

Comments on “How much does reducing inequality matter for global poverty?” by Christoph Lakner, Daniel Gerszon Mahler, Mario Negre and Espen Beer Prydx

Jeffrey S. Zax

University of Colorado Boulder

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Is this paper convincing?

“international development actors, bilateral development agencies and countries themselves have united around a goal of ‘ending’ extreme poverty by 2030. This goal has been defined as ... reducing global extreme poverty to 3% of the world’s population (World Bank, 2014).”

- This is not going to happen
- At least, not without extraordinary policy interventions

Why not? – The effects of economic growth

- Growth can't be fast enough
 - 2 percentage point increase in growth rates over trend, holding constant Gini coefficients, might bring rate of extreme poverty down to 5%
 - This would be an unprecedented increase in growth rates
 - It still isn't enough

Why not? – The effects of inequality change

- Inequality change can't be big enough
 - Annual 2% decrease in Gini coefficients might bring rate of extreme poverty down to, again, 5%
 - This would be an unprecedented reduction in inequality
 - It still isn't be enough

Is this paper believable?

- Results based on income growth
 - They're from the *povsim* simulation tool, which isn't described
 - How does it handle the basic questions?
 - How are the benefits of growth distributed across the income distribution?
 - Does this distribution differ across countries with different initial average income levels?
 - How does it handle the essential question here?
 - Where does extreme poverty come from?
 - What effects, if any, would macroeconomic growth have on the mechanisms that are responsible for extreme poverty?

Is this paper believable?

- Results based on inequality change
 - These are more difficult to evaluate
 - Income change
 - is arguably exogenous to changes in extreme poverty
 - likely to happen, and be generally positive, regardless of goals regarding extreme poverty rates or policies designed to achieve them
 - so it's reasonable to consider the possible effects of growth on extreme poverty rates
 - Inequality change
 - is endogenous to changes in extreme poverty
 - doesn't seem to have a predominant direction in the absence of policy
 - the changes simulated here seem arbitrary

Is this paper believable?

- Why do the inequality changes simulated here seem arbitrary?
 - They aren't implied by any theory of undistorted economic growth
 - They're hard to accept as plausible policy suggestions
 - The convex growth incidence curve can be presented as the consequence of a specific tax and transfer policy, but it isn't one that anyone is seriously advocating
 - The same is true of the linear growth incidence curve, but the supporting policy is even more implausible
- If policy is necessary in order to direct inequality in the direction necessary to reduce extreme policy, the paper should
 - try to identify the minimally-costly policy that would achieve this goal
 - simulate its effects to establish a baseline

What's the alternative?

- The paper dismisses the theoretical predictions of the Kuznets curve, but they probably deserve more consideration
- Reverse the question
 - The minimally costly policy to achieve the extreme poverty goal would be to
 - Order those in extreme poverty by income gap relative to the \$1.90/day poverty line
 - Provide them with transfers in ascending order of the income gap
 - Deduct the transfers from the richest members of the economy
 - Stop when those who are still in extreme poverty comprise 3% of the population
 - Simulate this policy
 - Compare the post-transfer to the pre-transfer Gini coefficient to assess the minimally change in inequality necessary to achieve the extreme poverty goal

Details

- Models of growth trends
 - Linear extrapolation of historical growth rates is not very sophisticated
 - Methodology behind WEO growth projections is unknown
 - Unlikely to matter much because the difference between projected growth rates and growth rates necessary to achieve the goal probably far exceeds the differences in growth rates projected by different methods

Details

- Models of relationship between aggregate and personal income growth
 - Very elaborate: seems to run the risk of overfitting that the paper warns against with regard to other techniques
 - Apparently doesn't make much difference, so the emphasis seems misplaced
 - The one result is startling and under-explored
 - In countries with Gini coefficients above .33, growth rates in personal income exceed those in aggregate income by nearly a quarter
 - In countries with Gini coefficients below .33, growth rates in personal income are less than half those in aggregate income
 - What does this say about how inequality affects the distribution of the gains from aggregate income growth?
 - Is it believable?

What's the big mystery?

- How did extreme poverty rates come down so quickly from 1990-2015?
 - 35.6% in 1990
 - 10.0% in 2015
- On the evidence in this paper, this would require
 - Inconceivable growth rates
 - Inconceivable reductions in Gini indexes
 - Inconceivably aggressive redistributive policies
- Are the goals for 2030 based on extrapolations from the 1990-2015 experience that is neither understood nor replicable?