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

- Elasticity of Moderate Poverty
- Elasticity of Extreme 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

![Chart showing income share held by top and bottom 10% of the population across different years.](image)
Growth and Inequality...

Gini coefficient

![Graph showing Gini coefficient trends over time](image-url)
Growth and Inequality...

- Growth elasticity of inequality

![Graph showing growth elasticity of inequality](image)
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. \((\text{Economic growth}) > 0 \& (\text{Employment growth}) \leq 0\)
  2. \((\text{Economic growth}) > 0 \& (\text{Employment growth}) < (\text{labor force growth})\)
  3. \((\text{Economic growth}) > 0 \& (\text{Employment growth}) < \text{‘a satisfactory level’}\)
Growth and employment...

1. \((\text{Economic growth}) > 0 \ \& \ (\text{Employment growth}) \leq 0\)

   - 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...

1. \((\text{Economic growth}) > 0 \ & \ (\text{Employment growth}) \leq 0\)
Growth and employment...

1. \((\text{Economic growth}) > 0 \& (\text{Employment growth}) \leq 0\)
   - Elasticity of “job creation”

![Bar chart showing elasticity over two periods]

- 2013 to 2015-16: 0.17
- 2015-16 to 2016-17: 0.30
2. (Economic growth) > 0 & (Employment growth) < (labor force growth)

$\left( \frac{\text{Employed persons}}{\text{Total working age population}} \right) \times 100$

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>54.6</td>
</tr>
<tr>
<td>2016-17</td>
<td>55.8</td>
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</tbody>
</table>
3. \((\text{Economic growth})>0\ & \ (\text{Employment growth})< \text{‘a satisfactory level’}\)

- 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!