

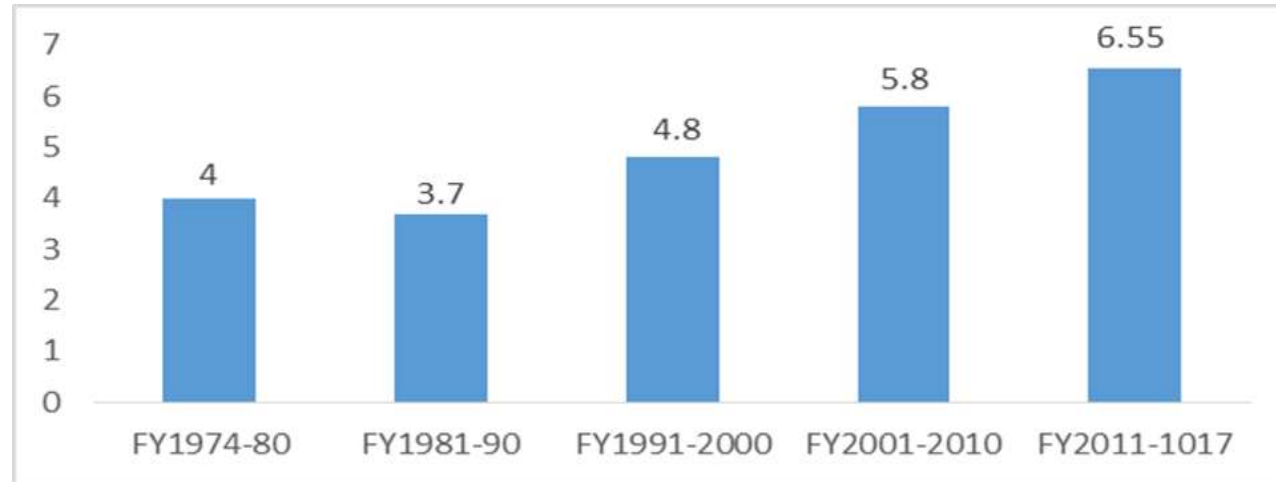
Quality of Growth in Bangladesh: Some New Evidence

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Steady and persistent acceleration of growth



- About one percentage point increase in every decade since 1980s
- Average real GDP growth over the last five years has been above 6%
- Average growth rate of all developing countries (4.7%).

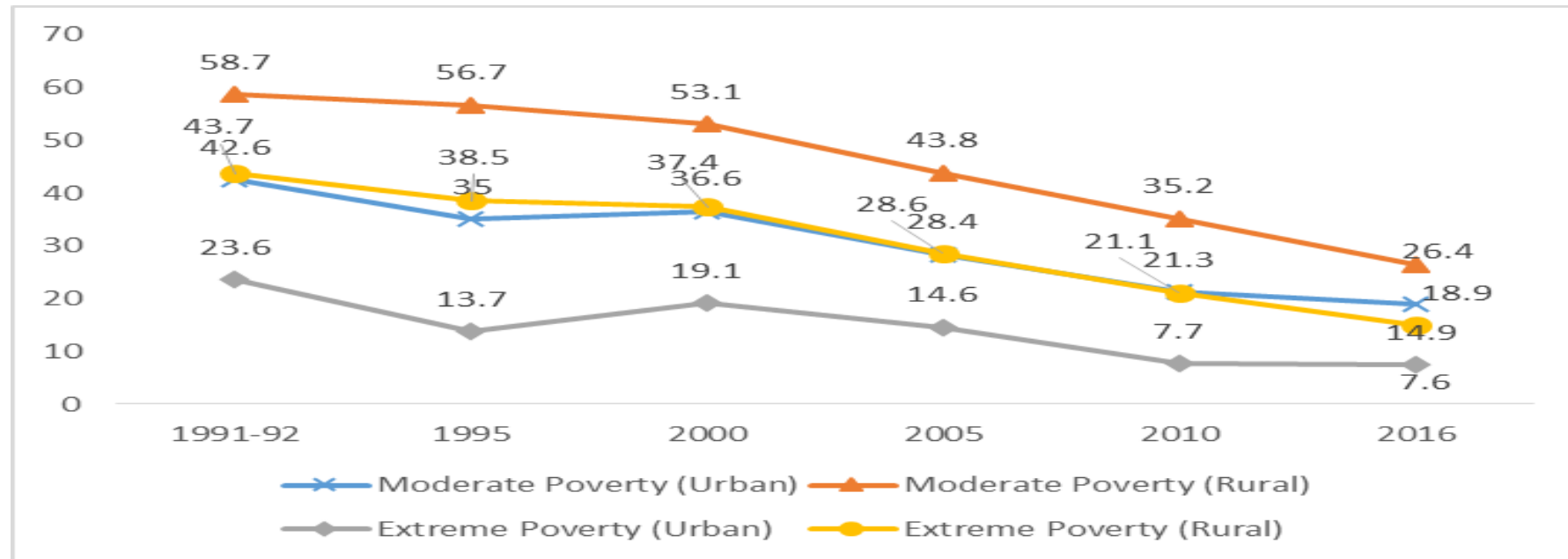
Objective

- The extent to which growth can
- 1) Reduce poverty
- 2) Generate employment
- 3) Contain inequality

Growth and poverty relationship (Literature)

- Growth has been poverty reducing in developing countries across the world for the last two decades (Ravallion 2001; Adams 2004; Fosu 2009)
- **Nonlinearity:** growth does not create equal opportunities for all (Sen & Hulme 2006; Osmani & Sen 2011; Rahman & Hossain 1995; Sen 2003; Krishna 2011; Kabeer 2009)
 - lack of assets
 - low relative return of assets
 - greater exposure to shocks etc.
 - geographical exclusion
 - policy bias
- **Initial level of inequality:**
 - Higher inequality, lower subsequent income growth, lower pace of absolute poverty reduction (Ravallion 1997)

Growth and poverty relationship...



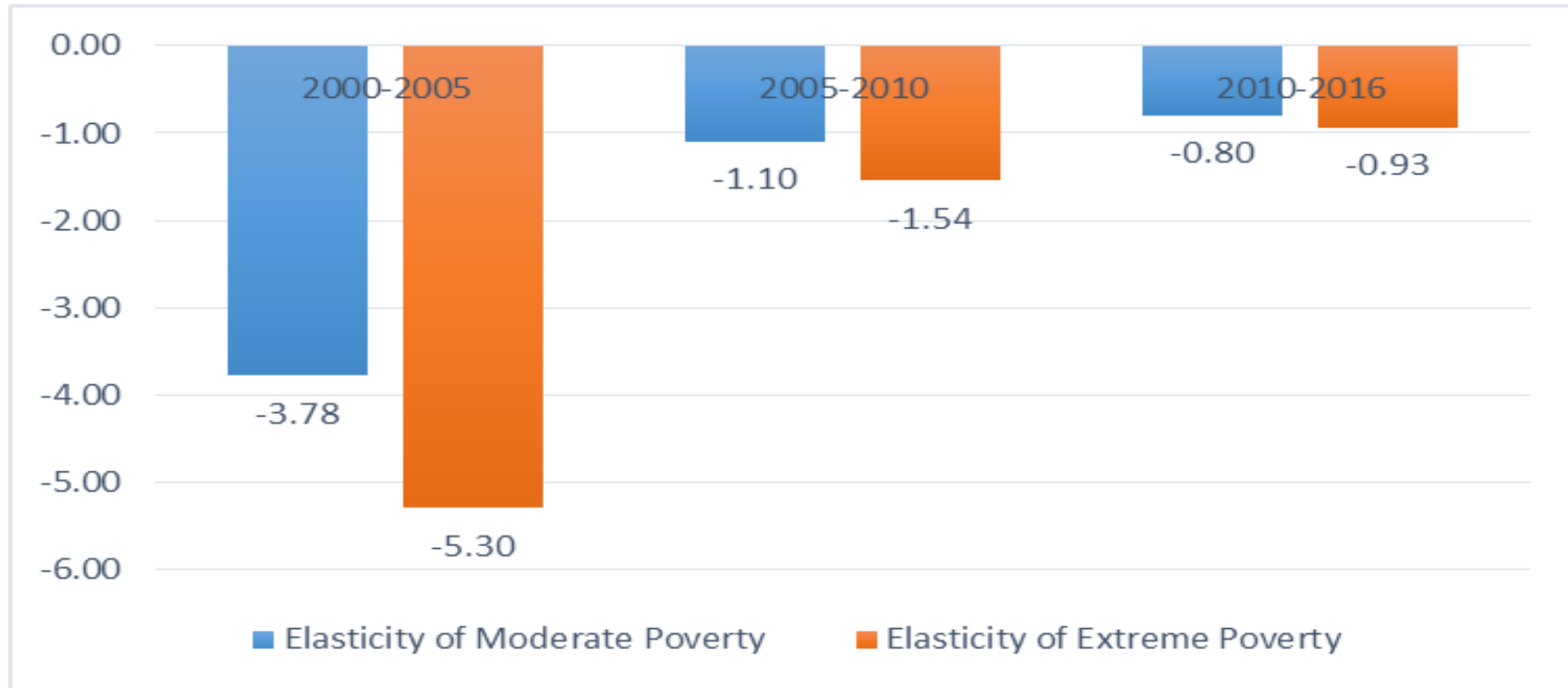
- Growth has been pro-poor
- Extreme poverty rate has dropped by two third
- Moderate poverty rate has more than halved

Growth and poverty relationship...

- Still 1 in every 4 people live below the upper poverty line income
- Still 1 in every 8 people live below the lower poverty line income
- Has the effectiveness of growth as a driver of poverty reduction gone down?

Growth and poverty relationship...

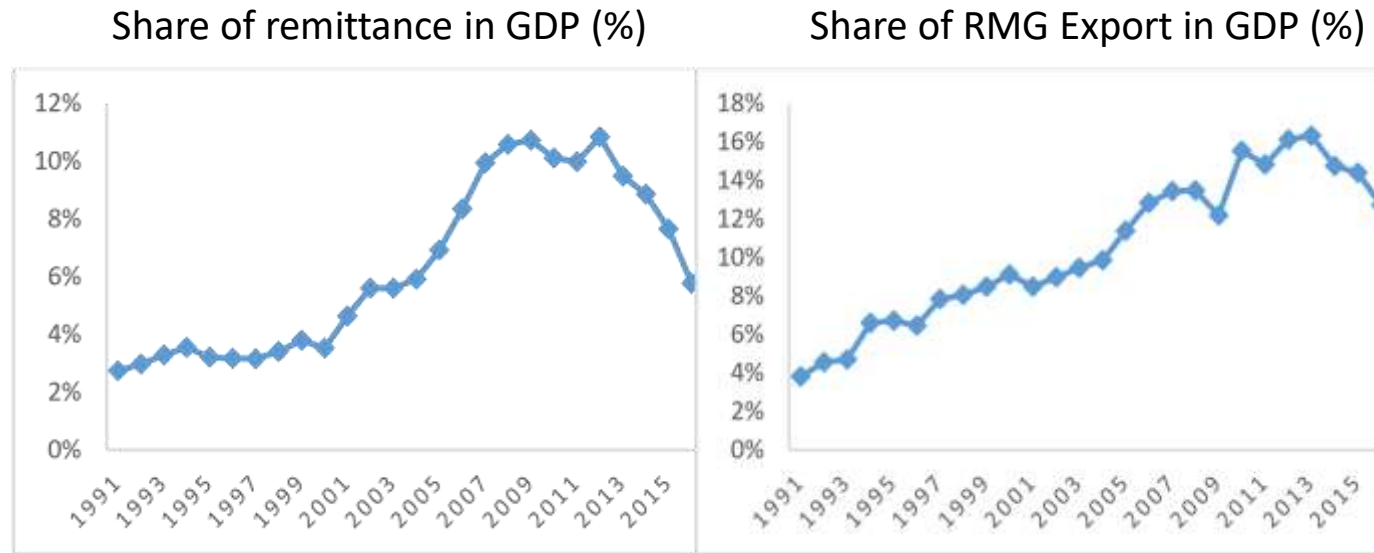
➤ Growth elasticity of poverty



Growth and poverty relationship...

➤ Plausible explanation:

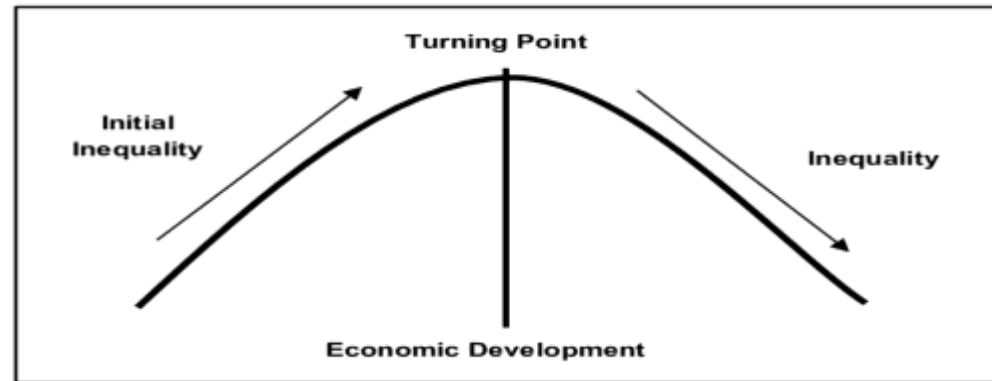
- Drivers of growth might have become ineffective or changed:



- Low hanging fruits are exhausted and we are left with only hard-to-reach people, geographically and socially

Growth and Inequality (literature)

➤ Kuznets' (1995) inverted U hypothesis

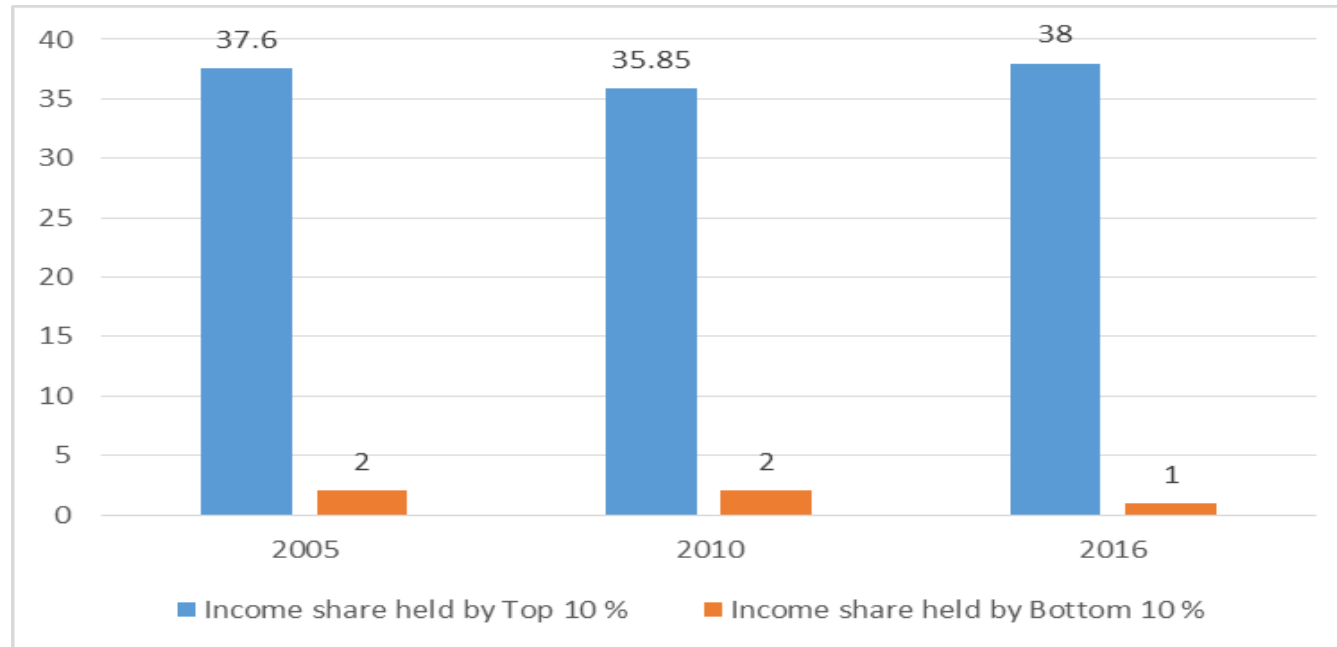


➤ Inequality affect growth negatively

- the credit market imperfections channel (Galor and Zeira 1993)
- the fiscal policy channel (Alesina and Rodrik 1994)
- the socio-political instability channel (Keefer and Knack 2002)
- the savings channel (Kaldor 1956)

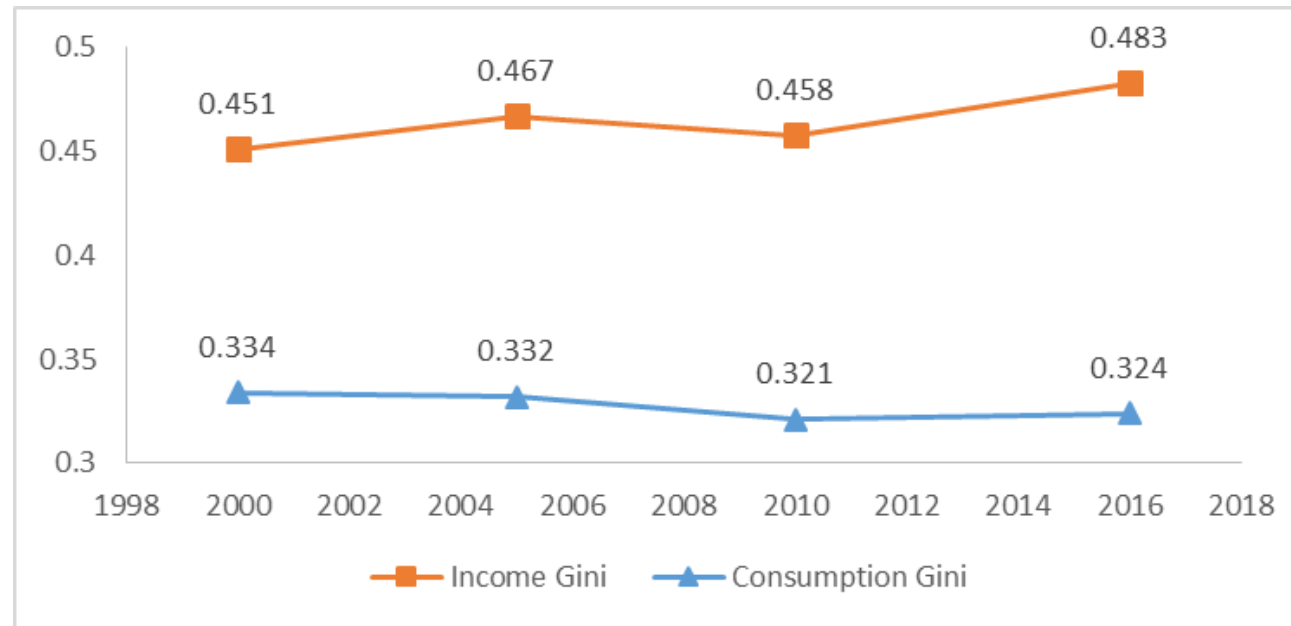
Growth and Inequality...

- Income share held by top and bottom 10 percent of the population



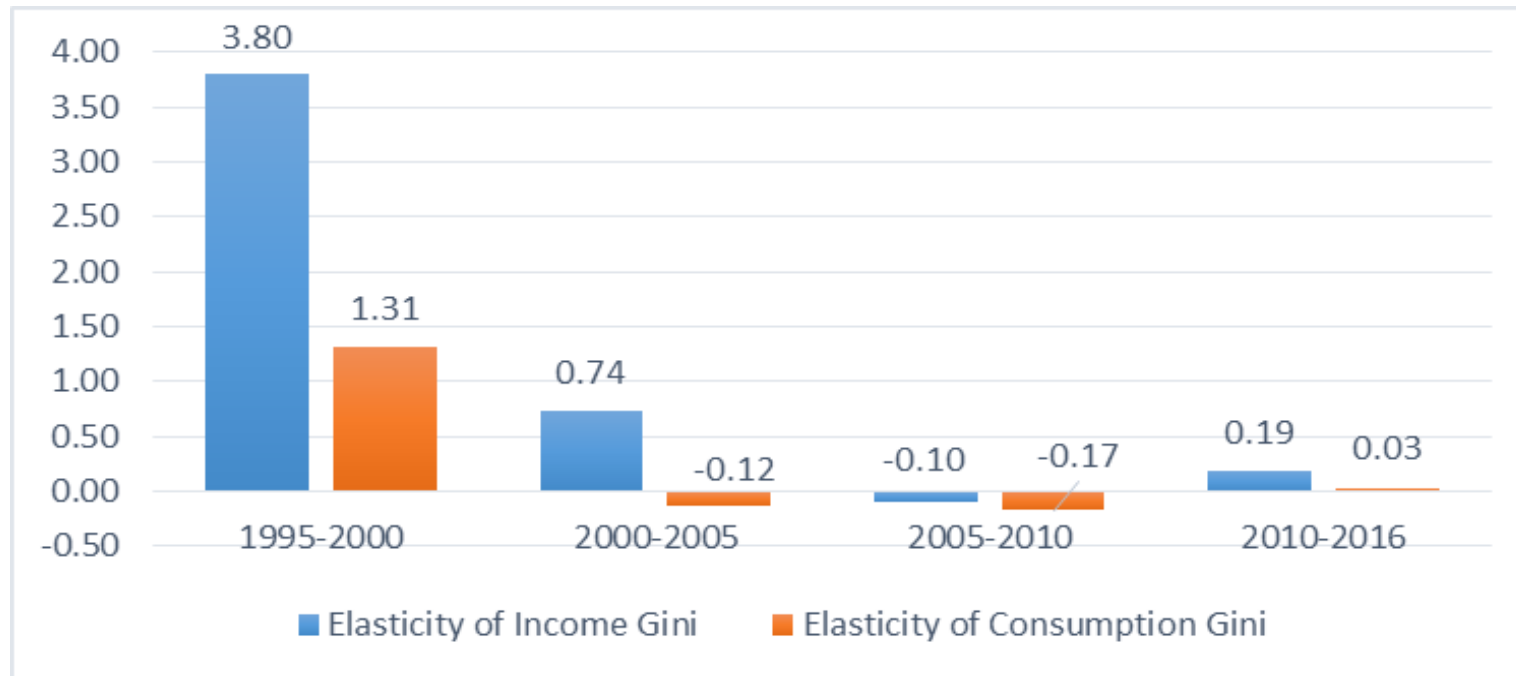
Growth and Inequality...

➤ Gini coefficient



Growth and Inequality...

➤ Growth elasticity of inequality



Growth and Inequality...

➤ Plausible explanation

- **1990s:** (*labor productivity – real wage*) was high, reduced real cost of production, expansion of export industry, benefit enjoyed by the owners of non-labor factors (land, capital)
- **Last one decade:** Structural change in the rural economy.
- Greater access of landless and marginal farmers to the land market due to absentee large land owners
- Growth of rural non-farm sector absorbing a part of rural surplus labor
- Higher price of agricultural products

Growth and employment

- Is growth employment-generating in Bangladesh?
- The 'jobless growth' debate
- **Definition of 'jobless growth' (Bhorat & Oosthuizen 2006)**
 1. (Economic growth) >0 & (Employment growth) ≤ 0
 2. (Economic growth) >0 & (Employment growth) $<$ (labor force growth)
 3. (Economic growth) >0 & (Employment growth) $<$ 'a satisfactory level'

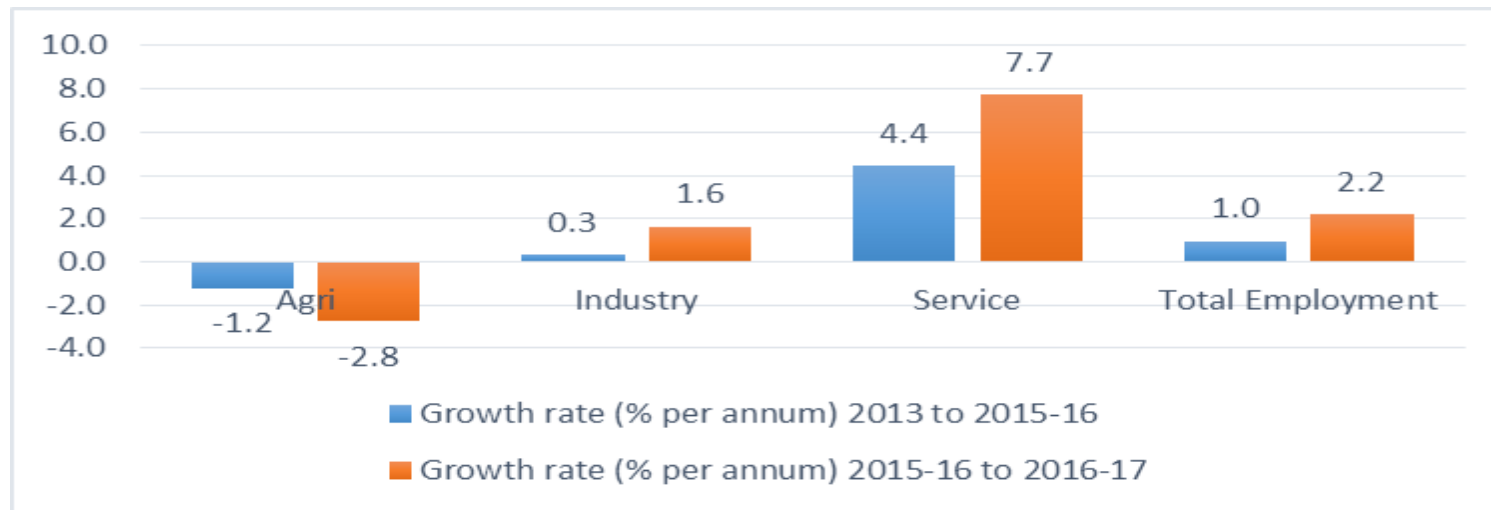
Growth and employment...

1. **(Economic growth) >0 & (Employment growth) ≤ 0**

- 1.4 million new jobs between 2013 and 2015-16 (1% per annum)
- 1.3 million new jobs between 2015-16 and 2016-17 (2.2% per annum)

Growth and employment...

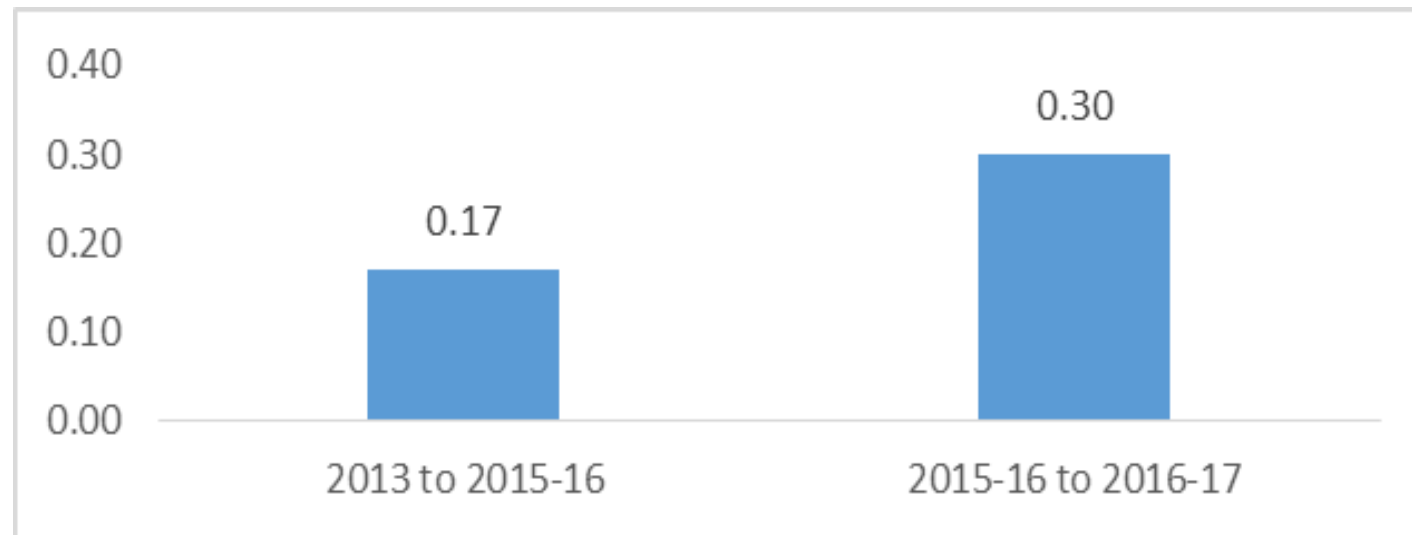
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Growth and employment...

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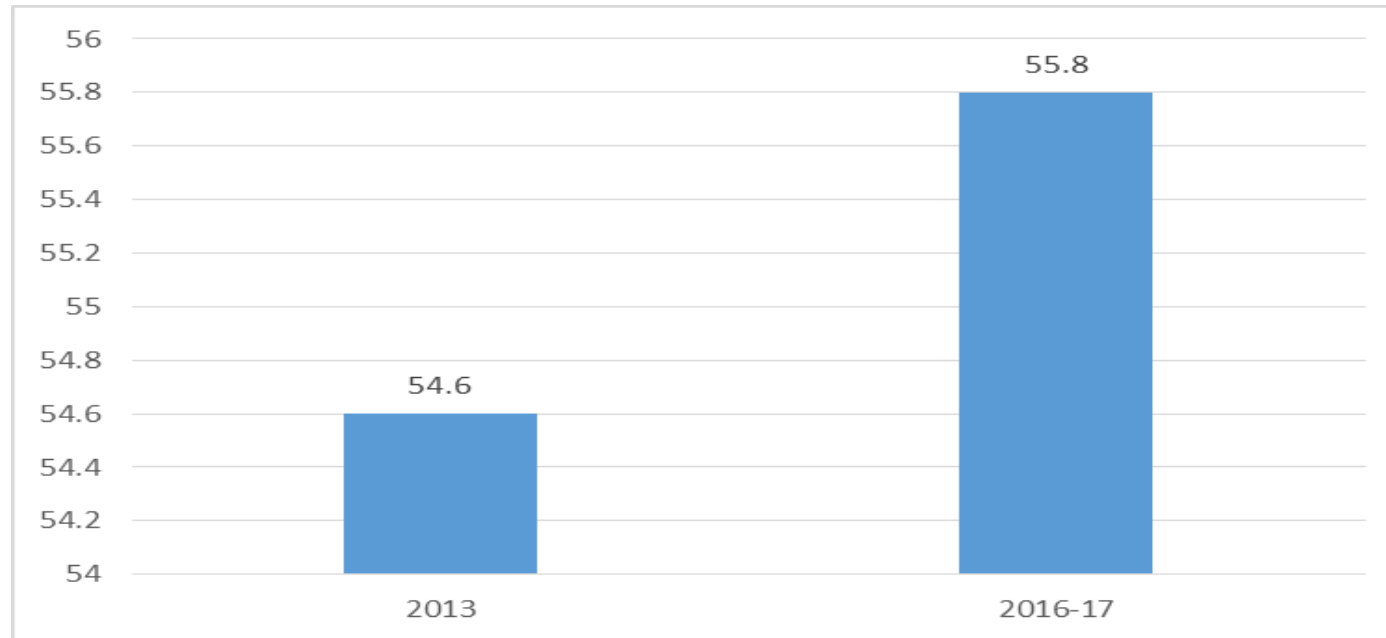
- Elasticity of “job creation”



Growth and employment...

2. (Economic growth) >0 & (Employment growth) $<$ (labor force growth)

$(\text{Employed persons}/\text{Total working age population}) * 100$



Growth and employment...

3. (Economic growth) >0 & (Employment growth) $<$ 'a satisfactory level'

➤ Requires subjective assessment

➤ **World Bank, 2018:**

▪ To maintain the current level of employment rate: 1.1 million new jobs annually

▪ To catch-up with the employment rate of other countries with similar income levels: 1.6 million new jobs annually

▪ Bangladesh's current performance is in between: 1.3 million new jobs annually

➤ Current performance of job creation is much better than the past but does not fare well with the comparable countries

To sum up..

- Effectiveness of growth in reducing poverty has diminished
- Growth has become less inequality generating
- Jobs creation has neither been stagnant nor been shrinking. Rather, the job creation rate has been expanding at a greater pace than the working age population.

Thank you!