

by *Marcelo Medeiros,*  
International Poverty Centre

# Now, the Rich

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**Growth alone will not be sufficient to eradicate income poverty within a reasonable time frame of two or three decades.**

**Eradicating poverty will require reducing inequality through direct redistribution.**

**It is not a matter of choosing between labour and transfer strategies, but of recognising them as complementary.**

**We know a lot about the poor but little about the rich, who should provide the resources for redistribution.**

**Learning more about the rich is important for improving the lives of the poor.**

**Economic growth** is a very tempting strategy to combat poverty. After all growth can be good for everyone. At least in theory, with growth both the poor and the rich can win, thus avoiding any serious distributive conflicts. And even if growth comes accompanied by increases in inequality—as seems to be the most common case with accelerating growth—it can still improve the life of everyone. However, what is a possibility has become almost a mantra: growth is good for the poor.

If it is good for the poor, it is welcome. But good does not mean best and the fact is that in many countries realistic growth rates will not be sufficient to eradicate income poverty within a reasonable time frame of two to three decades. If middle-income countries like South Africa, Peru and the Philippines do not reduce inequality, they may double their GDP and still have more than 10 percent of their population living below a \$2/day income threshold; low-income countries like Kenya would have such poverty ratios above 20 percent and India would be above the 30 percent level. The calculation here is simple: if the economy grows without changes in inequality, the headcount ratio for the extreme poverty threshold of a \$1/day will be the share of the population under the \$2/day poverty line after the duplication of the domestic product.

Where increasing the average level of income is not sufficient, it is necessary also to better distribute the existing resources. For many developing countries income poverty is not a problem of generalized scarcity of resources but mainly a matter of skewed distribution of national income. Much of the poverty in the world could be reduced if there were less inequality in these countries. This is particularly true in

highly unequal middle income countries in Africa and Latin America, such as South Africa, Botswana, Colombia, Brazil, Chile or Mexico, in which 5 percent of the income of the richer decile of the population is sufficient to double or even quadruplicate the income of the poorest decile, according to the HDR 2005 data on poverty and inequality.

It is not just a matter of having less inequality. Destroying the wealth of the rich reduces inequality but it is hard to see how this would help the poor. The type of inequality reduction these countries need is the one that results in increases of the income of the poor. There are countless ways to do it and of course there is no “one-size-fits-all” solution to this problem, but basically such increase can be obtained by raising the labour earnings of the poor and raising social transfers.

Urban and rural land reforms, better access to credit and markets, labour market regulation, production subsidies and the remodelling of control agencies and bureaucracies can and should be used to increase labour earnings. But not all the poor would be benefited by these measures. In some cases they have limited scope and affect only certain occupational groups or regions. In other cases they have to be complemented by so many structural changes in the production and distribution of commodities that in practice isolated policies are of little use.

Moreover, changes in the demand for labour will hardly be sufficient to eradicate poverty if they are not accompanied by changes in the supply, which involves increasing the skills of the poor workers and allowing them to freely migrate to areas and countries where they can find better jobs.

Improving the labour earnings of the poor requires not only a good effort, but also some time. Not all alternatives to reducing inequality by increasing the labour income of the poor will bring substantial results in the relatively short period of twenty or so years. For example, it takes more than ten years to educate a cohort of children and even countries that may accomplish a large expansion in their educational systems will have to wait many more years until the new generations of educated workers become a majority in the labour market. Parallel to that, these countries will also have to change the production and occupational structures to reduce segmentation and absorb new waves of educated workers. This may take a long time as well.

The poor cannot wait that long. If the idea of eradicating poverty in a reasonable time frame of two to three decades is to be taken seriously, direct redistribution will be inevitable. Improving the labour earnings of the poor is crucial but for the present generations it will hardly be enough to drastically reduce poverty; as a consequence, income has to be directly redistributed to the poor via social transfers. It is not a matter of choosing between labour and transfers but of recognizing they are complementary strategies.

Redistribution means to take income from one group and give it to another. In the last twenty years there was an impressive progress in terms of knowledge about the group that will be benefited by this redistribution, the poor. Ethnographers, statisticians, sociologists, economists and a multitude of other professionals have visited, mapped and described the poor, analysing their habits and even testing their behaviours experimentally. However, little is known about the group that preferably should provide the resources for redistribution, i.e. the rich.

Indeed, the rich receive so little attention from researchers that even operational definitions of the group need to be better developed. Take, for instance, the ever increasing sophistication in the debate about poverty lines. Drawing such lines allows the stratification of the

population and is one of the first steps in any statistical study of poverty. There is much in the literature about the methods do draw absolute, relative, objective, subjective, uni- and multidimensional poverty lines but not so many attempts to draw richness or affluence lines having redistribution in mind.

Many years ago the first studies of the poor had to overcome huge obstacles. But thanks to the ingenuity of a large number of scholars, today there are several tools that allow us to identify and aggregate the poor, analyze the determinants of poverty and estimate the possible impacts of public policies on poverty. The study of the rich can benefit from these previous efforts. With few adaptations, the tools used to study poverty can be easily applied on the research about the rich.

Data, however, is still a problem. In the developing countries the existing survey questionnaires were not designed to correctly collect data on the wealth and income of the richest groups of the population, although many of these surveys have very long and detailed sections on the income and assets of the poor. This limitation, however, does not prevent research in these countries.

Even underestimating incomes and assets, the existing household surveys can bring us useful information about the rich. For instance, they allow us to seek answers to questions that are extremely important for theories of justice and, therefore, for egalitarian public policies: How fluid is the transition between the non-rich and the rich strata? Does regular education open to everyone the opportunity to become rich? How strong is the role of dynasties for generational mobility? What is the composition of the income of the rich? What are their consumption and saving patterns?

Most of these questions can be explored using data that is already available. Although not perfect, this data should be used because, as in any other field of research, a growing number of studies may justify improvements in data collection and lead to the development of better theories to understand social

inequality. And, of course, surveys are not the only source of data to study the rich. There are studies that lay hold of tax information, some government administrative records and data from companies, but most of them refer to highly developed countries. Similar studies in developing countries are still in their infancy.

Different from the “positive-sum game” promised by growth, redistribution has winners and losers and consequently is associated with conflicts of interest. Because of the interests it affects, it can hardly happen without imposition by the state. Therefore, redistribution has also a political dimension, in addition to the economic one. The rich have power and use it to gain or maintain economic advantages. However, what seems an obvious fact actually requires more detailed analysis so the mechanisms that link political power to wealth can be fully understood. The approach used by a large number of studies about social networks and social capital of the poor seem to be a promising path to understand where the political power of the rich comes from, how it relates to their wealth and how it can block redistribution initiatives.

It is true that there is some discomfort among economists about approaching the rich—surprisingly, since the study of *elites* has been consolidated as a field of political science for almost a century. But the fact is that to better understand inequality and what can be done to reduce it, the rich must be increasingly put on the research agenda of development studies. There is a need for information about who they are, what makes them rich, how they use their wealth, what happens with their consumption and investment when they are taxed, what are the relations they have with the state, how much political power they have and use, how they benefit from public policies and so on. By knowing more about the rich we will be better prepared to improve the life of the poor. ■

**M. Medeiros: Poverty, inequality and redistribution: A methodology to define the rich.** IPC Working Paper No. 18, 2006. <http://www.undp-povertycentre.org/newsletters/WorkingPaper18.pdf>