 1999). This means that societies will, if given the chance, correct for greater inequality while still aiming to grow economically.

What, then, is the typical distribution of income in LDCs? Bearing in mind the earlier caveat that there seems to be little relation between income levels and inequality, we must proceed cautiously. Globally, the richest 20% of the world controlled 85% of income in 1991, 65 times that of the poorest 20% (UN Development Program, 1994). This enormous disparity has grown since 1960, and seems unlikely to recede in the short-term. In individual countries, the disparity is not as great. The regional examples of inequality that follow are taken from Deininger & Squire (1996), who trace income inequality over the second half of the 20th Century.

In Africa, the Côte d'Ivoire has an average Gini coefficient of 39.18, based on studies in the 1980s. Inequality is relatively unpronounced, with the ratio of income of the top quintile to the bottom quintile (hereafter 'quintile ratio') at 7.17. In Latin America, studies in Brazil reveal a much higher average Gini coefficient of 57.32. The quintile ratio confirms this, with the rich receiving 23.07 times that of the poor. In Asia, India stands out as the country with the most poor[4]. Nonetheless, its average Gini coefficient over 40 years of studies is 32.55. Its quintile ratio of 4.98 is even lower than that of Germany (5.35). In general, inequality is highest in Latin America (the average Gini coefficient being 50.15). Average Gini figures for sub-Saharan Africa, E. Asia and S. Asia respectively were 44.71, 36.18 and 34.06[5]. It is the outlier of Latin America that led Kuznets to his inverted-U hypothesis. Accounting for this, it may be possible that inequality decreases with growth.

[4] Over 50% of the world's poor live in India (Todaro, 2000).

[5] The corresponding figure for industrialised countries and high-income developing countries was 33.19, with Ireland and the USA having the most unequal quintile ratios of developed countries.

Who are the poor? While no single characteristic can be said to be true of all poor people in LDCs, certain groups are more likely to be poor than others. Todaro (2000) outlines three such groups. Firstly, about two-thirds of the world's poor live on subsistence farming. Therefore, the issue of rural poverty is of prime importance, particularly in Africa and Asia. Of the poor in the Côte d'Ivoire, for example, 86% live in rural areas; the corresponding figure in Thailand is 80% (World Bank, 1990). In Latin America though, there is a higher proportion of urban people who are poor.

Secondly, women make up the majority of the poor. Single-parent households headed by women are becoming more common around the world, and are more likely to be poor. The dependents of these women are likely to remain poor, too. Todaro (2000) notes that many of the development programmes in action in LDCs are aimed at men, an aspect of development efforts that needs to be addressed. Lastly, those who belong to indigenous groups in a country are also more likely to be poor. In Guatemala, seven-eighths of the indigenous population live below the poverty line (*ibid.*). There is an aspect of a vicious cycle at work, because such groups are often discriminated against and kept in poverty. This leads to conflict and often war, which in itself is one of the main causes of reinforcing poverty. In summary, poverty is a far-reaching phenomenon, and as, such any suggested solutions must reflect this fact.

Policy Suggestions for Combating Poverty

What follows is a discussion of nine different pillars of policy reform, which would work in tandem to improve the lot of the world's poorest. Firstly, the importance of agriculture and trade are stressed. Education is regarded as being crucial to improving productivity and to the fight against spiralling population growth. The merits and costs of a minimum wage are viewed in the light of findings on child labour. The role of governments in ensuring that competitive conditions prevail and the importance of asset redistribution and land reform are emphasised. By intelligent use of taxation and subsidies, and through correcting for failures in capital markets, the government is seen to have a vital role in improving the quality of life of its poorer citizens. The importance of the rural non-farm sector is also stressed, e.g. tourism and the construction of infrastructure. The entire discussion that follows assumes that the government in question is a benign one, having the eradication of poverty and the improvement of the quality of life as its main goals. This includes no discrimination against women or indigenous groups. If this is not

the case, political reform will be a necessary condition, before the real fight against poverty can begin.

Agriculture: Bearing in mind the high numbers of rural poor, the expansion of agricultural production must be seen as one of the key means of increasing the standard of life of the poor in LDCs, particularly in Africa and Asia. Datt & Ravallion (1996) noted that in India, increased agricultural yields reduced poverty. It must be recognised that in standard economics terms, LDCs must be viewed as having a comparative advantage in agricultural produce. Consequently, if encouraged, all those who live on subsistence farming can move to mixed farming, where some of what they produce is consumed by themselves, and the rest can be sold on to generate income (Drudy, 2000). This should also help diminish the extent of famines in drought, if subsistence farmers have some savings. Groups such as the EU must stop 'dumping', i.e. subsidising the export of inefficient agricultural produce to LDCs, who should be allowed to become self-sufficient in this area.

Trade: Related to the importance of the agricultural sector in LDCs is the role of international trade in increasing the standard of living. Although many are quick to criticise the 'developed' countries and 'Bretton Woods institutions' for trading when it suits them, there is evidence that in the last forty years, LDCs' domestic policies have hindered trade to a greater extent than foreign barriers (Amjadi *et al.*, 1996). This is not to say that OECD countries could not do more to improve the lot of LDCs, as they can certainly improve the international trading environment. Nonetheless, anti-competitive cargo reservation policies in many African countries, for example, have inflated international transport costs (*ibid.*). It is these freight costs that must be reduced if such countries are to exploit their comparative advantages.

Heckscher & Ohlin would argue that advantages these countries have in labour-intensive and agricultural products should be recognised internationally (Drudy, 2000). It is their competitive advantage, and specialisation should be allowed to occur. In this regard, their produce should have an equal footing with local products in OECD countries, with the abolition of protection, ceilings and quotas[6]. This should be done in conjunction with other forms of assistance from OECD countries, from financial to technical and policymaking.

[6] This is, of course, much easier said than done. Farmers' groups remain a disproportionately powerful interest group in developed countries and opening them up to fair competition requires political will, strength and tact.

Education: Another important pillar of policy initiative is education. The topic of education is intertwined with many other areas of poverty reduction. For example, increased educational standards would imply greater awareness of the problem of population growth. At a more basic level, education will increase productivity of a worker, and therefore his/her wages. This applies in both rural and urban areas, provided the education is relevant. Datt & Ravallion (1996) highlight the need for the 'development of human resources' to reduce poverty, particularly in rural areas.

There is debate about whether to increase the cost of schooling to encourage mothers to have fewer children, or to decrease educational costs, to increase the levels of education and thus productivity. On the former argument, it would seem to make more sense to educate the children not to have large families themselves, as opposed to using indirect means, which may not work effectively. Also, reducing the cost of schooling children makes it a more viable alternative to sending the children out to work (Canagarajah & Coulombe, 1997)[7]. To be effective, the system of education must be relevant and appropriate to the region. For example, education in rural areas must allow time for the children to help on the parents' farms. Once the cycle of education is begun, it is difficult to stop; educated parents send their children to school more so than those who have little or no education (*ibid.*).

The minimum wage: Many have called on LDCs to introduce or increase minimum wages. The principle of a minimum wage is noble. It aims to ensure that all those who work receive a reasonable wage for that work. However, many economists have always had reservations about distorting factor prices. The argument is that the introduction of a minimum wage increases the cost of labour, reducing demand and increasing unemployment, even though those who remain in work will be better off. There is some empirical evidence to support this.

Rama (1996) showed that the doubling of the real minimum wage in Indonesia in the mid-1990s had mixed effects. While it did increase average wage earnings by 10%, actual employment and investment decreased by 2% and 5% respectively. Rama found a link between firm size and the effect of the wage. Smaller firms were more likely to be unable to cope with the increase in wages, and the 'disemployment' effect was considerable in such firms. Although employment

[7] This links the issue in to the arguments for or against a minimum wage (see below).

did increase in some large firms, it is widely acknowledged that the reduction of poverty lies very much in the hands of smaller enterprises, based not just in the largest cities, but also around the country.

A further complication with regard to the welfare effects of a minimum wage has been highlighted by Basu (2000), who investigates the relationship between the adult minimum wage and child labour. Working from the premise that an improvement in adult working conditions should bring a decrease in child labour, his findings are not entirely encouraging. If the minimum wage increases adult unemployment, this can increase the supply of child labour and thus child employment, which can decrease adult employment in a multiplier effect.

In a situation where the minimum wage is greater than the critical wage for sending children into the labour market, and where the supply of child labour is less than the aggregate demand for labour (AD_L) per household, Basu makes an important finding. It is possible, he argues, for children to replace adults in unskilled parts of the market. He concludes that if an economy has multiple equilibria, using a minimum wage to curb child labour can have the opposite effect. In particular, he finds that LDCs are likely to have a higher supply of child labour for a given AD_L per household. Therefore, the introduction of a minimum wage is most likely to increase child labour in LDCs, the very countries that have to fight the problem.

The creation of competitive conditions: It is often argued that the labour market is highly regulated and that the presence of trade union power or of a minimum wage agreement distorts the price and thus the demand for labour. While this is true, relative factor prices can be changed through eroding the bias towards cheaper capital that exists in many LDCs (Todaro, 2000). Whereas labour prices are set higher than the market would otherwise have them, capital prices are often lower, because of investment incentives, capital subsidies, etc. The removal of such factor price distortions would tilt the relative price in favour of labour. Firms could then move along the production isoquant to a more labour-intensive combination of inputs.

Furthermore, efficiency in the marketplace must be promoted. The market must be assisted in the short run to ensure long-run benefits (Sundrum, 1990). This will involve improving market infrastructure, including transport, communications and education, so that fragmentation of the marketplace does not occur. The government, in short, must ensure that the creative function of markets, i.e. the

accumulation and efficient use of resources, is allowed to operate to the benefit of all (*ibid.*).

Asset redistribution: What is needed in many LDCs is a progressive redistribution of asset ownership. Any student of economics knows that the outcome of trade in the marketplace depends to a large extent on the initial endowment accruing to different groups. In LDCs, a small proportion of the population owns a large proportion of assets, meaning that the market itself will be unable to bring about a fair allocation. This is perhaps a relic of colonialism and has recently led to tensions in Zimbabwe, for example.

A major part of the solution will be land reform. The Latin American system of *latifundio* and *minifundio* is inappropriate in the fight to improve the standard of life of the rural poor. In order to reinforce the moves on agriculture and on access to credit, the typical tenant farmer in an LDC must be changed into a smallholder. This requires strong political will, similar to the British government's Land Acts of the late 19th/early 20th centuries with regard to Ireland. This was done on the basis of government compulsory purchase orders with a long-term loan system to the general populace. A parallel move in urban areas would be to replace informal moneylenders with a system of 'microloans' (Todaro, 2000).

Taxation & Subsidies: The debate continues as to whether governments should seek to minimise distortions in the market by taxing goods with low elasticities of demand, or follow the 'Robin Hood' philosophy and take from the rich to give to the poor. In LDCs, the overriding principle must be of progressive taxation, i.e. as income increases, the taxation system should take proportionately more of the marginal income. A policy of taxing luxuries and subsidising essentials would then be appropriate. However, the essentials are invariably local agricultural produce, on which farmers depend for their livelihood. A system of maximum prices may increase demand without any increase in supply and also lead to black market trade (Sundrum, 1990). Perhaps some LDCs could learn from India's example of agricultural price policy (*ibid.*). The government buys a part of the harvest and distributes to the poor at a low price. The rest is sold to the non-poor on the free market. This benefits both farmers[8] and the poor.

[8] Depending on the elasticities of demand, the average price after the government has bought some of the harvest may be higher than before.

Access to credit: The ideal of equality of opportunity must be promoted. If all have an equal start in life, a meritocratic system should occur. Consequently, education is very important in creating that equal base. A major barrier to bringing about equality of opportunity in LDCs is failure of the capital markets there. These missing markets restrict choice of job and the future of one's children. Because the average poor person in an LDC will have no collateral, a bank will be less likely to give the person a loan, as they have nothing to lose if they default. Ray (1998) points out that markets need an 'underlying social contract', where breaking loan repayments is seen as socially unacceptable. Essentially, though, people need initial wealth to set up an enterprise. If the capital markets fail, and inequality persists, the government must intervene with a loan system or capital market regulation to ensure greater equality of opportunity. This is related to the full development of human capital, as is education.

Rural non-farm sector: While the importance of farming in LDCs should not be ignored, the value of the rural non-farm sector is often underestimated. In Ecuador, for example, two-fifths of rural incomes come from this sector, and half of economically active women are employed in it (Lanjouw, 1998). Millions move from country to city every year. Therefore re-emphasising the importance of the rural economy, by showing that it is not just agricultural, can make the countryside a more viable option. This sector is 'strongly associated with higher living standards' and so should not be something that should 'wither away during the development process' (*ibid.*). It includes jobs in construction, manufacturing, textiles, crafts, commerce and tourism, and must be seen as having enormous potential. Rural infrastructural projects, such as irrigation schemes, will also provide employment for many, while developing the economy. This sector links rural areas to the cities and to international trade. Obviously, there is a link between this sector and the role of governments in offering loans at attractive rates, without which it would be difficult for many to set up their enterprises.

As can be seen from this list, which is by no means exhaustive[9], there are many interrelations between these pillars for development. It is obvious that the costs of implementing all of these would be huge, given their already strained resources. I would recommend two main measures to increase the disposable income

[9] A notable omission, for example, would be the need for an advanced health system to ensure high quality of human capital. This would work in tandem with education. Another area would be the ban of inappropriate exports to LDCs, such as armaments (see below) or powdered breast-milk substitutes, which lead to higher infant mortality.

of LDCs. Developed Countries, the IDA and the World Bank must alleviate the debt burden, by postponement or cancellation or existing service and debt. While many are anxious that if these countries are allowed to default once, they may try it again, the counterargument is that surely the lenders would prefer a current pause to yield a healthy debtor in the future[10] to a debtor permanently struggling to pay off even a quarter of the money it owes every year.

Even more importantly, spending on war needs to be greatly reduced to the bare minimum necessary for national defence. Spending on armaments, encouraged by developed countries, who benefit from the capital-intensive nature of their production, comprises too large a proportion of spending, when many die from starvation. $780bn or 2.6% of the world's GNP is spent on arms (Zarko, 1993). Countries in Africa spent up to 6% of their GNP in 1995 on arms and have increased their spending since 1997[11]. Reduction of military expenditure not only requires political will in the LDCs, but also in developed countries. These twin measures could serve to free up much needed resources to implement the policy suggestions above.

Conclusion

While I noted in the introduction that there are no 'quick-fix' solutions, the tone of this essay has been that this is no cause for development economists to abandon all work in despair. Development, as was discussed earlier, is all about improving the quality of life. GNP, as a measure of this, although positively related to many quality of life indicators, suffers several drawbacks. While its reliance on the vicissitudes of the exchange rate markets and its intrinsic regressive weightings can be compensated for, it hides distribution and the extent of poverty. It also includes many 'bads' produced in an economy, while leaving out often a high level of transactions that are necessary to the well being of the poor in LDCs. More inclusive measures, such as the UN's HDI, embrace such indicators as life expectancy and school enrolment ratios.

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[10] Consider how Ireland now has little problem paying off its foreign debt, or how the USA did not ask for instant repayments on the Marshall aid it gave to Europe after World War II. Why should the LDCs be subject to different treatment?

[11] These data came from the SIPRI website; see online resources in the bibliography.

It was necessary, next, to discover the nature and extent of poverty, and this meant a discussion of income distribution. Size distribution of income yielded three measures. These were the ratio of the shares in national income of the poorest 20% to the richest 20%, the Lorenz curve and the Gini coefficient. No relationship was found between income levels and inequality. Furthermore, despite traditional arguments, there is evidence to suggest that there is no trade-off between equality and growth. Firstly, a more equal society is more appealing to live in, and secondly, inequality was found to adversely affect growth. In general, Latin America has the most unequal distributions, with Africa slightly better and Asia relatively unequal, even compared to developed countries. With regard to the nature of the poor, those more likely to be poor include those living in rural areas, women and indigenous groups.

The next section discussed what must be done to combat poverty. It assumed that the government is a benign force in the economy. Firstly, agricultural output must be increased. Policies favouring trade, both in LDCs and OECD countries, are needed. The use of appropriate education is central to improving productivity and fighting high levels of population growth. A minimum wage can adversely affect relative factor prices, levels of employment in small firms and the supply of child labour. Governments must ensure competitive conditions in markets. The importance of asset redistribution and land reform should not be underestimated. Governments can effect increases in the quality of life through intelligent use of taxation and subsidies. Failures in capital markets need to be addressed. Lastly, the rural non-farm sector must be seen to have great potential in increasing incomes. Funding for such projects should come from a relaxation of foreign debt burdens and a reduction of military expenditure. Perhaps in this way the less developed countries can hope to achieve vastly improved standards of living, so that the dream of eradicating poverty will not seem so distant.

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2) Worldbank Group www.worldbank.org

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