ECONOMIC GROWTH CENTER

YALE UNIVERSITY

Box 1987, Yale Station
New Haven, Connecticut

CENTER DISCUSSION PAPER NO. 245

GROWTH AND DISTRIBUTION: TRADEOFFS OR COMPLEMENTS?

Gustav Ranis

May 1976

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I. Introduction

If we can count on any underlying certainty with respect to the international economic scene, it is that it is subject to severe shocks--and likely to remain so. It is, nevertheless, possible to recognize that the events of the last few years have been particularly cataclysmic in their impact, especially as far as the LDCs are concerned. These events, including oil, food and DC stagflation crises, have, among many other consequences not relevant to this paper, increased the disparity among the LDCs and helped bring into fuller focus the existence of large and growing gaps within and between individual countries of the developing and developed worlds. With respect to the growing gaps between the so-called Third and Fourth worlds, the political will among both old and nouveau riche to do something meaningful about it still seems to be lacking; perhaps efforts under the still somewhat leaky umbrella of the "new international economic order", currently under discussion in many quarters around the globe, will eventually begin to bear fruit. It is an important subject but one we do not intend to deal with here. With respect to the second and not wholly unrelated issue, which is the subject of this paper, the answer lies less in the international setting and more in the needs of a "new national economic order." Here, growing awareness of the problem has, moreover, not as yet been accompanied by either a commensurate increase in understanding or a will to action. As long as this understanding remains incomplete, it is, of course, that much easier for the elites of the

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*Paper presented to the Conference on Economic Development and Income Distribution, Institute of Behavioral Science, University of Colorado, April, 1976.

developing countries--and others--to leave the matter at the rhetorical level. It will indeed be difficult for those inside the LDCs who would like to change the current state of inequity--or those outside who would like to help through advice and/or assistance--to be really effective in the absence of further progress on this front.

We could of course argue a long while--but won't--on whether it is the absolute poverty or the relative within-country distribution of income which really represents the main problem. Certainly, for populations living near their caloric minima whose essential basic needs for food, clothing, and shelter have not yet been satisfied, it is the condition of "low-end poverty" that matters most. But I think it is reasonable to assert that for the vast majority of the populations of the developing world, certainly once they've started in motion, it is not some Rawlsian lexicographic ordering which affects their level of satisfaction or dissatisfaction, but their own (changing) standard of life relative to that of their countrymen which is now increasingly visible and yet apparently increasingly unattainable.[1] The setting of "poverty lines" at $50 or $75 per capita, or the racking up of "basic needs" with dollar or caloric equivalents, is likely to reflect policy makers' aspirations rather than people's own priorities and perceptions.

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[1]When we assign different weights to the achievement of GNP gains by different groups (as proposed by Ahluwalia and Chenery--in Chapter XI of Redistribution with Growth, Chenery et al., Oxford University Press, 1974), we are acknowledging just that.

Another, and possibly more pragmatic, reason for preferring to concentrate analysis on the relative rather than the absolute poverty issue is that the relative position of families and/or regions can be more easily integrated within the traditional general equilibrium analysis of the economic system, whether focussed on growth, technology or employment. Poverty at the low end of the income scale, whether in rich or poor countries, is, after all, an arbitrary concept usually tackled by "after the fact" measures, e.g., public employment, fiscal redistribution, food stamp programs and other transfers--all "secondary" strategies, if by "primary" strategy we mean the nature of the production process itself. Once we address the question of what happens to the poor, as tied to growth, employment and other aspects of the development pattern itself, it becomes analytically much easier to deal with relative rather than absolute poverty issues. This is because relationships between growth, employment and the size distribution of income constitute a nexus which is in large part linked up with technology choice and the functional distribution of income, both of which are relative concepts.

With very few exceptions,[2] the LDC development plans of the '50s and '60s dealt with employment and regional distribution objectives as part of a secondary strategy which would have to be deployed, if somewhat half-heartedly, after the dust had settled on the primary, output-oriented

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[2]One such was Ceylon (now Sri Lanka).

development program. More recently, public works as well as nationalization have been added to the list of instruments in the tool kit. The fiscal redistribution of income from upper to lower income groups was expected to pick up secondary demand and employment effects via the impact of a different, more labor-intensive, final demand bundle. Finally, making the growth buggy move a little faster was expected to solve the poverty, if not the equity, problem.

However, there now exists a growing consensus that at least centrally planned public works programs intended to solve the national underemployment and/or poverty problem are difficult to organize, blueprint and maintain; secondly, that nationalization, even if its negative output effects could be overcome, represents a clumsy instrument for redistribution via prices in the mixed economy. Thirdly, even if the notoriously low fiscal capacity of LDC governments could somehow be repaired, results of research at Rice and elsewhere[3] indicates rather clearly that the changes in final demand composition required to make any real difference would be way out of proportion to what is realistically feasible. "Trickling down" to the poor through higher growth rates is seen as another non-starter--though only a few years ago Prebisch suggested this as a solution for Latin America--partly because we cannot expect to have enough development fuel to put into the development tank, and partly because, in any case, its consequences are unambiguously bad for distribution.

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[3]See, for example, the work of R. Soligo and J. Land, as summarized in J. Land and R. Soligo, "Consumption Patterns, Factor Usage and the Distribution of Income: A Review of Some Findings," mimeo., Program of Development Studies (Rice University), 1974.

It is thus a sad but more or less generally agreed finding that, at least for the mixed developing economy, the only reasonable hope of doing something about poverty or distribution is through an attack on the nature of the growth path itself, i.e., changes in the rules of the output game, with or without a change in the distribution of initial chips or assets. Whether or not this conclusion is universally accepted, however, does not, of course, settle, but only begins to address, the central question of this paper, i.e., whether or not growth and distribution objectives, while they need to be viewed together, are by nature likely to constitute tradeoffs or complements, and/or in what specific types of situations they are inclined to be competitive rather than complementary. Finally, if these two pivotal societal objectives are indeed to some extent competitive, we might want to know how painful are these tradeoffs.

This, it seems to me at least, is finally the right question, i.e., if distribution can be analyzed only in the context of growth, how do we in fact move towards an integration of either neoclassical or classical development theory, for what types of economies, with what measures of equity over time? Regardless of which index of inequality is ultimately preferred, and there are many ways of assessing the various measures available to us,[4] it is therefore necessary to relate it to the performance of the system in its other, more familiar, aspects. In other words, since income distribution is usually "measurement without theory," linking it with other aspects of the growth performance should enable us to ultimately arrive at some

[4] See G. Fields and J.C.H. Fei, "On Inequality Comparisons," Economic Growth Center Discussion Paper No. 202, Yale University, May 1974; also A. B. Atkinson, "On the Measurement of Inequality," Journal of Economic Theory, 2, No. 3, 1970, pp. 244-263.

approximation to the aforementioned question. In fact, it is probably the only way to get from here to there.

Section II briefly describes the nature of the available evidence on the relationship between growth and equity, mostly on the side of "trade-off pessimism." Section III makes an effort to present preliminary country experience which goes counter to the current conventional wisdom. Section IV makes a brief attempt at drawing some conclusions.

II. The Prevailing Evidence: Trade-Off Pessimism

It is fair to say that the overwhelming evidence available to date points in the direction of an inevitable, and rather severe, conflict between most conventional measures of equity for a given society and its growth performance. Working with cross-sections, Kuznets and Adelman and Morris,[5] find that LDC distributions, for instance, are substantially worse than DC distributions; especially for the top 20% of the population, incomes are clearly more equally distributed in the relatively rich countries.[6]

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[5]S. Kuznets, "Economic Growth and Income Inequality," American Economic Review, 45, No. 1, 1955, pp. 1-28 and "Quantitative Aspects of the Economic Growth of Nations: VIII, Distribution of Income by Size," Economic Development and Cultural Change, 11, No. 2, 1963, pp. 1-80; see also I. Adelman and C. T. Morris, Economic Growth and Social Equity in Developing Countries, Stanford University Press, 1973, using other than only income variables.

[6]The gap is probably even understated since, in the rich countries, there are more independent low-income households both at the very young and very old end of the tail than in poor countries--see Irving Kravis, "International Differences in the Distribution of Income," Review of Economics and Statistics, 1960.

Paukert[7]--though he mixes family and individual income in some of his work--points out that countries, as they move from $100 to $200 incomes per capita, reach a peak of income inequality, even if, as Cline points out,[8] the inverse U-shaped pattern is weaker within an LDC pattern of countries than when we stretch the cross-section across DCs and LDCs.

Turning to time trends, these also appear to be generally favorable to the trade-off hypothesis. For example, Weisskoff finds income distribution worsening in Argentina and Mexico,[9] as does Fishlow in the case of Brazil.[10] There is evidence for the Philippines[11] that income distribution probably worsened during recent periods of fairly rapid growth.

The point of this paper is not that this overwhelming mass of evidence can somehow be denied, but, rather, that there also exists counter-evidence, if admittedly less weighty in terms of the number of countries or their representativeness, which should also be considered and which should at least give us pause with respect to the inevitability of a conflict between these two societal objectives. The "deviant" countries, mainly Korea and Taiwan, are deviant in two senses, i.e., their levels of Gini

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[7] F. Paukert, "Income Distribution at Different Levels of Development: A Survey of Evidence," International Labour Review, 108, 1973, pp. 97-125.

[8] W. R. Cline, "Distribution and Development," Journal of Development Economics, 1, 1975, pp. 359-400.

[9] R. Weisskoff, "Income Distribution and Economic Growth in Puerto Rico, Argentina and Mexico," The Review of Income and Wealth, December 1970.

[10] A. Fishlow, "Brazilian Size Distribution of Income," American Economic Review, May 1972.

[11] G. Ranis, ed., Sharing in Development: A Programme of Employment, Equity and Growth for the Philippines, International Labour Organization, 1974.

are lower (in the .3 range rather than in the customary .5 range) and their Ginis have not risen during the first period of rapid transition growth. In other words, "things did not have to get worse before they could get better." These two country cases are admittedly "special" cases, i.e., the same pair which has previously given us "deviant" performance with respect to their spectacular, by now well-known, employment and income performance. Ditto for their related early departure from the general pattern of import substitution growth and their move towards export substitution based on mobilization of agriculture and the absorption of surplus labor in labor-intensive industry.[12] It is thus perhaps not surprising that it is again Korea and Taiwan--and perhaps, if we had the data, Japan historically as well--which present evidence of unusually favorable levels and trends of distribution along with rapid growth performance.

While we recognize, with alacrity, that no two countries are ever the same and that the "specialness" of these particular situations must be acknowledged, it nevertheless seems instructive to look at them more closely in terms of what pieces of the lesson are relevant or irrelevant to other LDCs. At a minimum, one successful counterexample is worth examining in detail. Moreover, it behooves us to look at other, less "special" cases to see if, at least in certain subphases of development, a similar diminution or elimination of the growth/distribution conflict can be observed. For example, Pakistan between 1961 and 1965, Colombia after 1967, Brazil between 1963 and 1968, the Philippines between 1964 and 1968, all represent historical

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[12] See J.C.H. Fei and G. Ranis, "A Model of Growth and Employment in the Open Dualistic Economy: The Cases of Korea and Taiwan," Journal of Development Studies, 11, No. 2, January 1975, pp. 32-63.

episodes of deviation from the pronounced import substitution syndrome and may turn out to represent interesting deviations from the generally accepted trade-off phenomenon worthy of more detailed study.

Such an historical approach, if feasible, is, of course, to be preferred to cross-sectional analysis for all the well-known reasons. Hopefully, in addition to the Taiwan case on which this is a brief progress report, other longitudinal studies will soon become available. Two such studies are currently well along, i.e., on Korea and Pakistan.[13] Others, e.g., on Colombia by G. Fields, and on Japan by the IDCJ group, may be available before too long. At a minimum, we would hope that studies for other countries will demonstrate that at least during particular periods of time when the overall environment underwent some change, such environments were more conducive to a softening or even an elimination of the observed conflict between growth and distribution objectives. Even though, at this stage of our knowledge, a full understanding of the interrelations between growth and income distribution still eludes us, a detailed examination of such "special case" deviations from what is assumed to be the common trend may well be worth the effort.

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[13] I. Adelman and S. Robinson's forthcoming book (Stanford University Press) on Korea, and M. Ayub's Yale Ph.D. dissertation in progress, on Pakistan.

What analysts and policy makers would presumably want to know, in particular, is to what extent the elements of the growth pattern, which apparently softened the conflict in, say, Taiwan, are present in other developing countries and to what extent they are not; and, if present, whether it is a lack of political will to make some difficult societal choices or something else which is at fault. Of special interest here is the issue of whether, assuming the Taiwan pattern could be imitated, any favorable outcome must be attributed to radical asset restructuring or whether it is possible to achieve these desirable outcomes by a mere "tinkering with relative prices." In other words, by letting markets work somewhat better, can we avoid the worsening maldistribution resulting so frequently from rapid growth, or do we need to take some strong measures, including land, capital and other institutional reforms?

Thus, not only might more analytical light be shed on the pieces in the puzzle of a country like Taiwan, but the policy conclusions that might be drawn are of substantial general interest--even if not precisely relevant in their entirety, or in parts, elsewhere. Government efforts at redistribution by moving directly to replace the market have become more frequent of late. It would be highly instructive to compare--always within the mixed economy constraint--the results of direct intervention to smooth the conflict between distribution and growth in such countries as India with the Korea or Taiwan experiences, using less direct intervention. The situation of the truly socialist countries, e.g., Cuba, China, and some of the less developed Eastern European countries, is different; they seem to have achieved lower levels of Gini, if with not clearly established rapid growth rates.[14]

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[14] Chenery, et al., op. cit., especially the country annexes.

All we want to assert in the context of this paper is that there exists conclusive evidence for at least one type of system, i.e., the mixed small, labor-surplus economy, represented by Taiwan, to the effect that rapid growth is compatible with both good levels and trends in the distribution of income. It is this record, and our attempt to understand it in terms of its underlying growth-related causes, reported on in Section III, that is of the greatest potential interest.[15]

III. Trade-Off Optimism: A Deviant Case

The Taiwanese growth and distribution record, in brief, is one of unusually low levels of Gini, around .3, coupled with unusually high rates of output growth, above 10%, during the 1960s. Moreover, what is even more interesting for our present purposes, is that the Gini in Taiwan did not follow the Kuznets inverse U-shaped pattern over time. Our data, though sketchier for the '50s than for the '60s, indicate that the overall Gini declined from a level of around .5 in 1953 to .4 in 1960 and held in the .3 range between 1964 and 1968, declining markedly thereafter. In other words, if we accept the notion that Taiwan reached the end of labor surplus at the end of the '60s, there was in fact a substantial Gini decline once wages began to rise significantly, as most observers would expect. But what is much more interesting is the virtually complete avoidance of the Kuznets effect prior to the solution of the unemployment problem in the course of the 1960s.

Again briefly, the growth side of the Taiwan story seems to be as follows: the typical regime of import substituting industrialization which

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[15] What follows represents a preliminary sketch of some findings of a study being carried out, with John Fei and Shirley Kuo, for the World Bank.

characterized Taiwanese policy from 1953 to roughly 1960 was not conducive to employment or the related (but not identical) improvement in the distribution of income in Taiwan, any more than in other developing countries. The well-known distortion of relative factor and output prices during an import substitution policy period yields unnecessarily capital-intensive techniques and output mixes, as is also well known. Even in Taiwan, employment both in rural and urban areas had to take a back seat as long as capital and imports were undervalued, and the receipt of an import license or a bank loan, in the presence of overvalued exchange rates and low official interest rates, bestowed large windfall profits and represented the major objective of entrepreneurial activity. In fact, the level of the Gini in 1953 was about equivalent to that of most contemporary LDCs. We should, however, note that the basic initial conditions for an improvement were laid via land reforms which took place in three steps during the early '50s, plus the fortuitous impact of a fairly evenly distributed migrant flow of capital and entrepreneurship from the Mainland in the late 1940s. Moreover, while Taiwan suffered from a relative neglect of agriculture, like all import substitution cases, the heavy irrigation and institutional infrastructure left by the Japanese colonial system made it possible for agriculture to nevertheless make substantial progress even during the 1950s. This is one way of explaining the gradual decline of the Gini even before the advent of the policy reforms of the early '60s.[16] We are, moreover, quite confident that import substitution of a more flexible type, as practiced in Taiwan, prevented

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[16] It should, however, be noted again that the data for this period are much less adequate and that Ginis of any reliability are only available for agricultural income.

the economy from getting into the well-known structural ruts experienced by many other LDCs. For example, unions never played any important role, and protection, including quantitative controls and tariffs, was never quite as severe as encountered elsewhere. But most important of all, in an absolute sense, the agricultural sector continued to enjoy a good deal of favorable government attention.

Turning to the decade of the 1960s, Taiwan early on instituted a series of major reforms, moving her from an import substitution onto an export substitution pattern of growth.[17] As a consequence of this shift towards an export-oriented industrial growth pattern, it became possible for maturing industrial entrepreneurship to combine with plentiful unskilled labor supplies for industrial production, destined both for domestic and, increasingly, foreign markets. Thus, the important symbiotic relationship between high growth rates and employment was established, culminating, by the end of the decade, in the termination of labor surplus and the coming of the so-called "commercialization point."[18] Fortunately, the good income distribution data becoming available after 1964 place us in a better position to analyze the relationship between distribution and the growth pattern during this export substitution period. Moreover, since growth accelerated during the 1960s, this is also a period of greatest interest to those who want to analyze why the Kuznets-type conflict pattern failed to put in an appearance.

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[17] See Fei and Ranis, op. cit., for more detail.

[18] See J.C.H.Fei and G. Ranis, Development of the Labor Surplus Economy: Theory and Policy, Richard D. Irwin, 1964.

If we look more closely at the Taiwanese record on income distribution, we find the overall Gini more or less constant between 1964 and 1968 at .33, and declining substantially thereafter (i.e., by more than 10%), to about .29. This is strong evidence that the Kuznets effect was entirely avoided before the end of labor surplus had been reached around 1968.[19] In order to get at the growth-related underlying sources of inequality, a decomposition of the overall Gini, in this case into the various relevant factor Ginis and their relative weights in total family income, can, moreover, be performed.[20] From this, a number of interesting features emerge, which permit us to push the causal explanation much further. However, this represents work in progress, and we can only hint at it in the course of this paper.

For one, as we would expect, the Gini for the profit share of income is higher than for the overall income Gini; the Gini for the wage share is lower than the overall Gini. Moreover, the wage share itself becomes increasingly important over the period, rising from .4 of total income in 1964 to .5 by 1968 and to .6 by 1972. The interpretation of this is that the wage share rises even during the unlimited supply of labor condition, which, contrary to the arguments of Arthur Lewis[21] and others, indicates that, even when wages are more or less constant, labor's share can increase as a consequence of a rapidly increasing total volume of employment and number of hours worked per employee.

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[19] This turning point around 1968 has been independently identified in other work (see Fei and Ranis, "A Model of Growth and Employment...," op. cit.), and is linked to a substantial change in the growth pattern of real wages, unskilled and skilled, around that time.

[20] This procedure is developed in J.C.H. Fei, G. Ranis, and S. W. Kuo, "Growth and the Family Distribution of Income by Factor Components," Economic Growth Center Discussion Paper No. 223, Yale University, revised January 1976.

[21] W. A. Lewis, "Economic Development with Unlimited Supplies of Labor," The Manchester School, May 1954.

Kuznets, Arthur Lewis, Marxist and dependencia theorists[22] all have in common the view that as growth really begins to get under way in earnest, income distribution must worsen as the profit share rises, especially in the modern sector, and as there is greater asset accumulation by the rich than the poor, in both sectors, and (as especially Kuznets would add) the shift from rural to urban activities enhances the relative size of the more unequal sector. What this argument apparently neglects is the possibility, as demonstrated by the Taiwanese case, that we may simultaneously experience rent reductions in agriculture and a change in the relative position of groups within the laboring class, permitting the overall Gini to be improved by the combination of a rising functional distribution of wage income, falling agricultural income Ginis and only slightly rising wage Ginis.

Secondly, if we divide the population into urban and rural households and compute the overall and factor Ginis (and weights) separately, we can see that, for rural households, the overall Gini declines during the '60s, from .33 to .29, holding more or less steady thereafter. This is related to a rapid decline, as we would expect, in the importance of agricultural income relative to non-agricultural income--the share of agricultural income in the total falling from .66 to .42 in the course of six years. This finding indicates that rural family incomes benefit as reallocation from agriculture to non-agriculture activities proceeds _if_ that reallocation is not necessarily to a distant urban sector, and participated in by the richer elements of the rural classes, but takes place in the rural areas and is heavily represented by the relatively poorer elements of the rural population.

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[22] See W. Cline, "Distribution and Development," _op. cit._

Rapid rural mobilization based on the improvement of the efficiency of the relatively poor farmers, both as farmers and as participants in the important and growing rural industries and services, does play a decisive role in the elimination of the Kuznets effect overall and, incidentally, its complete absence with respect to the rural families taken by themselves.

Finally, taking the urban families separately, we find that here the Ginis do rise slightly before the 1968 "turning point," i.e., from .33 to .34, declining rapidly thereafter--to .29. This indicates that here, in fact, the Kuznets pattern does obtain, i.e., equity for the urban families under rapid growth can improve only after the turning point when wages can begin to rise in a sustained fashion and the growing functional distribution of income in favor of labor once again, but now for different reasons, contributes to an improving size distribution of income.

Looking at the entire development experience from the early '50s to the early '70s in Taiwan, we are thus able to make the following general comments at this stage of our understanding. During the 1950s, the import substitution subphase, land reform prevented the maldistribution of assets, a common feature of LDCs, from becoming part of the landscape. Moreover, early on, the existence of substantial infrastructure, in the form of irrigation, roads and such institutions as farmers' associations, permitted agriculture to play an important role even during the import substitution phase and for land to be used rather intensively. Land reform, which was partly in the form of reduction of rents, partly in the sale of government lands and partly by transferring "soil to the tillers," i.e., tenancy reform, avoided the growth of the large landless rural worker class which often accompanies land reform and agricultural productivity increase in other countries, thus worsening the distribution of rural income. As a consequence, as the small owner/operators now used family labor, larger owners were induced to hire labor and, most importantly, landless rural workers and/or small or poor owner/operators could be absorbed into the rapidly growing secondary activities in agriculture. These activities included not only rural industries and services but also such secondary crops as vegetables, mushrooms, asparagus, etc., which played an important role in the Taiwanese case. Rural works programs generated at the local level by local initiative also played a complementary role in providing additional employment opportunities, but, more importantly, in clearing the way for the aforementioned increases in the directly productive activities, in food producing agriculture, in secondary crops, and in rural industry and service activities.

In the 1960s, when the growth regime changed to one of export substitution, rapid, export-oriented industrialization was accompanied by a substantially enhanced growth of agricultural productivity, especially when the high yielding varieties were superimposed on an already very productive and research-oriented food producing agricultural sector. Here again, as we know from other country experience, who gets the new technology and can use it in terms of the availability of other inputs, water, credit, infrastructure, etc., and what are the mechanization side effects of the high yielding varieties on labor absorption, are among the critical issues. In Taiwan, it is quite clear that the unit of cultivation did not change very much as a consequence of increased agricultural productivity; that mechanization was held in abeyance until the end of the decade when labor surplus began to disappear;

and that agricultural income at its source, if we look at the Gini for agricultural income as such, did not worsen. Even more important was the already mentioned rapid growth of rural industries and services and their relatively labor-intensive characteristic. This latter feature which we have examined elsewhere,[23] indicates the important role decentralized industrialization efforts can play in avoiding some of the costs of dualistic growth that have been pointed to by Arthur Lewis, Kuznets and others. Agriculture is basically a constant returns industry, with the technology of the high yielding varieties essentially scale-neutral. Thus, if the normal S-curve of the adoption of new varieties is permitted to play itself out,[24] there need be no fear of a possible conflict between the two societal objectives. Once the problem of who gets the benefits is solved, once the farmers' association type of institutional network provides possibilities for not only generating the agricultural surplus at its source but for channeling it into rural activities, understood and owned by the farmers themselves, the key ingredients for the absence of conflict and maximum mutual reinforcement are present.

It is not possible in the context of this paper to go into a detailed analysis of the underlying causes of the softening and virtual elimination of the Kuznets effect in the case of the Taiwanese rapid growth experience. The above discussion is merely intended as illustrative of the main theme of this paper, namely, that the analysis of at least one deviant

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[23] G. Ranis, "Industrial Sector Labor Absorption," Economic Development and Cultural Change, 21, No. 3, 1973, pp. 387-408.

[24] It would certainly be the height of folly to curb further diffusion of technology because of avoidable deleterious distributional effects.

country case in which growth, employment and distribution were mutually reinforcing, rather than competitive, should give us all some pause--and perhaps lead us to examine particular facets of other country situations more carefully before we accept the inevitability of conflict.

IV. Conclusions

In summarizing the five country case studies included as an annex to the Chenery *et al.* volume,[25] Jolly presented a number of conclusions which he felt could be derived from these, admittedly sketchy, attempts to look at income redistribution and growth experience in a number of very different countries. He pointed out, quite correctly, that in the socialist countries in the sample, i.e., Cuba and Tanzania at least, whatever income redistribution occurred was the result of conscious government policy directed toward that objective, and that the income distribution results in a more market-oriented mixed economy like Taiwan, were more the by-product of policies aimed at growth. It is important, however, to note that the Gini in Tanzania, .48, as well as the growth rates in both Tanzania and Cuba compare rather unfavorably at least as of this date; in fact, as Jolly also points out, the only two cases of very rapid growth accompanied by redistribution seem to have occurred in the Korea/Taiwan cases.

We recognize that all the returns are not in, especially with respect to the Mainland China experience. Nevertheless, at this stage of our understanding, we may conclude that the achievement of substantial complementarity

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[25] *Redistribution with Growth*, *op. cit.*

between growth and redistribution may be possible in a labor surplus socialist LDC following the Chinese pattern, with all its implications for total societal mobilization. On the other hand, if a country has chosen a mixed economy pattern--wherever it decides to locate itself on the wide spectrum of available institutional/political choices--it is likely to be very difficult to achieve a happy combination of growth and redistribution via direct interventions by government on behalf of the poor. If there is one thing the Bardhan piece on India illustrates extremely well,[26] it is that every time mixed economy governments intervene on behalf of the poor, the poor find themselves worse off. We do not wish to get into the question of whether this is due to an imperfect understanding on the part of the elite of how the system really works, or an all-too-perfect understanding. Be that as it may, one positive conclusion, for us at least, is that just as the market mechanism can be (and has been) used as an instrument for growth in some Eastern European socialist countries, it may be the only reliable device to minimize the conflict between growth and redistribution in a mixed developing economy.

Secondly, while we are willing to accept the "specialness" of the Taiwanese experience in terms of the peculiar constellation of good initial conditions inherited from the Japanese, as well as the political realities since, it seems foolish to waive aside this deviant experience as readily as is often the case. Certainly the argument that spectacular growth was related to the singularly heavy inflow of U.S. capital is factually incorrect.[27]

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[26] Redistribution with Growth, op. cit., Annex.

[27] Foreign capital may have been strategically important, especially to facilitate the transition from import to export substitution. But its quantitative impact has been much exaggerated (for details, see Fei and Ranis, "A Model of Growth and Employment...," op. cit.). Moreover, why U.S. assisted growth should have particularly egalitarian effects in Taiwan and not elsewhere has never really been satisfactorily addressed.

The point that can and should be made instead is that the Taiwan experience demonstrates that market allocations do not have to work on behalf of the rich but can be made to work on behalf of the poor--at least if two conditions are met, i.e., assets, both in agriculture and non-agriculture, are not very unequally distributed at the outset, and relative prices are reasonably realistic indicators of resource availabilities. It is thus incorrect to say that "we tried our best for growth in the '60s" and that we must now "try our best for distribution," or that "we tried liberal reforms in the '60s" and "must now reach for the radical medicine bottle." Both judgments seem premature since we have seldom really tried "tinkering with relative prices" in the presence of relatively favorable initial asset conditions.

The LDC record of the last two decades, in short, is a poor basis for judging the inevitability or lack of inevitability of a conflict in employment, distribution and output objectives. It may thus be seriously misleading with respect to the future, given the policy package which obtained in most of the developing world during the '50s and '60s, and, in fact, continues to dominate the landscape to this day. Especially in the labor surplus economy context, it is easy to document at least the theoretical possibility of increasing both output and employment at the same time that income distribution does not deteriorate and possibly even improves. The case of Taiwan, moreover, gives us a real live example that this is also factually possible to achieve as an LDC moves into its export substitution subphase of transition growth.

In our view, the problem, frankly, is not mainly a technical one. Based on our own understanding of the Taiwanese case to date, there is no reason why, with the proper set of policies, many LDCs could not have their cake and eat it too, perhaps twice over, i.e., by choosing a more labor-intensive and participatory growth path. In the case of Taiwan, this meant shifting from a relatively enlightened and flexible import substitution regime into a trade-oriented industrial export regime over time. It also meant early attention to agricultural infrastructure and productivity increase and to a decentralized rural industrial growth pattern, with output mixes and technologies continuously responsive to changing factor endowments. Effecting such changes requires, of course, political agreement among the various major parties to the social contract, and is much easier to accomplish when the resistance offered by vested interests, which have grown up under import substitution, is relatively small and/or the government is relatively strong. Both conditions were met in Taiwan. That landless rural workers, small farmers and other target groups are bound to benefit from such changes in strategy is clear enough. But it is often less clear that, if landlords or large-scale industrialists are to be penalized, it would not necessarily have to be in the nature of a permanent penalty. Rather, it is likely to call for changes in the way in which incomes are earned, e.g., in the case of industrialists, a shift from windfall profits derived from government-induced restraints of competition, cheap capital imports, low interest rates, etc., to profits earned by participating in the expanding industrial export markets.

As has been pointed out elsewhere,[28] the alternative of "business as

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[28] e.g., G. Ranis, "Employment, Equity and Growth: Lessons from the Philippine Employment Mission," International Labour Review, 110, No. 1, July 1974.

usual" in most of the developing countries is likely to lead to a continuing build-up of social and political pressures by those who take the current rhetoric seriously. Also--and this is a point less well understood--the ultimate souring of even private rates of return in narrowly constrained LDC industrial sectors as domestic markets continue to dwindle and the process of fuelling import substitution becomes increasingly expensive and likely to boomerang on the elite classes themselves. Even bonanzas of the oil and other traditional natural resources variety, unless indefinitely and generously sustained, may serve only to put off the day of reckoning.

In spite of the increasing atmospherics of confrontationism between North and South, as well as rich and poor within each, this observer is not yet ready to accept the conspiracy theory that "vested interests do not intend to change anything but their rhetoric." I am, rather, more inclined to the interpretation that it is very understandable and human for such interests to try to avoid unpleasant decisions _if_ there is a ready-made alternative at hand--such as a boom in traditional exports or the successful search for new ones--and/or if foreign capital flows permit the maintenance of the present narrow structure of growth. Growth rates can be maintained in this fashion--as the record of the '50s and '60s indicates--but it is much more doubtful how long the increasing disparity between what is said about equity and what is done about it can be tolerated. We recognize that it is only some donors and a small minority of the spokesmen of the developing world who are now insisting on a more equity-and poverty-oriented development pattern. Developing societies, like ours, are poly-centered and complicated.

All we can do as political economists--which we are forced to be, whether we like it or not--is to improve our understanding of the causal relationships between growth and equity and to point out the extent to which societies that are not yet on the frontier could, in fact, improve their position with respect to both objectives.