



ARTÍCULO

Is economic growth sufficient for poverty alleviation? Empirical evidence from Malaysia

Dullah Mulok, Mori Kogid,* Rozilee Asid, Jaratin Lily

School of Business and Economics, Universiti Malaysia Sabah, Kota Kinabalu, Sabah, Malaysia

Received December 9, 2011; accepted March 7, 2012

JEL CLASSIFICATION

C12;
C13;
C22;
I30;
O40

KEYWORDS

Real GDP;
Poverty rate;
Cointegration;
Causality;
Malaysia

Abstract Malaysia's success story has been highlighted by the remarkable social transformation and poverty reduction accompanying rapid economic growth. Some three decades ago, more than half of the population was poor, the number of illiterates was high, and the average person could only hope to live until the age of 48. The proportion of poor people is currently down to 5.6 percent, 90 percent of adults are literate, and life expectancy is up to 68 years. Although Malaysia's population has increased from approximately 10 million in the 1960s to about 28 million in 2010, the number of poor people has dropped significantly during this period. This paper attempts to determine the empirical relationship and importance of growth for poverty reduction in Malaysia. The results show that growth explains much, but not all, about the evolution of poverty. Economic growth is necessary but not sufficient for poverty reduction, especially if the objective is rapid and sustained poverty reduction. This study proposes that if a policy's objective is focused on poverty alleviation, poverty reduction as well as economic growth should be simultaneously taken into account as the final target.

© 2011 Asociación Cuadernos de Economía. Published by Elsevier España, S.L. All rights reserved.

CÓDIGOS JEL

C12;
C13;
C22;
I30;
O40

PALABRAS CLAVE

PIB real;
Tasa de pobreza;
Cointegración;

¿Es suficiente el crecimiento económico para paliar la pobreza? Experiencia en Malasia

Resumen La historia del éxito de Malasia se ha visto evidenciada por la sorprendente transformación social y la disminución de la pobreza que han acompañado al rápido crecimiento económico. Hace unos treinta años, más de la mitad de la población era pobre, las tasas de analfabetismo elevadas y el ciudadano medio sólo podía esperar llegar a los 48 años. La proporción de población pobre actualmente se ha reducido al 5,6 por ciento, el 90 por ciento de los adultos cuenta con una educación y la esperanza de vida alcanza los 68 años. Aunque la población de Malasia se ha visto aumentada de los aproximadamente 10 millones en los años 60 a los 28 millones registrados en 2010, el número de ciudadanos pobres ha decaído de forma significativa durante este periodo. Este artículo pretende determinar la relación empírica y la

*Corresponding author.

E-mail address: morikogid@gmail.com (M. Kogid).

Causalidad;
Malasia

importancia del crecimiento en la mitigación de la pobreza en Malasia. Los resultados demuestran que el crecimiento tiene mucho que decir, aunque no todo, en la evolución de la pobreza. El crecimiento económico resulta necesario, aunque no suficiente, para paliar la pobreza, sobre todo si el objetivo es una reducción rápida y sostenida. Este estudio propone que, si el objetivo de una política se centra en paliar la pobreza, tanto la reducción de la misma como el crecimiento económico acabarán siendo parte simultáneamente del objetivo final.

© 2011 Asociación Cuadernos de Economía. Publicado por Elsevier España, S.L. Todos los derechos reservados.

1. Introduction

Since independence in 1950s Malaysia has been recognized as one of the more successful countries in fighting poverty. Poverty has decreased tremendously from 52.4 percent in the 1970s to about 3.6 percent in 2009. This decline has been attributed or associated to many factors, including economic growth. It is widely believed that economic growth measured in terms of GDP growth is directly related to poverty reduction. In other words, a high growth of GDP can more often than not help to lessen poverty. GDP growth therefore has a close relationship with the poverty levels in any country. In fact, most economists believe that economic growth benefits nearly all citizens of a country, if not equally, at least in reducing poverty. The extent to which these benefits are felt by various groups is reflected as a change in the distribution of income. If economic growth raises the income of everyone in a society in an equal proportion, then the distribution of income will not change. However, if economic growth raises the incomes of certain groups in a population, there will be a change in the distribution of income. This can be seen when certain groups in a population become richer or poorer.

This paper attempts to determine the empirical relationship and importance of growth for poverty reduction in Malaysia. The paper is organized as follows. Section 2 presents selected literature review. Section 3 explains the data and methodology used. Section 4 discusses the empirical results. The last section draws discussions and conclusions from the empirical analysis.

2. Selected literature review

Early studies found that an increase in poverty as a result of economic growth is a very rare and exceptional combination. Economic growth has not typically had a significant negative impact on the relatively poor (Ravallion, 1995). A study by Fields (1989) suggested that of 18 countries with data on poverty over time, in only one case was economic growth not accompanied by a fall in poverty. Moreover, Fields found that more rapid economic growth tended to bring greater declines in poverty.

A study by Roemer and Gugerty (1997) on 26 developing countries demonstrated that economic growth benefits the poor in almost all the countries in which substantial growth has taken place. Indeed, economic growth appears to be one of the best ways to reduce poverty. The poor do better in countries that grow quickly, even if income distribution deteriorates slightly. Countries which have experienced rapid economic growth over the last thirty years, such as Hong Kong, Korea, Malaysia, and Indonesia, have seen the per

capita income of the bottom 20% and 40% of the population grow significantly. Another conclusion of this study is that income distribution changes very slowly, and that a policy that aims at redistributing income at the expense of economic growth may have very low payoffs in terms of poverty reduction.

Warr (2001) conducted a study on the relationship between changes in the headcount measure of absolute poverty incidence and the rate of economic growth in South Asia (India), East Asia (Taipei, China), and four countries in Southeast Asia (Indonesia, Malaysia, the Philippines and Thailand). Using data covering the period from the 1960s to the 1990s, he found that the relationship between the change in absolute poverty incidence and economic growth per person is significant and approximately the same for all six economies. The study also shows that the growth rate of real GDP per person has a significant influence on the rate of poverty reduction.

Income growth per capita is the main source of reduction in poverty in most countries. This has been supported empirically by the studies of Tendulkar and Jain (1995), and Ravallion and Datt (1996). Dollar and Kraay (2000, 2001, 2002) showed data from over 70 countries supporting the view that high growth rates of real gross domestic product (GDP) per capita are associated with a more rapid reduction in poverty. The role of economic growth in poverty reduction has also been supported by Deaton and Dreze (2001), Bhagwati (2001), and Datt and Ravallion (2002). Furthermore, in a study on economic growth and poverty reduction in Kazakhstan using provincial data, Agrawal (2008) found that provinces with higher growth rates achieved a faster decline in poverty. Reduction in poverty was largely due to growth, which led to increased employment and higher real wages.

In contrast, Ravallion's (1997) study found that inequality in income distribution among the poor can increase poverty despite good underlying growth prospects (see also Lustig, Arias & Rigolini, 2002; Bigsten et al., 2003; Salvatore, 2004; Townsend, 2005). On globalization issues, Salvator (2004) stressed that globalization as a process has not enabled the poorest countries to participate in the tremendous benefits in terms of economy efficiency and growth in living standards that globalization has made possible, which resulted in an increase in inequalities between rich and developing countries and the poorest developing nations. In addition, Townsend (2005) reviewed a book entitled "The End of Poverty: How We Can Make It Happen In Our Lifetime", written by Jeffrey Sachs, an Economist from Harvard University, and found that benefits to the poor are not traced from source to beneficiary and there is no nationwide system of delivery. He added that a 'trickle-down' effect is not quantified.

Download English Version:

<https://daneshyari.com/en/article/7343152>

Download Persian Version:

<https://daneshyari.com/article/7343152>

[Daneshyari.com](https://daneshyari.com)