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DISTRIBUTION AND DEVELOPMENT :
A SURVEY OF EMPIRICAL EVIDENCE

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ABSTRACT

The paper is a survey of the literature analysing the development of income distribution in the less developed countries. First, a number of cross-section studies are reviewed. Then the results from a number of studies concerning the development of inequality in Latin American, Asia, and African countries are presented. It was found that income distribution had deteriorated in a number of countries. Finally, the factors which have been shown to determine the development of income distribution are summarized. These concern institutions, structural change, functional distribution, asset distribution, financial markets, human capital, labour market, social stratification, market imperfections, trade policy, domestic policy, spatial factors, trade unions, and demographic factors.

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INTRODUCTION

During the last decade it has become increasingly obvious that the impact of economic growth in most less developed countries has been decidedly uneven. Some groups have managed to increase their standard of living substantially, while others have gained little or, in some cases, even experienced an absolute decline in standards. The growing awareness of these problems has led to a surge of interest in the relation between development and income distribution, and this has resulted in a vast amount of empirical research on the subject. In this paper I will attempt to survey this literature.

Since income distribution is the end result of the workings of the entire economic (and social) process, a vast number of factors influence it to a smaller or greater extent. This is also reflected in the literature, which touches upon practically all aspects of economic life. To present a complete survey is therefore difficult.

What I will do is to focus interest on studies of a more general character concerning the state and development of inequality in LDCs. I will first present the results from some cross-country studies trying to find out to what extent the degree of inequality is dependent on, for example, the level of per capita income. After that I will review a number of studies that have been made in some countries in recent years to see how inequality has been evolving and what determining factors have been identified. Finally in the summary I will very briefly point to a few empirical studies concerning some specific factors, which are important for the development of income distribution.

1. Cross-Country Studies

The interest in cross-country studies was initiated by a paper by Kuznets in 1955 (see also 1963), in which he advanced the hypothesis that inequality first increases and then decreases with development. The reason for this is that growth in the early stages of development tends to be concentrated to the modern part of the economy, which at that time is small in terms of employment. In the pre-industrial society, where agriculture predominated, there was little differentiation; with the introduction of capitalistic industries the degree of differentiation increased, causing an increase in inequality.

Kuznets' seminal contribution was followed by a number of studies dealing with this issue. Among the earlier ones can be mentioned Karvis (1960) and Oshima (1962). They presented data supporting Kuznets' hypothesis that early growth increases inequality, and they argue as well that changes in the economic structure cause the increase in inequality. Swamy (1967) did show that in India the increase in intersectoral differences during the 1950's accounted for 85 per cent of the increase in the inequality of size distribution of consumer expenditures during this period, while just fifteen per cent of the increase was due to changes within sectors.

During the last few years a number of cross-country studies of the relation between per capita income and the degree of inequality have been presented. The results from these cross-country studies must, of course, be interpreted with caution, but they still can be assumed to provide an approximation of the development over time.

Adelman and Morris (1971, 1973) have done a cross section analysis of personal income distribution in 74 underdeveloped countries, which indicates that over a very long period of the modernization process inequality increases, unless there is efficient planning for equity. They find that, with respect to the share of income accruing to the poorest 20 per cent of households, the most important explanatory factors are dualism and various aspects of foreign trade and agricultural policy. They claim that "economic development is associated with increases in the share of the bottom 20 per cent only after relatively high levels of socio-economic development have been attained. At the early stages of the development process economic development works to the relative disadvantage of the lowest income groups", (Adelman and Morris, 1971, p. 12).

Concentration of income tends to increase with dualism, and they also notice that "once a sharply dualistic development pattern has been initiated, further economic growth actually reduces the share of the lowest 60 per cent..... In the absence of government intervention, dualistic growth therefore increases the concentration of income. The extent of cleavage of technology and life style thus exerts a profound influence upon income distribution, not only in itself, but also by influencing the way in which further development affects the distribution of income", (Adelman and Morris, 1971, p. 21).

One must make some reservations with regard to the type of analysis pursued by Adelman and Morris. In a very critical review, Higgins (1975) characterizes their analysis as implicit theorizing using variables about which little knowledge exists. Higgins argues (p. 214) that to rank in a sensible manner countries in terms of the kind of qualitative variables that are used, a major interdisciplinary research effort for each variable would be required. Yotopoulos and Nugent (1976, p. 36-38) also criticise Adelman and Morris. They point out that what Adelman and Morris have been doing is to "hunt for correlation", and that one should not without a theoretical underpinning jump from correlation to causality. Still, the work of Adelman and Morris gives food for thought and provides interesting hypotheses that can be exposed to further analysis.

The data assembled by Adelman and Morris are used by Paukert (1973) to calculate how the Gini-coefficient changes with the level of per capita income. He finds (p. 116) that "there is a sharp increase in inequality as one moves from countries in the lowest income group to those in the \$101-200 group, and a further but less pronounced increase as one moves on to the \$201-300 group. This group and the next (\$301-500) represent the peak of inequality" (1965 US dollar).

Chenery and Syrquin (1975) have in another cross-country study of development patterns analysed the development of inequality, and also their results (based on data from 1950-1970) are in accordance with Kuznets' hypothesis. They locate the peak of inequality at a per capita income of about \$300 (1964 US dollar).

Since there is a very large, unexplained inter-country variation, they test a number of other explanatory variables. They add proxies for education, dualism and the size of the agricultural sector, and this notably improves the regression results. Still, their main conclusion (p. 63) is that when population growth is high and the modern sector is too small to absorb a substantial part of the labour force, there is a marked tendency for inequality to increase.

In his thorough survey of the literature on distribution and development, Cline (1975) cites evidence from Ahluwalia that seems to cast doubt on the hypothesis of the inverted U. In two later articles, however, Ahluwalia (1976a, 1976b) presents extensive results from his studies on inequality, which support the hypothesis. He cannot, however, find any

evidence for the hypothesis that inequality is greater in rapidly growing countries than in slowly growing countries at the same income level. Since Ahluwalia's study (1976b) seems to be the most comprehensive of this type, it might be worthwhile to sum up the results.

Because the results are based on cross-section and not time-series studies, Ahluwalia cautions the reader: They should be regarded as "stylised facts" for which one should try to find a theoretical explanation. This kind of study therefore represents only a starting point in our search for explanations and causal mechanisms.

Kuznets' hypothesis about the secular behaviour of inequality is supported by Ahluwalia's regressions. Furthermore, he identifies turning points for different income groups: The share of the top 20 per cent increases up to \$364 (1965-1971 US dollar), after which the share of this group declines; the share of the next 40 per cent declines until \$291 and then improves, while the lowest 20 per cent have to wait until per capita GNP has reached \$600. Ahluwalia's conclusion (p. 310) is that "the reversal of the 'deteriorating phase' of relative inequality begins fairly early, first for the middle income group, and much later for the lower income groups. It appears that if there is a 'trickle down' process, then it takes substantially longer to reach the bottom". The conclusion that the decline is most prolonged for the poorest groups accentuates the need for a change of development strategy. In many underdeveloped countries the present rate of growth of per capita incomes is so low that it may take a century before the turning point is reached. Despite the fact that a relative decline does not necessarily mean a decrease of the absolute income level, it implies that the rate of improvement is slow.

Like others who have analysed the relationship between per capita incomes and inequality, Ahluwalia finds that the level of incomes only explains a limited part of the variation in the material. He therefore introduces other explanatory variables relating to intersectoral shifts in production, expansion of education and the demographic transition. His conclusion is that these factors contribute considerably to the explanation of the improvement in the distribution, but that they do not explain the early deterioration. The share of agriculture is the only factor of those discussed that is associated with the deteriorating phase, but its effect is ambiguous. On the basis of Ahluwalia's study it is difficult to identify the processes that generate increasing inequality in the early stages of development.

Recently also Lydall (1977) has made a similar analysis of data from 71 countries. The results of his regressions are consistent with those of Paukert and Ahluwalia. Lydall (p. 7) finds that "on the average, (1) the share of the top 5 per cent of income units reaches a maximum among countries which are still at a very low level of economic development (about \$200 per capita in 1971 prices), (2) the share of the bottom 20 per cent of income units reaches a minimum among countries which are at a somewhat more advanced stage of economic development (about \$500 per capita), and (3) the Gini coefficient is at its maximum with a per capita income of about \$250."

A slightly different approach is taken by Cromwell (1977) who emphasizes intersectoral differences in mode of production; the uneven spread of the capitalist mode creates dualism and inequality. (He points out that socialism as practiced in Eastern Europe has resulted in a more equal income distribution than the capitalistic development of the advanced Western countries; the Gini-coefficient is 35 per cent lower, p. 305).

Cromwell (p. 300) uses the share of the labour force working for wages or salaries (which is taken to give an indication of the relative size of the capitalist sector) to explain the degree of inequality. His hypothesis is that this is a better predictor of inequality than the per capita income measure usually employed in this type of analysis.

Also he finds an inverted U pattern, with inequality peaking when the share of the labour force employed for wages and salaries reaches 40 per cent. However, the level of significance is very low ($R^2 = 0.13$), so one cannot conclude that this variable gives a better explanation than per capita income, particularly not since no comparative regression on per capita income is made.

All these studies of the distributional consequences of growth are exploratory. They do not investigate dynamic processes in a historical context for any particular country, which should be done, if one is to be able to identify clearly the causal mechanisms. We will therefore go on to consider some country studies, in which a more careful analysis of the dynamics of development has been made.

The tentative conclusion that can be drawn from the studies discussed so far is that there seems to be a tendency towards increasing inequality in early stages of development, followed by a period of convergence after a certain income level has been reached.

2. Country Studies.

In this section I will consider studies that concern the development of income distribution in specific countries in a comprehensive way.

I will structure this survey according to geographical area, since I am primarily interested in finding out what empirical results have been produced rather than in differences in approach or analytical method which would have made it necessary to use some other organizing principal.

One immediately observes that much has been written on the development of inequality in Latin America and Asia, but very little on the African continent. Consequently, this is reflected in this survey.

2.1. Latin America. A number of studies have been devoted to the development of income distribution in Brazil. The standard conclusion is that inequality has increased, and that the rapid growth in the late 60's and early 70's mainly did benefit the top 5 per cent (Fishlow, 1972). This standard conclusion is partly challenged by Fields, who argues that growth reached persons at all income levels and that the incomes of the poor grew faster than the incomes of the non-poor (Fields, 1977, p. 575). However, Bacha and Taylor (1978, p. 278) find that Fields misinterprets the data. In reality the share of the poorest did decline. Still, their absolute income level may have risen.

Bacha and Taylor present a very thorough discussion of the causes of the development of inequality during the sixties in Brazil, and come up with the following conclusions.

- 1) Changes in the composition of the labour force were either in an equalising direction - with regard to regional and sectoral composition - or quantitatively small - with regard to sex, age, education (p. 271).
- 2) The increases in skill did not contribute to increased inequality. The supply of skilled labour increased very much, "and with plausible elasticities of substitution and a competitive labour market, the rewards for skills must have fallen" (p. 272).
- 3) Analysis of the wage-fixing institutions of Brazil shows that the government was able to hold back increases of real wages for labour. This was done by keeping the minimum wage low and by allowing firms to pass on wages in the form of higher prices. This meant that the share of profits did increase. It is also found that there are two non-competing groups in the labour market,

labourers and managers. The latter are paid wage-spreading increases, and thus get a share of the surplus that is left after workers have been paid their share. (Bacha and Taylor, 1978, p. 272).

Bacha and Taylor then discuss alternative explanations. First they consider whether the so called Kuznets effect, that is a shift of labour from sectors with little differentiation to sectors with more differentiation, can have been operative. They find that it is not so. Instead, "population movements between regions and between sectors of activity has an equalising influence on the overall variance" (p. 280).

Next they consider the skill differential hypothesis. According to this "there is a structure of labour supply by (well-defined) skill levels which is constantly changing as a result of the educational process. The wage structure is anchored at the bottom by the elastic supply of the unskilled, but elasticities of substitution between skill groups are in effect assumed to be low and rapidly declining at higher rungs along the educational ladder. Growth in labour demand is supposed to be biased toward higher skill types, because physical capital and higher skills are complementary. The sectoral mix of aggregate demand is shifting toward skill-intensive industries and technical progress is skill-using". (p. 274) This hypothesis does not seem to be a good explanation of distributional change in Brazil either. (p. 285)

The third possible explanation that Bacha and Taylor consider is that there was a wage squeeze after 1964, and they find that the evidence is supporting this hypothesis (see above). The workers have had to pay for the investments of the rich and the state by their slow wage increase.

The fourth possible explanation considered is wage-spreading. According to this hypothesis "the relative levels of wages parallel the structure of command and influence within organizations, with market processes guaranteeing rough comparability of remunerations across management units. The average wage differential between 'managers' and 'workers' widens as gross profits increase and is influenced by the level of payments received by upper level government technocrats. If the market at the top end of the wage spectrum tightens, vacancies are more likely to be filled by accelerated on-the-job training and downgrading of ascriptive job characteristics, than wiped out by wage adjustments" (p. 274-275). Also this factor seems to have

contributed to the growth in inequality. Higher profits were actually filtered down the organizational hierarchy. "The wage squeeze at the bottom of the scale and rising government salaries for technocrats moving back and forth from the private sector helped keep the whole structure stable". (p. 275)

This hypothesis dovetails, according to Bacha and Taylor, with a neo-Keynesian explanation in terms of growing income concentration with growth. According to this hypothesis savings tend to adjust to the current value of investment through increased private savings from profits.

Bacha and Taylor thus explain the growth in inequality by the working of the three last mentioned forces. Their arguments seem convincing.

Another Latin American country whose income distribution has been thoroughly analysed is Colombia. Berry and Urrutia (1976) has done a very comprehensive study. Urrutia (1976) gives a concise summary of how the Colombian income distribution has developed. He points out that income distribution is very uneven, but no worse than it is in Mexico and Brazil. Poverty is mainly a rural problem - here as in most places. "The average income of the seventh decile in the rural sector is lower than that of the second decile in the urban sector" (p. 208). Most poor families live on small-holdings.

Income distribution was about the same in the 1960's as it was in the 1930's. It grew worse up to the fifties and then improved somewhat. Berry and Urrutia (1976) make some tentative estimates of the development of income distribution 1930-1960 on the basis of wage series for groups of workers, and they find that income distribution in agriculture deteriorated throughout the period, while the non-agricultural distribution worsened until the early fifties and then improved. They feel that overall there is some consistency with the Kuznets hypothesis (p. 116).

The ones that have benefited most from economic growth seems to have been the middle-class, that is the eighth and ninth deciles of the income distribution. The poorest may not have become worse off, although the agricultural workers are about as poor in the 60's as they were in 30's.

Berry and Urrutia (1976, p. 26) argue that the inverted U pattern have held for Colombia. They think (p. 25) that the basic elements in the process in Colombia have been:

- (1) changes in the distribution of physical and human capital, which result in part from savings rates and rates of return to capital that vary positively with the income level;
- (2) a downward tendency in the rate of return to capital;
- (3) the nature of technological change;
- (4) changes in the significance and distribution of monopoly rents;
- (5) changes in the distribution of population between rural and urban areas;
- (6) a larger family size for poor people.

They find that the Colombian economy is characterized by imperfections. There is one sector where salaries are equal to marginal productivity, and another one where this is not the case. This leads to a non-optimal allocation of labour. In the early stages of development the share of modern sector capitalists tends to increase. They also discuss the Kuznets effect referred to above, and note (p. 20) that "to have a complete theory of the effects of the structural change on distribution, it is necessary to know the migrants rank in the income distribution of the sector from which they come and their rank in the distribution of the sector to which they go". Is it the marginal people that move or not? This is not clear.

They also underline the importance of the import substitution policy, which up to the mid-fifties tended to increase the payments to the scarce capital factor and generate monopoly profits and thus worsen the income distribution.

The major cause of the deterioration of income distribution in the rural areas mentioned above are the sluggish behaviour of real wages and the decline of the wage share (p. 70). Berry and Urrutia find that the decline in the real wage (p. 76) is due to 1) the declining importance of some labour intensive crops, 2) increase of the rural proletariat, 3) and after effects of the depression.

Berry and Urrutia (1976, p. 138) also note that mobility has "undoubtedly been an important factor in the decrease in inequality related to regional differences". The fear that migration would increase the regional differences due to "positive selectivity" of migrants has thus not been vindicated in the Colombia case.

Fiscal policy has not contributed to equalization. The financial sector has mainly benefited the large scale farmers (p. 174), while trade policy has worked in favour of the large industrialists (p. 229). Here, as

in many other countries "subsidised interest rates, overvalued exchange rates and ceilings on savings rates have diminished the demand for labour and therefore worked against an increase in the participation of labour in national income". Thus Berry and Urrutia recommend a thorough reform of monetary and trade policies.

In conclusion, the extremely unequal distribution of physical and human capital combined with monopoly power works towards inequality, while rural-urban mobility and international demand for agricultural output works in the opposite direction. They also point out that the policy pursued has worked against labour intensive technologies.

Berry and Urrutia (1976, p. 199) have very strong faith in the equalizing effect of expansion of primary education. They argue that "it is difficult to see what other policy could have a more dramatic impact on the population". Here, however, I doubt their arguments very much. They probably have too much faith in the positive effects of education on income distribution. However, we will come back to this in Section 3.

Thus we have now extensively dealt with two cases, Brazil and Colombia. I will now very briefly point to some evidence concerning other countries on the continent. Foxley (1976) has edited a book containing a number of papers dealing with income distribution in Latin America. The articles in the volume deal with Peru, Puerto Rico, Argentina, Brazil, Cuba, Chile, Venezuela, and Colombia. Among these Cuba has managed a real redistribution of income; Peru and Chile have attempted. Argentina and Brazil have had a pattern of development that has benefited mainly the top five per cent of the population, while growth in Mexico, Puerto Rico and Colombia has benefited mainly the middle class. In these cases it has been at the expense of the poor half of the population.

Cuba have gone further in their attempts to decrease wage differences. However, in the 1963-64 wage scales the lowest wage was only 1/13 of the highest one (Mesa-Lago, and Fernandez, 1976, p. 81). In 1966 more emphasis was put on moral incentives, but after 1970 there was a return to the scales. How large the differences are at present is difficult to ascertain; it is thus also difficult to say anything about the development of income distribution.

In a paper on the green revolution in Mexico Tuckman (1976) emphasizes that very little really is known about its effects on income distribution. The tentative results, however, seem to indicate that it increased production considerably and increased regional inequality, but it seems to have decreased absolute poverty. Tuckman thus paints a cautiously optimistic picture.

2.2. Asia. The Asian masses have for a long time been considered to be the poorest of the poor in this world, and as far as the Indian sub-continent goes this definitely still holds. Some countries in the Far East have, however, managed to take a leap forward and raise the living standards of ordinary citizens.

A very large share of the really poor of the world live in India. The extent of their poverty is extensively documented by Dandekar and Rath (1971). They start from the situation as measured by private consumption expenditures (National Sample Survey) in 1960/61. They find that 40 percent of the rural population consume less than 0.5 rupies per day, while 50 percent of the urban population consume less than 0.75 rupies per day (which is considered to be the equivalent of 0.5 rupies in the rural areas).

The rural poor consist of poor rural households, small landholders and village artisans. "The urban poor are only an overflow of the rural poor into the urban areas" (p. 17). Dandekar and Rath find that up to 1967/68 "the condition of the bottom 20 per cent rural poor has remained more or less stagnant. The condition of the 20 per cent of the urban poor has definitely deteriorated, and for another 20 per cent of the urban population it has remained more or less stagnant". Thus, the situation did not change for the better during the 60's, and poverty was continuing to spread to urban areas from the poor rural areas through migration.

During the 70's two very important studies of the situation in the rural areas of Asia have been made; Griffin (1974) and ILO (1977). The first one is an essay on the green revolution, in which Griffin discusses the effects of the high-yielding varieties in the rice- and wheat-areas of Asia (See also Lipton, 1978). To sum up his findings very briefly he says that the effect on aggregate growth has been small, profits and rents have gone up and the wage share down. Inequality has increased in most areas and poverty in some.

Griffin considers four types of consequences of the new technique: they are effects on resource allocation, production methods, propensity to innovate, and income distribution. He argues that in rural Asia factor prices are biased; some markets are absent and some are fragmented. These imperfections are for example, due to immobility of resources, bad communications, lack of information, the policy of the authorities with a systematic bias in favour of certain groups, and the monopoly power of the rich farmers. Wealth gives political power and this in turn makes it possible to influence policy in a way that gives this group access to resources. Griffin discusses extensively the price formation for different factors of production and shows that the price structure systematically favours the large scale farmers.

He also finds that this has consequences for the choice of production technique. Peasant production becomes too labour intensive and large farmer production too capital intensive relative to the optimal allocation of resources. The biased price structure does thus not only lead to an uneven distribution of incomes; it also leads to an inefficient allocation of resources.

Next Griffin goes on to show that the fact that material inputs are too cheap relative to labour biases the process of innovation. The type of innovations that occur are very often dependent on water, pesticides, fertilizers etc. This together with the biased price system increases the dualism between large scale farmers and peasants. Since the policy has mainly supported this type of innovations the bias has been further aggravated. Thus Griffin finds that there are both market forces and policy factors that work in the direction of increasing inequality.

In a large ILO study (1977) a number of case studies on rural poverty in Asia are presented. They concern Pakistan, Punjab, Uttar Pradesh, Bihar, Tamil Nadu, Bangladesh, Sri Lanka, West Malaysia, Indonesia, the Philippines, and China. In these studies it is found that in a number of areas the standard of the poorest in the rural areas have actually deteriorated. It is also shown that the degree of landlessness is increasing. The main conclusions regarding the seven countries included in the study (excluding China) is that the income distribution has become more uneven at the same time as the real income has decreased for certain groups in the rural areas.

There is not much analysis in this book, but in the introduction the editors emphasize the uneven distribution of wealth (land in particular), the concentration of the surplus and the fragmented allocation mechanisms as important factors perpetuating poverty. The most important policy conclusion that emerges from the study is that land must be redistributed, if also the poorer rural strata are to get a reasonable share of the growing production. Such a redistribution has for example taken place in China, and the consequences are discussed in one chapter of the volume. The chapter on China is not based on the same amount of empirical data as the rest, but the tentative (and plausible) conclusion is that the extent of poverty is decidedly smaller and the degree of inequality is also less than in other countries on a similar per capita income level. See also Macrae (1977) on how the production result is distributed. (A summary of the results of the various ILO case studies is presented in Griffin and Khan, 1978).

Since the ILO study was published Ahluwalia (1978) has presented a systematic time series analysis of Indian data that covers more years than other studies (the period 1956/57 to 1973/74). He finds (p. 303) that "the percentage of poverty declines initially from over 50 per cent in the mid-fifties to around 40 per cent in 1960-61, rises sharply through the mid-sixties, reaching a peak in 1967-68, and then declines again." There is no significant time trend over this period, although the constant percentage in poverty implies that the absolute number of poor families has increased. Only two Indian states - Assam and West Bengal - show a significant trend increase in poverty, while Andhra Pradesh and Tamil Nadu is showing a decline.

When he analyses the data on the national level he finds that "improved agricultural performance is definitely associated with reductions in the incidence of poverty" (p. 310). There thus seems to be a certain trickle-down process. However, when looking at state data the picture becomes more difficult to interpret. Ahluwalia finds (p. 319) that they suggest "that while there were factors operating in the rural economy which tended to increase the incidence of poverty, agricultural growth leading to higher output per head tended to offset the adverse impact of these factors".

The empirical picture as far as India is concerned thus is mixed, but it seems safe to say, at least, that there has been no significant improvement for the rural poor. This is the most striking sign of failure in achieving development objectives.

Guisinger and Hicks (1978) have used household budget survey data to estimate the Gini-coefficient for Pakistan. They find that there is some evidence that it did decrease during the 60's, but it may have increased again during the 70's. However, neither these household budget survey data nor wage and earnings data show that there has been any significant change.

The most important factor explaining the positive trend during the 60's was "the course and character of growth in the agricultural sector. In the early part of the decade, removal of government controls and regulations helped turn the internal terms of trade in favour of the agricultural sector" (Guisinger and Hicks, 1978, p. 128). Another important factor was that the increased output did not come about through increased mechanisation but through increased use of labour. This meant that the real wages in the agricultural sector increased and this, in turn, pushed up wages in the informal sector. The economy thus managed to sustain real wage increases for unskilled workers during this period, and this led to improvements in the distribution of income.

The main conclusion that can be drawn from Guisinger's and Hicks' study of Pakistan, a conclusion that is confirmed in many other studies, is that the most important thing to do if one wants to improve distribution is to increase the demand for unskilled labour. Often the best way to do this is to turn the internal terms of trade in favour of agriculture.

A similar conclusion is reached in a study by Lee (1977) of Sri Lanka and Malaysia. He finds that in Malaysia (1957-1970) inequality increased, while in Sri Lanka (1963-1973) it did decrease. (However, he feels that the Sri Lanka data are dubious and that there may have been a slight increase in inequality even there).

Anand (1977) presents a poverty profile of Malaysia, which shows that 1) 78 per cent of households that are poor are Malay ones, 2) 88 per cent are rural, 3) four states with 27 per cent of population have 41.5 per cent of the poor households, 4) employees and own-account workers constitute 93.5 per cent of the poor, 5) there is higher incidence of poverty among farmers than among farm workers; 6) agriculture and agricultural products sectors constitute 75 per cent of the poor household but only 50 per cent of the population; 7) 97.2 per cent of the poor have only primary education or less;

8) poor households are disproportionately headed by females, people 20-29 years of age and they are large. From this we can see that there are many aspects that need to be considered. First, poverty has an ethnic aspect. It is furthermore concentrated to the rural sector, particularly agriculture in certain regions. It is mainly employees and own-account workers that are poor. Lack of education and demographic characteristics need also be taken into account.

The fact that Malaysia did not do well with regard to income distribution up to 1970 has to do with the imbalanced pattern of development between the modern sector of the economy and the rest of the economy. "Rapid growth of the modern sector exacerbated intersectoral and rural-urban income differentials and the reliance on foreign investment led to a capital-intensive pattern of industrial growth. Productivity and real wages rose in the industrial sector and this, together with a distorted labour market, ensured rising real wages in estate agriculture and the rest of the modern sector at the same time as open unemployment and underemployment increased in both rural and urban areas" (Lee, 1977, p. 285). This is again a rather typical description of a pattern of growth that Malaysia has in common with many Third World countries.

Lee points out that the fall in rubber prices on the world market was fatal for Malaysia, Sri Lanka did do better with regard to income distribution (although not in other respects) due to the facts that terms of trade did turn in favour of the peasant sector and real wages fell in the modern sector.

Finally, Lee finds, that "in short, it is (i) demographic pressure, (ii) institutions that hinder access to land and the modern sector labour market and (iii) an unequal distribution of land and other productive assets that tend to perpetuate or increase inequality".

Gupta (1977) has constructed a model for Indonesia with which he analyses the trade-off between growth and equity. This is not directly an empirical analysis of the type we have dealt with so far, but Gupta's analysis may still give an indication of the trend in income distribution in Indonesia.

Gupta draws the following conclusions from his simulations. First the simulations prove the hypothesis about stage of development and equity. Inequality does increase over time (p. 49). Secondly, a policy of growth with

equity exhibits a negative correlation between growth and equity (p. 52). Thirdly, growth and employment over a feasible policy range have no significant association. Hence, a specific employment policy must be treated separately from a general growth policy. Thus a drive against poverty must have an employment policy as a necessary tool (p. 52). Gupta also points out that in the very long run high growth is preferable since it brings about the transition faster.

There has been some other research on Indonesian income distribution. King and Weldon (1977) have analysed data on income distribution in Java, 1963-1970. They find little change in the relative distribution in rural areas, but a worsening distribution in urban areas. The largest cities accounted for most of the deterioration. The richest ten per cent of the urban dwellers have increased their share. They find, in summary, a "deterioration in real levels of living for approximately the bottom 40 per cent of the population, a widening gap between the rich and the poor in urban areas, and an increasing imbalance between the capital city and other areas of Java" (p. 710). King and Weldon single out five important policy problems. 1) The control of rice prices has had a negative effect on rural incomes. 2) Stabilization policies have negatively affected urban industries. 3) The policy towards foreign investment has implied a capital intensification. 4) Export earnings have been squandered on public enterprises. 5) There is a lack of social welfare programs.

As far as the urban-rural imbalance is concerned, Papanek (1975) has argued that the poor of Jakarta really are poor, but that the move from the rural areas did increase their incomes by 2/3. Therefore the poor urban dwellers are still better off than the poor rural dwellers, and restrictions on migration would thus make the situation of the poor even worse.

Berry (1978) has analysed four different family income and expenditure surveys for the Philippines covering fifteen years. He finds that these surveys cast doubt on conclusions showing a worsening income distribution (p. 317). "The decline in most of the real wage series raises the question of whether they can be consistent with the evidence from the family income and expenditure survey data to the effect that incomes of wage earning families as well as of families were rising during the 1960's" (p. 327). On the whole Berry thinks that the income distribution changed very little and if it changed it could be either way.

A few countries in Asia have recently been able to achieve very rapid growth through industrialization for export. One of these economies is Hong-Kong. Hsia and Chau (1978a) have analysed how industrialization has affected income distribution. The economy has during the past fifteen years experienced an average annual growth rate of about ten per cent, and this has transformed the economy from one with surplus labour to one with labour shortage (p. 12).

The labour market is characterized as competitive. Establishments are small and labour-intensive. Workers are predominantly unskilled or semi-skilled, and there is little collective bargaining and little government intervention in the labour market. The economy is very flexible, with high labour mobility and continual establishment of new industries. This has led to a "remarkable uniformity in the movement of wage rates among different industries" (p. 14). Wages are thus basically determined by the workings of supply and demand, and therefore the emergence of a labour shortage has had a profound impact on the income distribution. The Gini-coefficient fell from 0.49 to 0.41 between 1966 and 1971 (p. 17)!

The lower 60 per cent get about 30 per cent of income while the top 20 per cent get about 50 per cent. "The sources of high income are finance, import and export trade, professional and government services" (p. 43). For these sectors there are barriers to entry. To a large extent, the income differences are thus caused by sectoral imbalances, so changes within manufacturing would have relatively little impact.

The following observations were made with regard to the pattern of distribution.

- 1) Incomes are more equally distributed among manual workers than among white-collar workers.
- 2) Average incomes of manual workers are less in manufacturing than in other branches. Employers have the highest average income as well as the highest dispersion. Casual workers have the smallest incomes and the smallest dispersion.
- 3) The education level is highly significant.
- 4) Families with a female head have lower incomes.
- 5) Up to four members, per capita family income increases.

Hsia and Chau find that during the period 1961-1971 income dispersion within industrial and occupational groups and income differentials among these groups narrowed (p. 183). The main conclusion that can be drawn

from their study is that a tight labour market is a very efficient means of achieving an improved distribution of income. Therefore, to increase demand for unskilled labour must be a major objective if one is trying to decrease inequality.

Another country that has been doing quite well both with regard to growth and income distribution is Taiwan. Fei, Ranis, and Kuo (1978) find that Taiwan reached the turning point in 1968, whereafter labour became scarce. This had a favourable effect on income distribution (like in Hong-Kong). The overall Gini-coefficient increased up to this time, but then it started to decrease. The development of Taiwan thus fits in with the inverted U-pattern discussed earlier. During the period before the turning point the Gini-coefficient of the rural sector was falling, and this limited the increase in the overall Gini-coefficient. It is interesting to note that "after 1968 rural by-employment had become the dominant form of rural labour reallocation and source of rural income" (p. 34). The same observation is made by China (1979) who finds that "non-farm sources of income allowed households with small holdings to close the income gap between themselves and larger farms by allocating more of their labour to non-farm activities. Thus the expansion of non-farm opportunities had the effect of reducing relative inequality in the rural areas" (p. 299).

Ranis sums up the Taiwan case in another article. He writes (Ranis, 1978, p. 407) that "success in this general sense was clearly based on the combination of three key ingredients: The presence of a substantial and increasing volume of non-agricultural employment opportunities in the rural areas; a functional distribution of non-agricultural income which did not turn against labour in the presence of persistently low wage rates; a consistently improving distribution of agricultural income. The requisite policy underlying the achievement of these results have been spelled out equally clearly: early attention to agriculture in terms of both asset redistribution and the encouragement of productivity increase even during a period generally focused on import-substituting industrialization; a decentralized rural social overhead and industrialization strategy; and overall economic policy environment which increasingly forced output mixes and technology choices into greater harmony with changing endowment conditions."

The lesson that can be learnt from the Taiwan case thus is (Ranis, 1978, p. 407) that "the only sure method of achieving a sustained improvement in equity lies in hastening the advent of commercialization, i.e. the

end of the labour surplus condition".

Another interesting country in this region is South Korea, which has been able to achieve a very rapid economic growth, without an accompanying deterioration of the income distribution. Since the mid-sixties the country has followed a labour- and skill-intensive export-oriented development strategy. The two main policies that were initiated at that time were an interest rate reform, which meant a doubling of the interest rates, and a 50 per cent devaluation. The combined effect of these two changes lead to an impressive increase in exports combined with a rapid increase in non-farm employment. (See Adelman and Robinson, 1978). This rapid growth was combined with rapid increases of the incomes of the poor. The real income of the 20 per cent poorest more than doubled between 1964 and 1970.

In South Korea, as in Taiwan, the period of rapid growth was preceded by a sweeping land reform. "The broad distribution of land contributed importantly to the fact that farmers gained equitably from the growth of farm incomes, and the early spread of education enabled a wide segment of the population to participate in the rapidly expanding modern manufacturing sector and was instrumental in the extensive modernization of agriculture." (Rao, 1978, p. 384). Rao fears, however, that inequality may start to increase again in the future due to the increasing importance of urban wealth, which is very unequally distributed. Still, so far South Korea has done remarkably well.

2.3. Africa. Compared to what have been done for Asia and Latin America very little has been published on the development of income distribution in Africa. There are scattered evidence here and there, e.g. in the ILO-report of Kenya (1972), but little in terms of thorough studies concentrating on the development of income distribution over a period of time.

Van der Hoeven's study of Zambia (1977) can be mentioned as an example of an attempt in this direction. What he finds is that incomes are more even in urban than in rural areas, that average income is higher in urban areas, and that inequality increased during the sixties due to increasing urban (formal sector) incomes combined with stagnation within traditional agriculture. He emphasizes the importance of the fact that Zambia is a dual economy with few linkages between the two segments of the economy. He also points to a slight deterioration of the domestic terms of trade for agriculture and the strong bargaining power of trade unions.

3. Summary of Factors Determining Income Distribution

We started out by looking at some cross-country evidence regarding the relationship between inequality and per capita income level and we found that the evidence suggests that inequality first grows and then declines as income grows. We also found that the level of per capita income only explained a limited part of the variation in the material, and that other factors together are more important than the level of per capita income.

We then went on to see how inequality has developed over time in a number of Third World countries. We found that in most countries growth has primarily benefited the upper or middle classes and that the income distribution thus has deteriorated.

In the case of Latin America, there is some evidence indicating that Colombia might have passed the turning point, and that Cuba probably managed to decrease inequality. There is however no suggestion of a widespread deterioration of the absolute incomes of the poor in Latin America.

Asia provides a more mixed picture. There is extensive evidence which suggest that income distribution in most Asian countries has deteriorated. In some countries there may even have been an absolute decline in the living standards of considerable number of groups during some periods. In India the situation of the poorest has not improved during the last fifteen years.

However, in Asia, there are some countries that have done exceptionally well both in terms of growth and income distribution. It is the countries which sometimes are referred to as the "new industrial countries", such as Hong-Kong, Singapore, Taiwan, and South Korea. Both Hong-Kong and Taiwan have experienced an improving income distribution. South Korea has managed to sustain an extraordinarily rapid growth of GDP without a deterioration in the relatively even income distribution.

As far as Africa is concerned there is very little time series evidence available. The little evidence there is suggests that also on this continent there may have been a deterioration in income distribution. This seems a priori plausible, if we believe in the inverted U hypothesis. Most African countries are still very poor.

What I will do now is to try to sum up the most important factors that have been shown to influence the evolution of income distribution in the Third World. In conjunction with this I will also point to some studies on specific issues which are of interest in this context.

3.1 Institutions: As far as one can judge from the sparse data that is available on socialist countries in the Third World the income distribution in these seems to be more even than in the capitalistic (or mixed) economies, about which more is known. Type of economic system is thus a fundamental factor to reckon with. Since it is mainly non-socialist countries which are covered in the studies surveyed here, I cannot determine to what degree my points are valid also for the socialist ones.

It is also not clear from the material if capitalist development with a large share of multinational corporations gives a more uneven income distribution than capitalist development, which is based mainly on domestic capital.

3.2 Structural change: Assume that we consider the development of a country that starts out as a dual economy. What then normally happens is that the "modern" sector increases its relative importance. There is reallocation of output and labour. Initially, when the modern sector is small in terms of employment this tends to increase inequality (the Kuznets effect). Stewart argues (1974, p. 23) that transfers of products and technology from the rich countries to LDCs reinforce the dualistic structure and the income differences between the two sectors. The elimination of dualism may thus be retarded.

Countries that have managed to end their labour surplus condition, that is, reach what Fei and Ranis have called the commercialization point, have experienced an improved income distribution. To get to the commercialization point as soon as possible is thus of fundamental importance for a sustained, long run improvement in income distribution. High growth can thus be considered central to the goal of long run equalization. An increasing demand for unskilled labour is probably the most important single factor which has contributed to improvements in income distribution in the countries considered here.

3.3 Functional distribution: Changes in the functional distribution are caused by changes in factor proportions and technological change (and other factors that will be discussed below). A rapid growth of the labour force tends to keep wages down, while land rents and capital incomes increase. A demographic transition thus is one important factor which can hasten the termination of the situation with surplus labour. To end such a situation when there is high rates of labour force growth, the rate of capital formation will have to be substantially higher than when the size of the labour force is stagnating.

It has been pointed out that the technological bias inherent in the high yielding varieties has implied a falling share for labour and a deterioration of the relative income of small farmers. Moreover, the technology transferred from the DCs and which has been developed on the basis of relative factor prices much different from those of the average LDC, has been too capital-intensive with regard to the existing factor endowments. This has implied an inefficient allocation of resources and underutilization of labour; and consequently a smaller income share for labour than a more labour intensive technique would have yielded. The problem may be, however, that no such technique is available. (See Stewart 1974, 1978, Tokman 1975, Bhalla 1975, Sen 1975, Baer 1976).

3.4 Asset distribution: This is central variable which has a very large effect on how incomes are distributed in all countries. Particularly the distribution of land is vital. The countries which have combining growth with a relatively equal income distribution have been characterized by a fairly even distribution of land among rural families. This has made it possible for large segments of the rural population to share in the increased agricultural incomes. The countries which have had a less satisfactory development of income distribution often have an uneven distribution of land. Increasing landlessness is a factor which seriously aggravates the distribution problem.

Moreover, it has been noted by many that here we often do not have the classical conflict between growth and distribution. For example, Yotopoulos and Nugent (1976, p. 103) conclude in a study of Indian agriculture that "small farms are more efficient than large farms". Similarly, Cline (1972b) points out that "the agricultural economies of scale argument warrants little weight in the context of the developing countries". Finally, Singh (1979, p. 19) notes that "there is ample evidence to show that small farmers generally have higher yields per acre, and often higher overall productivity, have higher cropping intensities, more area proportionately under irrigation, and use their resources more efficiently. Although data is scarce their production appears to have grown just as rapidly as larger farmers. Further, there is growing evidence that when small farmers have had access to new technologies, and where these technologies have been profitable and within their means, they have been equally responsive and eager to adopt them." Land reform therefore is an appropriate first step in a policy aiming at combining growth with a more equal distribution.

However, even if it does not imply any sacrifice in economic terms, as far as politics is concerned it may be the most difficult type of reform to perform. Land owners are a strong political force in most of these countries.

Of course, there are other physical assets than land, and these are normally even more unequally distributed. How this distribution evolves over time has to do with the savings rates in various socio-economic categories. Since these tend to be higher among the rich than among the poor, there is not likely to be any automatic equalization in the distribution of these assets. (Williamson, 1968, Cline, 1971, 1972a, Prebisch, 1971, Snyder, 1974, Lluch, and Powell and Williams, 1977). Since the importance of these grows over time one may assume that the distribution of income from these assets will have a negative impact on overall income distribution.

The savings behavior also implies that there may be a conflict between redistribution and the desire for a high savings rate. There are, however, ways of increasing the national rate of saving that does not rely on an unequal income distribution, for example through public savings, by improving the institutions in which people can save, and by increasing interest rates (see e.g. Chinn, 1977).

3.5 Financial markets: Apart from the level of incomes the differences in savings rates among categories of people also have to do with the access to savings institutions and to some extent the availability of investment opportunities. Banks are normally much better organized in urban areas than in the rural areas, where most of the poor people reside. Moreover, since the interest rates have been kept at an artificially low level in most of these countries the banking system has tended to redistribute money from savers to borrowers, that is often from the poor to the rich.

3.6 Human Capital: We have just considered the importance of the distribution and growth of physical capital, but naturally human capital is also a very valuable asset in economies where it is scarce. The studies covered indicated that the degree of schooling and on-the-job training is a very important determinant of the income that a person may earn. (see e.g. Fishlow (1979), Bhagwati (1973), Hoerr (1973), Hinchliffe (1975), Jallade (1976), Psacharopoulos (1977), Harbison (1977), Richards (1977) and Rodgers (1978)). However, it has not been possible to show that more education gives a more equal distribution. It may, however, make possible a skill- and labour intensive

development strategy (see South Korea) with beneficial distributional consequences. Normally, it seems rather to be the case that the level of education that a person possesses determines his place in the occupational hierarchy.

Bhagwati (1973) argues that education disproportionately benefits the upper classes since 1) the opportunity cost of labour is higher for the poor, 2) the benefits of education is lower, and 3) the opportunity cost of capital is higher. Similar views are presented by Jallade (1976) and Harbison (1977). It is thus doubtful whether education really does contribute to equality.

There are several studies which show that the private returns to schooling are high. Pscharopoulos (1977) finds, for example, that in a Morocco sample of 1600 people differences in schooling and experience explain about 70 per cent of the relative earning dispersion. (See also Hoerr, 1973). But it is not clear if this is due to increases in productivity or to the fact that each labourer is given a place in the job-structure ladder in accordance with his formal merits. It may well be that it is mainly the job structure that matters; that there is job competition rather than wage competition. Here the large size of the government sector in Third World countries contributes to the rigidity of the wage structure (Richards, 1977). Also Lal (1976) is skeptical about the positive effects of education on income distribution. He thinks that this argument amounts to placing the cart before the horse. He argues that it is better to increase the demand for labour. That this actually is a fairly effective policy, has been pointed out above.

Rodgers (1978) has made simulations with the Bachue model for the Philippines. From these experiments he draws the conclusion that "at best a few percentage points on output, and slight declines in inequality could be obtained after a generation with human capital approaches to development". "Reliance on traditional beliefs in the efficacy of human capital formation for development can be misplaced" (p. 20).

Still, education may make some contribution to the reduction of inequality. More education can reduce skilled: unskilled wage differentials, and benefit rural areas more than urban, because of the promotion of out-migration and terms of trade effects.

It may also be pointed out that the productivity of labour may vary with the level of nutrition among the poor. Myrdal (1968, p. 745) argues that a more even distribution of income, thus higher incomes for the poor, would

improve efficiency and labour input. Therefore the access to food has an instrumental value as well as being an aim in itself.

3.7 Labour market: What was said in the previous section points to a conception of the labour market that sometimes is referred to as the "job competition model". This says that people compete for jobs with given characteristics and given incomes and are placed into these jobs according to e.g. their educational characteristics and that there is very little wage competition. If there is more supply than demand on a certain level, those at the end of the labour queue are bumped downwards to the next lower level of the hierarchy and so on.

To the extent that the labour market works like this, education will not lead to equalization. There are, however, some labour markets where there really is wage competition, e.g. Hong-Kong's labour market for unskilled or semi-skilled labour. but even within this economy there are segments of the labour market which do not compete with each others. There are what is sometimes referred to as non-competing groups.

It has been shown that access to non-agricultural rural employment has a very favourable impact on income distribution. Also informal employment can be an important complement to other employment opportunities.

In some cases there may exist monopsony on local labour markets due to e.g. the dominance of one employer or land owner. This tends to decrease the share of labour.

The effects of industrialization on employment have been much discussed. The evidence is surveyed by Morawetz (1974) and Bruton (1974), but also some papers in Stewart (1975) and Bruton (1977) and the study by Hisa and Chau (1978a, 1978b) referred to above are of interest in this context.

3.8 Social Stratification: Another factor that is of importance is the social stratification in a society. Where this is pronounced, privileges tends to remain with the elite groups. Entrepreneurs tend to be recruited from the same circles all the time, and there is limited mobility and flexibility in the economy. A number of opportunities are not open for or may not even be known to large strata of the population. A rigid social structure tends to inhibit growth, since it distorts resource allocation and stifles initiative.

Myrdal, for example, points out (1968, p. 579) that social stratification, in itself is an aspect of inequality, at the same time as it in Asia "impedes the rise of social, regional, and occupational mobility and encourages the persistence of multi-dimensional segmentation of social and economic life, which is a major obstacle to economic growth". Similar ideas are advanced in Gunter (1964), Baster and Scott (1969) Baster (1970), and Nazinger (1977).

3.9 Market Imperfections: That market imperfections abound in LDCs is well known. We have already pointed out the often too low price of capital, and this combined with a price of labour in the modern sector that is too high relative to the optimal one yields an inefficient resource allocation.

Griffin has pointed out that the factor prices may differ among various types of farmers. Differences in the agricultural sector in prices on land, labour and capital are such that the large scale farmers are favoured. These biases thus aggravate the uneven income distribution.

Reasons for these imperfections may be that markets are fragmented. There are also monopolies which make it possible to reap monopoly rents. Monopolies may be due to economies of scale or other barriers to entry. They may also be created by the government, through, for example, trade restrictions. (An extensive discussion of various sorts of imperfections can be found, for example, in Little and Mirrlees (1974)).

3.10 Trade Policy: An import substitution policy has been followed in many countries. The major contributions to the debate on the effects of trade policy on income distribution are the large OECD study summarized in Little, Scitovsky and Scott (1970) and the NBER study summarized in Krueger (1978) (Bhagwati is also to come out with a volume). (See also Corden (1974) and a special issue of World Development (No. 1/2. 1977)). The main conclusion from these studies is that import substitution industrialization has contributed to a deterioration of income distribution. It has tended to favour industry as opposed to agriculture. The domestic terms of trade of the latter have fallen and thus the incomes of the people employed in the sector have become lower than what they otherwise would have been. There has also been bias in favour of capital, which has contributed to increasing inequality. Bhagwati (1973) writes that "the exchange control regime has made mockery of income distributional objectives by creating profits and privileges."

However, it has contributed to a structural lock. As noted by Baer (1972) "the profile of the productive structure which resulted from the ISI process reflects the demand profile which existed at the time when the process was started. This demand profile was based on a distribution of income which, in most cases, was quite unequal." Thus, if one is to be able to use the productive capacity well the distribution of income must remain unequal.

Some of the countries analysed followed an export oriented development strategy more in line with their comparative advantages. This strategy has implied a more labour intensive production pattern, and as has already been pointed out, strategies that increase demand for unskilled or semiskilled labour tend to improve income distribution.

3.11 Domestic Policy: In many of the countries discussed here it is the rich that control the government, and this has meant that policies often have been shaped to serve their interests. One example is price support to large farmers. In some cases control of prices on certain agricultural products that are produced by small farmers has implied a deterioration of income distribution.

Almost any type of policy that implies increasing unemployment will, at least in the short run, have a negative impact on income distribution since the incidence of unemployment normally is regressive. For example, a very strict stabilization policy may have this effect. On the other hand, a rapid inflation normally transfers incomes to those with property, that is the rich. Therefore a slow down of inflation may have beneficial effects on income distribution.

A number of studies have analysed the interdependence between the pattern of demand and income distribution. Interesting in this context are the papers by Paukert, Skolka and Maton (1974) and Skolka and Garzuel (1976), which within a consistency model test the effects of different income distribution patterns on the economy. Other important studies are Morley and Williamson (1974), Figueroa (1975), and Ballentine and Soligo (1978).

Figueroa notes that the consumption bundle of the rich is different from that of the poor and then goes on to estimate the derived demand for labour in manufacturing in Peru under different assumptions. He finds that a redistribution towards the poor would increase employment in industry, and

thus improve the income distribution. Figueroa's analysis, however, is partial and he does not trace the secondary effects.

The study by Ballentine and Soligo on the other hand, is based on a closed input-output model of the Colombian economy by which they can trace the full effects of the consumption-earnings chain on income distribution. They find that a tax-subsidy scheme which transfers income from the rich to the poor and thus changes the pattern of consumption has the effect that factor earnings of the rich increase more than those of the poor. Thus the distribution of earnings shifts towards the rich contrary to expectations. They can thus not find any evidence to support the thesis that the poor consume a bundle of goods that generates more earnings for the poor.

The difference in results may naturally reflect the specific economic characteristics of the respective countries. The connection between the pattern of demand and the pattern of production is important, but one must be cautious about drawing conclusions about its character before this has been empirically investigated.

3.12 Spatial Factors: The degree of regional or urban-rural imbalance is another important factor that has tended to affect the evolution of income distribution. A spatially disintegrated economic structure implies that the incidence of growth become uneven. Countries with a well developed rural infrastructure, which has made it possible for non-agricultural production activities to develop in the rural areas, have experienced improvements in the distribution of income.

3.13 Trade unions: There is not so much evidence in the material on the effects of trade unions on the development of income distribution. One would expect them to increase the incomes of their members at the expense of the rest of the community, that is employers and non-union members. However, the bargaining power of trade unions in many Third World countries is limited.

3.14 Demographic factors: Apart from the problem of creating a tight labour market in the face of rapid population (or rather labour force) growth which has already been discussed, there are other demographic factors which may aggravate the income distribution problem. (See Wery, Rodgers, and Hopkins (1978), Rodgers (1978), and Repetto (1978)). One example is that poor

families (particularly agricultural ones) tend to have more children than well educated and wealthy ones. The poor families thus both for reasons of poverty and a large number of children can spend less on the education of each child than the rich. Moreover, the assets of the rich are bequeathed to their off-spring, who thus get a better start both with regard to access to physical and human capital. Inequality is therefore transferred from generation to generation.

Moreover, it is well known that incomes vary with age. They usually peak when the head of household is 45-54 years of age. One should thus ideally compare lifetime incomes, which would show less differences than estimates of income differences for a single year.

Kuznets suggest that one should for practical reasons, primarily try to analyse income distribution among socio-economic groups. They play different roles are differently affected by growth. Trends in distribution among such groups will be revealing. There are advantages even if one loses the within-group variance: 1) It does remove much of the accidental 1-year effect on the income totals; 2) less and more recognizable differences in demographic characteristics; 3) average age of heads differ less; 4) average size of households differ less.

SUMMARY: The problems of inequality and poverty in the Third World remain grave in spite of considerable increases in total production during the last two decades. There are, however, a few countries which have managed to decrease poverty considerably, which shows that it can be done, but, the majority of the poor in the Third World have experienced only marginal improvements.

Faced with rapidly increasing oil prices and sluggish growth in the DCs, one can hardly be optimistic about the likelihood of substantial improvements for the poor during the coming decade. Still, I have in this paper tried to point out what factors are important with regard to income distribution. When devising a development strategy the knowledge about the determinants of income distribution that have by now accumulated should be taken into account. It is income distribution which together with growth determines the future incomes of the poor.

One problem that I have only briefly touched upon in this paper is the question of political power, and it may well be the crucial restriction. Drastic changes in a direction that favours the poor can not be expected unless they can obtain a certain amount of political leverage. Unfortunately, poverty in economic terms often is combined with other forms of deprivation, for example, lack of political influence. Therefore, it is not easy to be optimistic.

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