Recognizing Development beyond Economic Growth: By analyzing impact of Inequality on Development

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Abstract- *The idea of development has transformed in recent decades from measuring per capita income to improving quality of life of the people. The traditional advocacy for Western models of development has proven to be futile when many developing countries (especially East Asian Tigers) have shown that one size does not fit all and there are other ways to achieve growth as well. However, global economic development also accompanied with another incidence called inequality through distributional bias and limited opportunities in last few decades. When national income is not distributed proportionately to non-economic sectors, the economic success fails to benefit sustained development in a country. This paper focuses on impact of such inequality on human development, poverty and growth. Countries with high ranks in Gross National Income (GNI) often turn into lower rankings in Human Development Index (HDI) when distribution is below the standard in health and education due to lack of pro-poor policy measures. On the other hand, poverty reduction slows down and incident of extreme poverty also rises in regions where inequality is high. Besides, rising inequality with declining share of bottom 40% of population results into inability of economic system to create jobs and such weak growth governance leads to lowering of growth rate in the long run. This paper is articulated based on secondary materials from different sources in order to study impact of inequality. It provides further opportunity to work in this subject with much broader and primary data in future.*

Keywords- *Inequality; Human Development; Poverty; Growth*

1. INTRODUCTION

There is no denial of the fact that economic growth is important for human development with emphasis on reducing inequality and poverty. But how to achieve long term economic development with focusing on dropping poverty and inequality remains doubtful especially when economic growth does not spill over to better health and education of the masses and fails to expedite alleviation of poverty. High inequality that impedes development process arises in countries where growth governance is weak and policies are not pro-poor. Inequality, as a result of poor growth governance explains difference between performance of human development and GNI per capita in countries like Qatar and Kuwait and negative shift in human development rankings for countries like USA and Colombia when their inequality is taken into consideration. It also expounds the reason of increasing number of extreme poor in Africa and slow poverty reduction in Philippines at a time when their economies are growing faster than many developed countries. It endeavors on incidences where high inequality and distributional imbalances inhibit economic development to harness human development and acceleration of poverty reduction, which ultimately affects the long term sustained growth of a country.

However, the core aim of development is to make a better life for everyone. Over the year's academicians, practitioners, scholars, activist and skeptics have debated on what makes our life better. Different understandings of development followed with various approaches and measurement in order to define development. Soon after World War II, understanding development was resembled with national income or known as 'income approach' based on GDP and GNI. Economics as a powerful social science claimed status of objectivity and started measuring development that fits for all the nations (Peet, 2009: p.23)[23]. On the other hand, World Bank divided countries into categories depending on their income levels: low income, middle income (now divided into upper and lower middle income) and high income. It was believed that economic betterment would trickle down to solve other problems in poor developing countries. During 1960s and 1970s, the escalating global output and negating distributional factor resulted into incidences like unemployment, extreme poverty and inequality in both developed and developing world. At that point of time a number of development thinkers have redefined parameters for understanding development. Dudle Seers

(1969), for instance described development in terms of reduction of poverty, inequality and unemployment in the context of growing economy. According to him, it would be strange to call a country developed if any of these three central problems is present in economy, even though per capita income may double (Todaro, 1977: p.61)[39].
Similarly, according to Amartya Sen (2000, pp. 3-9), development lies in elimination of sources of un-freedom: poverty, poor economic opportunities and repressive state etc. He talked about five types of freedoms; political freedoms, economic facilities, social opportunities, transparency guarantees and protective security. To his account, economic un-freedom can breed social and political un-freedoms that can further advance economic un-freedom. Therefore, it is not economic growth but freedom (achieved by eliminating sources of un-freedom) that is the principal end of true development. Such realization in development thinking led to revision of measurement that required inclusion of qualitative parameters. In 1990, the United Nations Development Program (UNDP) introduced the first Human Development Report (HDR) using Human Development Index (HDI) that extends focus on *longevity* (life expectancy at birth), *knowledge* (adult literacy and mean years of schooling), and *income sufficiency* (GNP) (Willis, 2005: p.7)[40]. Since then, the idea of development moved beyond income approach and supplemented with non economic aspects of life. Inequality became important aspect of development literature especially in poverty studies and identified as an important issue that hinders progress of human development. Inequality to some extent explains the non-linear relation between GNI and HDI rankings in many countries that reveals the loopholes in the previous income approach. Therefore, this study seeks to illustrate impact of inequality from three aspects; human development, poverty and economic growth. This paper also demonstrates lethargy in economic growth in some countries where inequality has increased over the years.
The paper begins with understanding development and its key concepts and followed with theories of growth and performance in different countries in next part. The third part focuses on missing link between growth and development through understanding the impact of inequality on human development, poverty and economic growth. The fourth part discusses briefly on key policy issues regarding inequality for inclusive and sustainable development and finishes with conclusion that summarizes key points discussed in the paper

2. AN OVER VIEW OF THEORETICAL AND EMPIRICAL REVIEW

Whether through capital accumulation (Classical), efficient production (neo classical) or through monetary and fiscal policy of the state (Keynesian), the economists have always focused on smoothing the growth process of their contemporary economy. In 1949, when US president Truman declared the legitimacy of reconstruction of poorer part of the world on its richer counterpart (similar to white man's burden during colonial period), the emphasis was solely concentrated on accelerating GDP growth that was believed to trickle down benefits. Growth as the ultimate end of development was mainstreamed when United Nations declared "Development Decade" in the 1960s (Todaro 1977, P. 60)[39].
Hence, the early development literatures on growth were dominated by 'linear-stage theory' of Walt Rostow (Willis 2005, P.39)[40]. In 1960 he introduced a non-Communist Manifesto of development, *"The Stages of Economic Growth"* that displayed successive growth path (from traditional society to age of high mass consumption) to the Third World countries. The basic concept was to follow the footprint of the developed West. Likewise, Harrod-Domor's 'Two Sectors' model and Arthur Lewis' 'Structural Change' model of growth also played prominent role in shaping policies in newly independent countries of 1950s and 1960s. Along with assumption of constant return to capital (even though later it was challenged by Robert Solow), the initial focus of these development models was placed into increasing national savings and investment. As Third World Countries lack savings, these models advocated for foreign aid in order to push modern sector growth (Willis 2006, pp.39-42)[40]. This not only legitimized foreign aid, but also legitimized development as an economic phenomenon.
Beside inequality, researchers have explained diverse development experience of different regions using four alternative models (Easterly 2007, pp.760-761)[11]; settler mortality, in which colonies with lower mortality helped to produced institution favorable to development, compared to non-settler colonies where they produced extractive institution (in Acemoglu et al. 2002, 2005)[2]; ethnic fractionalization leading to poor institution (in Easterly & Levine, 1997)[12]; tropical location, especially land locked location directly inhibit development (Sachs and Warner 1997)[29]; and finally legal origin and its negative effect on institution (La Porta et al. 1999)[16].On the other hand, inequality has become a common phenomenon in the study of development. The World Development Report (World Bank 2005)[41] divided inequality based on "inequality of opportunity" and "inequality of outcome" (cited in Easterly, 2007)[11]. Easterly (2007, p.756) divided inequality based on two categories, historical inequality (like conquest, slavery, colonialism etc.) and market inequality. According to him, inequalities in different countries are result of these two forces. For instance inequality in China is result of market forces, while in Africa or Brazil it is result of historical or structural. The structural inequality is unambiguously bad; while the effect of market inequality is ambiguous (some studies find it adverse, while elimination of it can have negative incentive effect) (Easterly, 2007, p.756)[11].
One of the major problems of the studies on inequality lies on the quality of the data set used. Deninger and Squire (1996, 1998) first challenged such lack of quality dataset who at the same time offered new set of data to study

inequality. Again, later Atkinson and Brandolini (2001)[4] challenged it with their smaller dataset for rich countries. Further in response to these criticisms, the World Institute for Development Economics Research (WIDER 2000) produced a database with cross-country comparability. Still according to Easterly (2007, p.760)[11] this issue of data quality is far from resolved. Beside data quality, another problem in the study of inequality is the lack of consensus among the researchers. The first wave of literature on inequality showed that inequality is good for economic betterment (Lewis 1954[17], Kaldor 1956[14][14]). However, to this date there are studies that show negative impact of inequality on growth (Perotti 1996, Benabou 1996[6] etc.) and studies that show the relationship in the opposite direction (Forbes 1997)[13]. Moreover, there are studies that give country specific evidences between poor and the rich. Barro (2000) finds that an overall effect of inequality on growth and investment is not strong. Rather, higher inequality tend to retard growth in poor countries, while encourage growth in rich countries. Such differential result between poor and rich countries also found in Deninger& Squire (1998)[9]. Using new sets of data (from 1950s -1990s), they have identified three results; there is strong relationship between initial inequality in asset distribution and long-term growth, inequality reduces income growth for the poor but not for the rich.

There is no single model and single result to explain impact of inequality on growth. Within studies on inequality, research on the macroeconomic relationship between inequality and growth can be categorized into four models; credit market imperfection, political economy, social unrest and saving rates (Barro 2000). *Credit market imperfection* is a situation where information is asymmetric and legal institution is weak. In this mechanism, reduction of inequality increases economic growth. On the contrary, in *Political economy theory*, it shows that if the mean income exceeds median income, then the majority favor for redistribution of the resources from rich to poor. Therefore as redistribution takes place, investment falls and growth declines accordingly. Therefore, it shows that greater amount of inequality (measured before transfer) would reduce growth. More so, inequality can have negative effect on growth through political channel by rich groups through promoting official corruption during their lobbying against redistribution. The third model is *Socio-political unrest* which shows that inequality in income and wealth instigates the poor to be engaged in evil activities like crime, riot etc. that weakens political institution. As this result into direct waste of resources, therefore more inequality tends to reduce the productivity of the economy. Motivated from Keynesian Theory, the *saving rate model* argument shows that as saving increases with income, the redistribution from rich to poor ultimately reduces the aggregate saving in the economy and increases investment. This only happens in partly closed country where investment to large extend depends on desired national saving only. Therefore, more inequality would increase economic growth.

There are other studies that go beyond explaining relationship between inequality and growth (e.g. inequality and poverty or institution or human development etc.). Using agricultural endowment (structural inequality), Easterly (2007) shows that inequality affects different aspects of development like growth, institution and schooling. He concludes that high inequality is both large and significant barrier to prosperity, good institution and high schooling. He also argues that previous literatures have missed the big picture that inequality (i.e. structural) actually does cause underdevelopment (Easterly, 2007[11], p.777). He took the idea from Sokoloff and Engermann (2000 as cited in Easterly 2007) who hypothesized that factor endowment is major determinant of inequality and the elites in Latin America opposed democracy and development of human capital in feat that the poor will become empowered and use that power to redistribute income and rent from the elites' share. Some studies describe role of inequality on growth through human development. For instance, study of Alesina & Rodrick (1994)[3] and Person & Tabellini (1994)[25] show that inequality harms growth by constraining human development or occupational choice.

There are some studies find impacts of inequality on poverty (both indirect and direct). Ravallion (2001)[27] for instance discussed role of initial inequality on poverty reduction. He finds out that higher initial inequality tends to reduce the impact of growth on reduction of absolute poverty. Therefore, it implies that higher initial inequality is negatively related with rate of poverty reduction. Cheema and Sial (2012)[8] have tried to find relationship between growth and poverty as well as inequality and poverty. They show that keeping inequality constant, growth contributes in reducing poverty more than the former (i.e. inequality) when the latter (i.e. growth) is constant. Beside it also shows that inequality elasticity of poverty is higher in urban areas than rural areas, while growth elasticity of poverty, which is higher in rural areas than urban areas. They concluded with recommendation that in order to reduce poverty, government should focus on policies not only for economic growth but also improvement of income distribution (i.e. reduce inequality)

Likewise, the early decades of development for newly independent countries were full of volatile growth experiences. With sluggish run, it started to accelerate since 1980s (see **Table 1**). Dany Rodrik (2003) shows that the average real per capita income growth of developing countries was 2.6 percentage points between 1960-2000. This is very high compared to England who grew at only at 1.3 percentage point at late 19th century (during their economic supremacy). After the initial fall in 1970s and 1980s, Latin America and African countries also recovered over 2% growth rate, while South and East Asian countries had robust growth for over last couple of decades.

Table 1: Growth transition for selected countries (Source: Adopted from Rodrik (2003) [28])

Countries	Year of growth acceleration	Growth before	Growth after	Magnitude of acceleration
Argentina	1989	-2.73	4.77	7.51
Brazil	1966	2.00	7.05	5.05
China	1989	3.67	7.36	3.69
Egypt	1976	-3.36	4.10	7.47
Pakistan	1977	1.25	4.28	3.04
Malaysia	1986	1.03	5.64	4.61
Mauritius	1982	0.36	4.97	4.62
Haiti	1987	-1.96	7.72	9.68
South Korea	1982	3.04	7.72	4.68
Taiwan	1961	3.73	7.27	3.54

Comparing with neo-classical prescriptions of openness of economy and privatization, many would have termed East Asian countries undeveloped in the early 1970s. Especially South Korea and Taiwan, who showed tremendous growth boom, taking strategies completely opposite to those prescribed in the Washington Consensus. Both the countries relied on public enterprise for initial growth. On the other hand the region (Latin America) did the most deregulation and liberalization experienced little pace in its growth compared to East Asian countries (Rodrik, 2003). This diversity in growth experience again rejects the one size fits all principle of linear growth model that predicted similar growth for most of the developing countries, assuming them as homogenous and ignoring dissimilar contexts that these countries had. Besides, the sole focus on output, while disregarding distribution brought new challenges (e.g. inequality) to many of these countries.

3. FINDINGS AND ANALYSIS

It is evident from the recent studies that all of the 10 fastest growing economies in last decade were from developing world (The Economist, 2013, Rodrik, 2003)[28]. However, at the same time rising number of extreme poor, growing unemployment and informal economy, problem of sanitation, safe water, urban poverty and dictatorial regimes remain as major challenges for many these countries. The rising economic development also increased inequality around the world. According to UNDP report, the richest 20% of the world account for 75% of world income, while poorest 40% only have 5% of income (UNDESA 2009, P. 2).With reference to inequality, this study will try to discover the potential disconnects where growth fails to meet development objectives. Mainly it will show the impacts of inequality on human development, poverty and growth.

3.1. Human development and Inequality

Importance of humans with minds than muscles became instrumental in growth theory during 1950s when it was found that the output of US economy was growing much faster than its input. It was then for the first time economists were fascinated by contribution of the third factor 'education of the workers'. Later it came as residual in economic growth models (e.g. Solow growth model). It was acknowledged that the most important investment for a country is the investment on its people (Psacharopoulos, 1973). In a while it was mainstreamed as an important element of development measurement in human development reports since 1990.

Human Development Report classifies countries into four groups (i.e. very high, high, medium and low human development) based on performance in three broad criteria (discussed earlier). Even though average income of the majority countries in the top group of HD is very high, however the Graph 1 shows some interesting differences between GNI per capita and HDI value. In the graph above, 10 Countries from very high Human Development (HD) groups are plotted (these are countries who have either positive or negative gap between HDI and GNI rankings plotted in Table 2). The Y-axis shows HDI values and X-axis shows the GNI per capita. Three types of outcomes can be observed from the graph; that there are countries with both very higher HDI value and high GNI income (e.g. Australia); there are countries with very high GNI, but relatively low HDI value (e.g. Kuwait) and countries (e.g. Cuba) with very low GNI, but relatively similar HDI like the latter group. The overall trend shows a negative relation between income and human development performance among these countries. This is due to low HDI performance of countries with high GNI.

However, further country specific understanding of human development performance can clarify this negative trend of income and human development. For example, Kuwait who has more than twice the average per capita of very high HD group (85,820 USD) ranked very bottom of the group (at 46th position) that is quite substandard compared to countries like Cuba and Chile who have better human development record with four times less income than Kuwait. Surprisingly, 29 out of 49 countries in very high HD group are below 40,046 USD (average income level of that group). The report also shows that the global GDP has doubled since 1999, while numbers of countries graduating from low and middle-income levels to high HD are not significant (HDR 2014: pp.33-36). One of the significant explanations of such inconsistency is the distributional gap in areas like health and education of particular country (see Table 2). The table below shows how disproportionate distribution of income in health and education can impact countries' human development status.

Graph 1: Relation between HDI and GNI per capita for selected countries (*Source: Human Development Report 2014*)

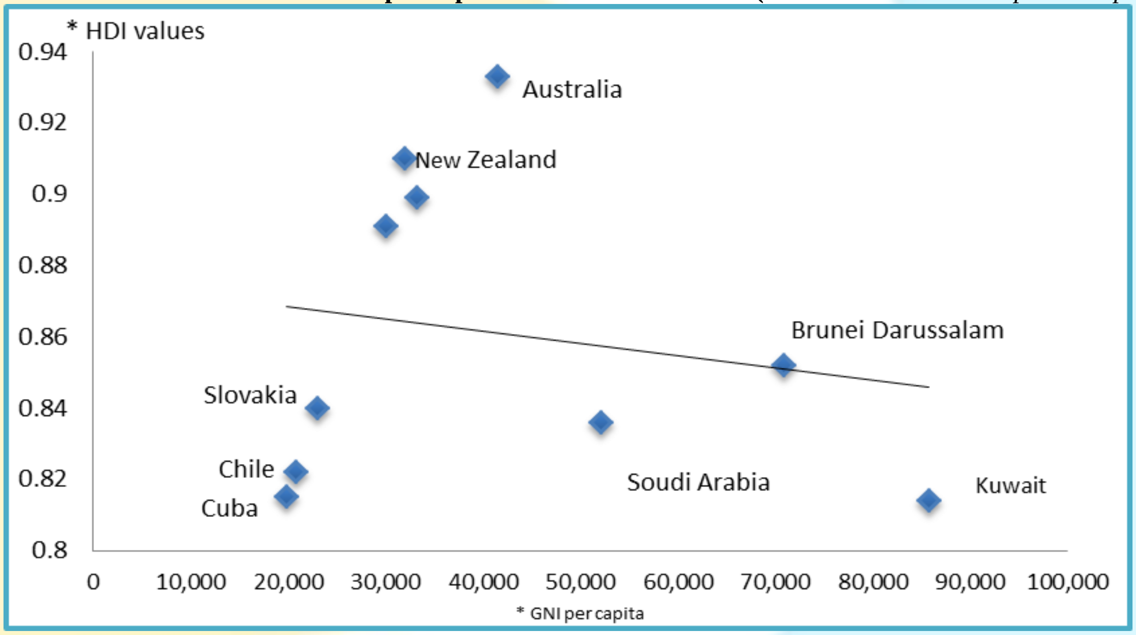

Table 2: Selected countries' data on Human Development (Source: Human Development Report 2014)

Countries	GNI per capita ranking	HDI ranking	Gap between GNI and HDI	Public expenditure in Health (% of GDP)	Public expenditure in Education (% of GDP)
New Zealand	30	7	23	10.1	7.2
Australia	20	2	18	9	5.1
South Korea	33	15	18	7.2	5.0
Ireland	28	11	17	9.4	6.5
Rwanda	171	151	20	10.8	5.1
Madagascar	174	155	19	4.1	2.8
Nepal	158	145	13	5.4	4.7
Kuwait	3	46	-43	2.7	3.8
Oman	17	56	-39	2.3	4.3
Qatar	1	31	-30	1.9	2.5
Brunei Darussalam	5	30	-25	2.5	3.3
Saudi Arabia	12	34	-22	3.7	5.6

The table displays 12 countries based on GNI-HDI rankings gap. The first seven countries (from very high and lower HD groups) indicate positive gap (HDI outpaced their GNI). On the other hand, the last five countries show very high negative gap. For instance, Australia and New Zealand are 20th and 30th respectively in GNI per capita rankings, while in HDI rankings their positions are 2nd and 7th respectively. Contradictorily, none from Qatar, Kuwait and Brunei Darussalam (all are among the top 5 countries in GNI rankings) could secure their place below 30 in HDI rankings. There is no general ignominy to have high economic development in any country. But it becomes suspicious when their rising income fails to harness potential human capital and benefit human development in that country.

Keeping other factors constant, simply looking at column 5 and 6 of the table, it can be implied that lack of proportional disbursement in health and education (that constitute key part of human development) is one of the reasons of such negative gap for countries with high income. Public expenditure is one of main source of improving development condition of a country, especially for developing nations where large number of people living below poverty line cannot afford to pay for basic amenities. Different UN organizations recommend 6% (of GDP) for education and 5% for health as global rule of thumb. Qatar for instance, the richest country in GNI spends only 1.9% in health and 2.5% in education, lesser than countries like Nepal and Rwanda (who rank 158 and 171 in GNI rankings respectively). Therefore, Qatar experiences a negative rank change, moved from 1st to 31st when HD is taken into account.

Mostly, very large segment of population in developing countries depend on public expenditure for health and education which seems very low in these countries. As a result, their mounting per capita GNI was not sufficient to shift them from status of developing to developed countries. In an economy where share of national income benefits the top and discriminates the bottom, often pose threat to its sustainable development. Weak institutions and lack of accountability (encouraged by traditional autocratic political institutions) are key foundations in these countries that spur distributional inequality. Conversely, the countries with positive gap also are countries with highest level of transparency and partisan democracy. Their performances illustrate that income and balanced expenditure can be mutually benefitting for development regardless of levels of income.

In addition to inequality of distribution in health and education, the Human Development Report also includes other aspects of development. Good economic growth is the one that promotes human development in all its dimensions. It guarantees cooperation, equity, empowerment, sustainability and security (HDR 1996: pp. 55-56). Youth unemployment for example, varies between 20-50% in many rich countries that bears sign of jobless exclusive growth (HDR 2014: pp. 213-14). According to the idea of development endorsed by Dudle Seers and Amartya Sen, these countries cannot be termed as developed even though they have high GNI per capita. Lack of proportionate distribution in social dimensions often denies the rights of the marginalized even in rich countries. For instance, according to US Census Bureau, the share of top 20 % earners in USA (the ninth richest country of the world with over 50,000 USD per capita) increased from 44 % of total income to 50% from 1973 to 2000. More micro level analysis of within country inequality is shown by Amartya Sen (2000) between Afro-Americans and global south. He showed how high per capita income does not necessarily correlate with greater life expectancy for the poor Afro-Americans compared to the poor citizens of the Indian state of Kerala where public services have long been accessible to the poor. Referring to the work of McCord and Freeman (1990 cited in Sen 2000), Amartya Sen also shows that poor Bangladeshi men have better prospect of living beyond forty years of age than African-American men even from prosperous city of New York.

Twenty countries with highest positive and negative change in HDI rankings (after inequality is considered) are plotted in the table that represents four HD groups (see **Table 3**). Countries with highest positive shift due to better equality are placed in the grey shaded sections of the table. The United States of America who is one of the top five countries in HDI rankings, moved to 28th position after inequality is considered (23 point drop). Growing gap between bottom 40% and top 10% is eliminating America's status of 'land of opportunity' to a 'land of discrimination'. Given the adjusted ranking, the column number 4 in the table points out how income inequality can be a big factor that fades away development performance in many countries. The countries with negative changes are also those who have higher inequality (wtih average Gini coefficient around 50), while the countries that had positive changes are those who have low level of inequality (with average Gini coeffcient around 30).

From the negative change group, four countries (Chile, Argentina, Columbia and Namibia) indicate that after inequality is taken into account, not only their rankings changed, but also their statuses shift from an upper HD group to a lower HD one. Opposite is the case for Mongolia and Moldova who became high HD countries from medium HD after inequality is adjusted. The frequencies of inequality in these countries regardless of their position at different HD groups or income levels indicate that inequality is widespread and threat for countries' human development as well as overall long term sustained development.

3.2. Poverty and Inequality

It is commonly believed that affluence or rising income ensures wellbeing of the people and provides leeway to enjoy longer and healthy life. However, there is actually very less guarantee of that correlation when we take into account distributional aspects (mentioned in previous section) in many countries. That is why, countries with similar income often show dissimilar poverty rate. For example, Serbia, Columbia and South Africa are parallel in terms of level of GNI per capita (around 11,000 USD). However, in Serbia only 0.1% people living below $1.25 poverty benchmark, while in Colombia and South Africa its around 5.6% and 9.4% respectively (WDI, 2014).

Table 3: HDI of selected countries after inequality adjustment (Source: Human Development Report 2014)

	Country	HDI rank	New HDI (Inequality adjusted)	GINI coefficient
Very High Human Development	United States	5	28 (-23)	40.8
	Chile	41	67 (-16)	52.1
	Argentina	49	53 (-4)	44.5
	Finland	24	15 (+9)	26.9
	Slovakia	38	29 (+9)	26.0
High Human Development	Panama	66	84 (-18)	51.9
	Brazil	79	95 (-16)	54.7
	Columbia	98	108 (-10)	55.9
	Ukraine	83	65(+18)	25.6
	Armenia	87	72 (+15)	31.3
Medium Human Development	Bolivia	113	123 (-10)	56.3
	Guatemala	125	133 (-8)	55.9
	Namibia	127	149 (-22)	63.9
	Mongolia	104	88 (+16)	36.5
	Moldova	114	98 (+16)	33.0
Low Human Development	Angola	149	166 (-17)	42.7
	Rwanda	151	155 (-4)	50.8
	Nigeria	153	167 (-14)	48.8
	Tanzania	160	152 (+8)	37.5
	Afghanistan	169	162 (+7)	27.8

Surprisingly, inequality is also high for the latter two countries (55.9 and 63.1 Gini coefficient respectively) that signify impact of inequality on poverty. Similarly, Philippines for instance, the second fastest growing economy in East Asia today (after China), is also country with 40 million people living below $2 poverty line (18 million below $1.25 poverty line). Inequality in Philippines has increased from around 40 Gini coefficient points to 43 in last three decades. This high inequality is accompanied with slow rate in poverty reduction at 0.5 percentage point annually since 1980s (poverty at $1.25 threshold fall from 36% to 18% in Philippines). Compared to its neighbor Indonesia where poverty reduced at 1.6 percentage point annually (inequality is also 7 percentage point low in Indonesia) that helped poverty to reduce from 65% to 17% from 1980s to 2010s.

Extreme poverty which is considered as violation of human rights in General Assembly has ascended over the years (even though global poverty has halved in last two decades). 6 out of 10 fastest growing economies in last decade were from Africa. However, the number of extreme poor has increased in Sub-Saharan Africa from 205 million to 414 million in last three decades and also the share in global extreme poverty tripled during same time (the World Bank, 2013). This inability of income growth to reduce extreme poverty (let alone multidimensional one) often indicates the unequal resource distribution of these countries.

Income poverty often leads to other poverty traps based on health and education (low quality education, shorter size, lack of nutrition etc.). Abhijit Banerjee and Duflo (2010: pp.26-28) show how income poverty thrusts the poor households to compromise with health and education benefits of their members (unequal distribution of household resources based on gender), that led to 'witch killing' in Tanzania in order to reduce unproductive mouth in the family. Income growth that fails to expand affluence of the poor household often backfires and hampers the development process[1]. Referring to the importance of equal distribution, the Asian Development Bank in recent report shows that if inequality in Asia were low, 240 million people could have graduated from extreme poverty in last 20 years (the Economist 2012).

3.3. Growth and inequality

Development economist supported unequal distribution initially as positive stimuli for growth momentum**.** Simon Kuznets (1955) hypothesized of inverted U-shaped curve that suggests unequal income distribution at the early stage of economic development. He believed that after certain point, this curve would go down and result more equal society. But, Kuznets hypothesis proved wrong in later works on devolving countries (Todaro, 1977)[**39**]. Against the myth of productive investment by the rich for whom economists have advocated for centuries, squandered much of their income on imported luxury goods than utilizing in productive resources. Therefore, patronizing income inequality for development process is "opportunistic myth disguised in maintenance of status quo" by the elites (Todaro 1977: p.112)[**39**].

The high consumption of the poor expands the aggregate demand that helps to create new jobs. According to Stiglitz (2014), it's the ordinary Americans who create jobs, not the rich. Deceleration of wage share in national GDP compared to profit not only increases distributional inequality, but also reduces potential role of economy to create jobs. The Human Development Report 2014 shows that since 2005, the countries where inequality is high, consumption of bottom 40% is dawdling than overall population.

The **Table 4** illustrates effect of rising income inequality (measured by Gini coefficient) on GDP growth (given that other things remain constant). Sweden and Slovakia are the top countries with low inequality, while South Africa, Comoros and Seychelles are the most unequal countries according to UNDP measurement. For the former two countries, GDP growth has improved with reduction of inequality from 2000 to 2010 (the Gini coefficient fell from 27.5 to 25.0). While, for the rest of the three, rising inequality has resulted into diminishing overall GDP growth. For example in South Africa, Gini coefficient increased from 57.8 to 63.1 from 2000 to 2013. On the contrary, its GDP growth declined from 4.1 percent to 3.24 percent from 2000 to 2010 (for Seychelles and Comoros, such declining started after 2005). This also confirms study of Berg and Ostry (2011), that greater equality is vital to sustain growth. In another study recently, it shows that increase of Gini from 37 to 42 point decreases growth by 0.5 percentage points (Ostry et al., 2014: P.18)[**19**].

Moreover, growing inequality is also identified as contributing factor for growing unemployment for Comoros and South Africa (25.1 percent and 27.1 percent), compared to countries with low inequality (8 percent and 14 percent unemployment in Sweden and Slovakia respectively). So far it is apparent from examples of different countries that economic growth is not the panacea when inequality exists in the society. It not only slows down sustained growth in the long run, but also limits the spillover effect of economic wellbeing to ensure faster reduction of extreme poverty and better human development.

4. POLICY OPTIONS

Today in many parts of the world, the shining star of development dream remains in the darkest sky of global distribution where rocket of growth fails to reach. Historical record in a study by Organization for Economic Co-operation and Development on 25 countries demonstrates that the global Gini rose from 49 in 1820 to 66 in 2000 (The Economist, 2014). The Human Development Report 2014 shows that inequality has grown in 65 out of 130 countries (70% of total world population) between 1990 and 2012. Inequality in income or wealth breeds inequality in other sectors society and *vice-versa*. In the following section, three solutions have been identified necessary for growth process to be inclusive and ensure development that is sustained, while keeping gap between the top and the bottom minimal.

4.1. Growth governance

Governance of growth refers to the management of growth that provides the maximum and just benefit to citizens of any country. Growth can have multiple outcomes. In some countries it helps the bottom 40% or it helps the richest 10% in other countries. While in many countries, it helps the both proportionately. Today, the knowledge about distribution of a country is more important than the knowledge of its GDP growth or per capita. Distribution policies should give similar or more emphasis on spending for human capital as on physical capital. To ensure that growth is distributed equally, participation from citizens in decision making is essential to ensure accountability and transparency of the ruling class.

4.2. Pro-poor policies

When policies will ensure distributional justice, poor people will participate in decision-making. Todaro (1977:

[1] Globally, 2.6 billion people lack basic sanitation, around one third of children in developing countries are underweight and 72 million school going age children are unable to go school (UNDESA, 2010).

pp. 121-122) prescribes three policy issues that ensures pro-poor development: (a)structural change in *asset distribution* (access to basic needs like education or employment opportunities), (b) with *correct factor price* (that will help the working class) and (c) modifying *size distribution* (benefit to top 20% or bottom 40 %) through taxation and transfer payment. According to Todaro (1977: p. 113), equitable distribution can reduce mass poverty and act as powerful incentive (both material and psychological) that ultimately increase public participation in development process and necessary for good governance.

Table 4: Countries with highest and lowest GINI coefficient and impact on growth(*Source: UNDP, HDR 2014 and WDI 2014*)

Countries	Gini coefficient in 2000	Gini coefficient in 2013	GDP growth Rate in 2000	GDP growth rate in 2005	GDP growth rate in 2010	Unemployment rate
Sweden	27.5	25.0	4.45	3.16	6.56	8.0
Slovakia	29.1	26.0	1.37	6.6	4.18	14.0
South Africa	57.8	63.1	4.1	5.28	3.14	25.1
Seychelles	42.7	65.8	4.2	9.1	5.6	Not given
Comoros	Not given	64.3	1.42	4.3	2.05	27.1

4.3. Institutional change

In many countries where inequality is high, the performance of institutions is very low to ensure rule of law. Rising inequality disturbs market signals essential for coordination in any forms of human interaction. Therefore, policy must focus on measures that reduce dominance of *de facto* upon *de jure,* which disrupts economic competition and increases practice of rent seeking. Besides, lack of governance in many countries is result of lack people participation in development process. The particular form of administration that can inspire citizens' involvement in the system is necessary in order to ensure accountable and transparent development that will help reduction of inequality.

5. CONCLUSION

Income Inequality as a consequence of unfair income distribution affects bottom 40% the most regardless of the country they live in. The bottom 40% in California is as helpless or more as the bottom 40% in Sao Paulo, Mumbai or Kuala Lumpur compared to top 10% population in income deciles. This study argued that income growth does not necessarily guarantee human development when inequality is rising in both rich and poor countries. Due to lack of balance between economic progress and distribution for non-economic development, many countries remain in the developing countries group even though their per capita GNI is two or three times higher than many developed countries (e.g. Qatar, Saudi Arabia etc.). On the other hand, Inequality not only increases vulnerability to the poor, but also slows down ability of economic system to reduce poverty at faster rate. Poor people highly depend on government subsidy for necessary amenities. In an unequal society, they often get rundown when government subsidizes in sectors that benefits only the rich. At the same time, the decline in consumption of the bottom 40% results into catastrophe in economic accumulation and hampers the economic growth as well. This paper shows how rising inequality has also resulted in falling growth in Comoros and South Africa and *vice-versa* in Sweden and Slovakia. A number of policy interventions are compulsory to reduce inequality and ensure growth that is sustainable, inclusive, balanced and includes different sectors (e.g. health and education). Therefore, rather than focusing on only growth, it requires fundamental change in governance system and institutional mechanism that allows more participation of the marginalized to check and balance governance of growth for smoother long term development.

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