

## GPID Briefing Paper 1

# WHAT IS THE 'DEVELOPER'S DILEMMA'?

Author(s): Andy Sumner  
Date: 29 September 2017  
Affiliation(s): King's College London  
Email(s): [andrew.sumner@kcl.ac.uk](mailto:andrew.sumner@kcl.ac.uk)

## SUMMARY

This brief outlines the 'developer's dilemma' which is a distributional tension that arises from two goals that developing countries are pursuing. The first, structural transformation or a shift towards higher productivity activities, is essential to economic development but has been thought historically to put upward pressure on inequality. The second, inclusive growth or broad-based economic growth benefiting the poorer in society in particular, implies a need for steady or even falling inequality to spread the benefits of growth widely. The brief outlines the tension between these, the empirical basis of the dilemma and questions arising.

## About the GPID research network:

The ESRC Global Poverty and Inequality Dynamics (GPID) research network is an international network of academics, civil society organisations, and policymakers. It was launched in 2017 and is funded by the ESRC's Global Challenges Research Fund.

The objective of the ESRC GPID Research Network is to build a new research programme that focuses on the relationship between structural change and inclusive growth.

See: [www.gpidnetwork.org](http://www.gpidnetwork.org)

### THE DEVELOPER'S DILEMMA

The ESRC Global Poverty and Inequality Dynamics (GPID) research network is concerned with what we have called 'the developer's dilemma'.

This dilemma is a trade-off between two objectives that developing countries are pursuing. Specifically:

1. Economic development via structural transformation and productivity growth based on the intra- and inter-sectoral reallocation of economic activity.
2. Inclusive growth which is typically defined as broad-based economic growth benefiting the poorer in society in particular.

Structural transformation, the former has been thought to push up inequality. Whereas the latter, inclusive growth implies a need for steady or even falling inequality to spread the benefits of growth widely. The 'developer's dilemma' is thus a distribution tension at the heart of economic development.

## The contours of contemporary development

Global poverty can be characterised in three stylised facts as follows (drawing on Sumner, 2016): first, most of the world's poor live in countries that have since the Cold War experienced rapid economic growth and substantial rises in average income per capita. Second, those countries that are home to much of world poverty have experienced unequivocal structural change of output and exports away from agriculture and although employment too has moved away from agriculture the shift is less substantial. Third, the structural change has been associated with an increase in the disparity of national income shares between the richest and the poor in the sense that the share of the richest decile has increased at the expense of the poorest forty percent.

The UN goal of ending global poverty by 2030 will require that those high growth rates are sustained but also that growth is inclusive and shared across society so that poverty reduction is maximised.

High and sustained growth is best driven by structural change (see Herrendorf et al., 2014). This is not least to avoid a growth slowdown or the contested 'middle- income trap'.

Structural change, though, has been associated historically with rising inequality, as originally posited by Arthur Lewis (1954) and Simon Kuznets (1955).

Although rejected as a universal law, the upswing of the Kuznets' curve – of rising inequality – is evident over time in some fast-growing economies.

Global poverty is heavily concentrated – more than sixty percent – is accounted for by four such newly emerging economies: India, China, Indonesia and Nigeria.

## The developer's dilemma

The 'developer's dilemma' is a distributional tension that emerges in economic development.

Developing countries are seeking to achieve structural transformation and inclusive growth. The former has a tendency to put upward pressure on inequality unless countered by public policy.

The latter, inclusive growth, is better achieved with steady or even falling inequality.

Structural change or transformation or a shift towards higher productivity activities is essential to long-run economic development in developing countries. This is because economic growth led by structural transformation is likely to be sustained in the medium term in a way that commodity boom-led growth is not.

Inclusive growth and its earlier iterations in 'pro-poor growth' and 'growth with equity' is essential to raising incomes across the population and is best achieved with steady or falling inequality to maximise poverty reduction (see Bourguignon, 2003; McKinley, 2010 Rauniyar and Kanbur, 2009).

How are countries to manage the developer's dilemma and what are the experiences of countries who have managed the tension? These are not purely questions of economics although they are rooted in economics as a point of departure.

There is fundamentally a question of politics in that there are political choices to be made (meaning governments can intervene to manage inequality).

There are also the social implications of policy intervention and non-intervention, and the direct implications for ending poverty in relation to how governments deal with the trade-off.

## The empirical basis

Empirical support for this developer's dilemma was originally offered in Sumner (2016) and then in greater depth by Baymul and Sen (2017).

Baymul and Sen (2017) make use of the Feenstra et al. (2015) Groningen Growth and Development Centre (GGDC) 10-Sector dataset and the United Nations University World Institute for Development Economics Research (UNU-WIDER) World Income Inequality Database (WIID) (Shorrocks and Baymul, forthcoming) standardized dataset. They find that: (a) a movement of workers away from agriculture is unambiguously associated with rising income inequality. However, (b) in most cases, structural change of employment is from agriculture to services, not agriculture to manufacturing.

## Questions arising

The developer's dilemma raises a number of questions for developing countries. For example:

- How are structural transformation and inclusive growth to be understood?
- How are structural transformation and inclusive growth related?
- Does inequality always rise with structural transformation?
- How are governments to use public policy to manage the trade-off between structural change and inclusive growth?
- How does the changing nature of industrialisation and the emergence of premature deindustrialisation impact on the developer's dilemma?
- What models of economic development would ensure rapid economic growth and structural change with an expanding share of national income for the poor?

*This brief is based on Sumner (2017).*

## References

- Baymul, C. and Sen, K. (2017). What do we know about the relationship between structural change, inequality and poverty in developing countries? ESRC GPID Research Network Working Paper. London: King's College London.
- Bourguignon, F. (2003). "The growth elasticity of poverty reduction". In T. Eicher and S. Turnovsky (eds), *Inequality and Growth: Theory and Policy Implications*. Cambridge, MA: MIT Press.
- Herrendorf, B., Rogerson, R., and Valentinyi, A. (2014). "Growth and structural transformation". In P. Aghion and A. Durlauf (eds), *The Handbook of Economic Growth*, Vol 2. San Diego: Elsevier.
- Klasen, S. (2010). Measuring and Monitoring Inclusive Growth: Multiple Definitions, Open Questions, and Some Constructive Proposals. Manila: ADB.
- Kuznets, S. (1955). Economic growth and income inequality. *American Economic Review* 45(1): pp. 1-28.
- Lewis, W. A. (1954). Economic development with unlimited supplies of labour. *The Manchester School* 22(2): pp. 139-91.
- McKinley, T. (2010). Inclusive Growth Criteria and Indicators: An Inclusive Growth Index for Diagnosis of Country Progress. Manila: ADB.
- Rauniyar, G. and Kanbur, R. (2009). Inclusive Development: Two Papers on Conceptualization, Application, and the ADB Perspective. Manila: ADB.
- Ravallion, M. (2001). Growth, Inequality and Poverty: Looking Beyond Averages. *World Development*, 29(11), pp. 1803- 1815.
- Shorrocks, A. and Baymul, C. (forthcoming). Standardised World Income Inequality Database. Helsinki: UNU-WIDER.
- Sumner, A. (2016). *Global Poverty: Deprivation, Distribution, and Development Since the Cold War*. Oxford: Oxford University Press.
- Sumner, A. (2017). The Developer's Dilemma: Structural transformation and inclusive growth. ESRC GPID Research Network Working Paper. London: King's College London.