

# Growth with Redistribution as Development Goal: Why, How, When, and What Are Country Performances?

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## Abstract

We elaborate on six rationales for formulating the primary goal of economic development as sustained economic growth with progressive endowment redistributions (GWR). The rationales draw on theories and empirics on welfare theorems, marginal utility, growth accounting, human capital, dual economies, and long-term structural transformations. Next to answering the *why* question on pursuing GWR, we discuss policy viewpoints on *how* and *when* to affect GWR. The paper goes further into quantifying and evaluating country performances among 30 leading developing countries in the recent past, and shows *where* GWR has been more successful or lagging.

## Keywords

Economic Development, Economic Growth, Growth Accounting, Human Capital, 30 Leading Developing Countries

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## 1. Introduction

In socio-economic development, the complementarity of the twin primary goals of sustained economic growth and progressive endowment redistribution (GWR) has been the focus of some prominent scholars, such as Tinbergen and Sen. The GWR perspective is shared by contemporary economists in the contexts of developing and developed countries, i.e. [Piketty \(2017\)](#), [Stiglitz \(2016\)](#), respectively. The exclusivity of these two primary goals does not deny the presence of other secondary development goals, such as reduction of unemployment, poverty, pollution, waste, and the like. However, the distinction between primary and secondary goals is valid and remains, since accomplishment of GWR is primary and conditional for achieving more of the secondary goals.

There are at least six theories and related empirics that support *why* the GWR perspective needs to be pursued as the primary goal of socio-economic development. Next to addressing the *why* question, we shall briefly comment on alternative policy strategies on *how* and *when* to go for GWR. The second part of the paper discusses and applies approximative performance indicators of GWR to some thirty leading countries in the world development regions, and shows *where* the GWR perspective has been more successful and lagging.

## 2. Rationales for Why to Pursue Growth with Redistribution (GWR)

The six theories and related empirics that support this perspective and reinforce its significance can be titled as: 1) theorems of welfare theory, 2) the law of diminishing marginal utility, 3) economic growth accounting, 4) human capital, 5) dual economy, and 6) structural transformation as implied by the Kuznets curve.

The first rationale proceeds from welfare economics that states that any Pareto-optimal state is an equilibrium for some initial distribution of endowments, see for instance [Cohen \(2001\)](#). The competitive market equilibrium is by no means optimal in the absolute sense because the outcome depends entirely on the agreed-upon original satisfactory distribution of endowments. While it is very complex to reach agreement on the satisfactory distribution, it is logical to presume that in cases where more people feel that there is a skewed distribution of endowments, more people would rationally agree to a more progressive redistribution of endowments.

The second rationale relates to the well-known phenomenon that the marginal utility of an additional dollar decreases with more accumulated wealth. The law of diminishing marginal utility, first proposed by [Marschall \(1890\)](#) stated the additional benefit a person derives from a given increase of his stock of a thing diminishes with every increase in the stock that he already has. In other words, as you accumulate more wealth or income, the incremental value of an additional dollar decreases. This implies that a progressive redistribution of endowments would lead in the longer run to a progressive redistribution of dollars that would increase the total utility of all the generated dollars.

The third rationale is based on economic growth accounting which emphasizes the significant contribution of the growth in factor productivity as compared to the growth in factor inputs. Rise in factor productivity is primarily the extensive and intensive upgrading of skills and technology, which in essence is the enrichment of labor, and the population at large, with greater human capital endowments ([OECD, 2021](#)). Productivity growth is equivalent to a progressive redistribution of skill and technological endowments among the population that sets into motion higher economic growth.

The fourth rationale which dates back to [Becker \(1964\)](#), views the contribution of human capital to economic growth as basically of the extension and progressive redistribution of educational and skill endowments to children and

youngsters who happen to belong to a lesser endowed population, enhancing upward labor mobility, and resulting into a more productive labor force that allows for more economic growth and more resources that can be partly reinvested again in expanding human capital.

The fifth rationale relates to the dual economy and [Lewis \(1955\)](#), and can be paraphrased in terms of two propositions. First proposition: A person does not choose to be born or not. Any born person has basic living entitlements. These entitlements are relative to the norms in the concerned community. It is then an obligation of the community to meet the community's norms of basic living entitlements. Second proposition: Due to normal distributions of abilities at the personal level and normal distributions of efficiencies at the activity level (firm, sector, and location), there are always (H) high-earnings persons with high abilities working and earning in activity segments with high productivity, in contrast to (L) low-earnings persons with lower abilities working in activity segments with low productivity, minimal productivity, and sometimes zero productivity or not working/earning at all. It follows from the first and second propositions that continuous growth of H is necessary to permit redistribution of part of the growth outcome to L, so as to catch up with the relative norms of basic living entitlements. In similar ways, the upgrading of L to higher levels would feed H and assure its continuous growth.

The sixth rationale relates to the Kuznets curve, [Kuznets \(1955\)](#), which postures that while in the early stages of economic development higher economic growth is likely to associate with regressive income, wealth and endowment distributions; this reverses at later stages into a scenario of growth with progressive redistribution. By implication, growth and redistribution complement each other in the longer run.

Next to these six rationales, there are fundamental contributions from other social sciences that equally support the perspective of GWR, and which go as far back as K. Marx, J. J. Rousseau, R. Owen, and J. S. Mill. It is sufficient to mention here the sociological alienation of societal factions which rises with increasing income and wealth disparities and which may end up in breaking up society. Similarly, political unrest and violence are characteristic features of regressive distributions of income and wealth.

### **3. On How to Realize GWR**

Broadly speaking, a distinction can be made between direct intra-generational and indirect inter-generational strategies towards realizing GWR. The first strategy would tax the rich and transfers income and wealth to the poor. The second strategy perceives a longer horizon whereby part of the accumulated taxes are invested in upgrading human capital endowments of the younger generation whose majority would by definition belong to the less privileged. In time, this would lead to a progressive redistribution of endowments, income and wealth. The first strategy may not lead to a sustainable GWR if the redistributed income

is consumed and not reinvested. The second strategy would be more effective in realizing GWR.

In principle, enriching human capital endowments happens also in the process of regular investments in physical infrastructure as when skill training, better housing and health services are provided and are part of the investment projects. Notwithstanding, since returns to physical investments do not consider the positive endowments involved, the designs of most investment projects may not be geared towards exploiting the positive human capital endowment effects. A plausible rule of the thumb would be to suggest devoting some 20% of an investment budget to upgrading human endowments and the 80% to the physical component. The ratio of 20:80 is motivated by the commonly observed practices at the macro level, where the shares of public expenditure allocations to human capital development departments versus physical infrastructural departments are also in the range of 20% to 80%, as documented in [Cohen \(2015\)](#).

#### **4. On the When Timing of GWR**

A possible trade-off between growth and distribution in the early stages of development as suggested by the Kuznets curve would imply that a higher economic growth may have to proceed the progressive redistribution of endowments. This does not deny that there are some fortunate countries in East Asia, which have been able to combine GWR fairly quickly. In contrast, if the progress towards GWR is low or does not occur, it becomes more difficult to make the transition as the less privileged group become more demanding and challenging, and the benefiting interest groups become more powerful and distrustful. This appears to be the case in some Latin American countries where progress towards GWR is much slower than elsewhere, as will be shown in a later section.

#### **5. Country Performances**

While growth and redistribution considerations can be commonly integrated in many development policies and actions, the measurement of an optimized combination between the growth and redistribution dimensions is practically impossible. Even at a simpler level, the joint measurement of GWR performance for countries for specific years and applying country comparisons face mounting complexities due to intricate relationships between growth and redistribution over time and space, choice of redistribution indicators, and weighing problems. There is also the diversity of countries that may include countries applying GWR strategies with generational gestation lags (It may take a generation for the upgrading of human capital endowments of low income children to materialize into higher economic growth). The complication makes a one year comparison between countries pursuing different strategies less meaningful. Besides there is the arbitrariness of any one-year ranking of performances, presence of observations with abrupt or outlier values that may distort representation problems in the normalization scale of the two goals of growth and redistribution given the

trade-offs in early and later phases of economic development which differ by country.

Many of these problems can be handled by pursuing country comparisons in regional contexts, evaluations over more periods to catch the trade-off transformation, removing outliers, and by applying ordinal instead of cardinal ranking. There is also the problem of fixing preferential weights for the growth and redistribution objectives so as to obtain a unified general performance index. The problem is solvable by working initially with equal weights. With above complexities in mind we apply limited and practical comparisons of GWR performances in selected developing countries over longer periods. The countries selected are the six top leading countries in terms of GDP and population size in each of six development regions, giving a total of 36 countries. The six development regions refer to East Asia and Pacific (EAP), Southern Asia (SA), Central Asia and Caspian (CAC), Middle East and North Africa (MENA), Sub-Sahara Africa (SSA), Latin America and Caribbean (LAC).

The performance ranking that is applied in **Table 1** is done for two periods, each period consisting of about 10 years: thus 1991-2000 and 2001-2012. Some of the 36 developing countries considered do not have full data coverage for all these years on the indicators of economic growth and income redistribution (Gini index). The number of countries with the required data is 30. The performance ranking of countries is done along ordinal numbers separately for economic growth and for progressive redistribution which is reflected in a lower Gini index. The country with the highest economic growth scores 30 on the growth objective. Similarly, the country with the lowest Gini index scores 30 on the redistribution objective. Finally, equal weights are applied for the ordinal rankings of the growth and redistribution objectives by simply calculating the average of the two scores to obtain a unified performance index of growth with redistribution.

In the period 1990-2000, out of a maximum score for the GWR index of 30, the highest scores are found for India, Indonesia, China, and Vietnam, ranging between 26.5 and 23.5. The lowest score is for South Africa and Brazil at 4.0 and 5.5. In the next period 2001-2012, the four countries of India, Indonesia, China, and Vietnam continue to score high between 23.0 and 20.0 but are now joined with higher scoring countries of the CAC region, namely Kazakhstan, Uzbekistan, Azerbaijan, and Tajikistan, next to Ethiopia, with scores of around 26.0. The lowest scores continued to be found among South Africa and Brazil with even lower levels at 2.0 and 4.5. They are joined at the lower end by Mexico and Venezuela with scores of 3.5 and 3.5. The results over the two periods show an increasing gap between high- and low-performing countries in the combined area of growth with redistribution. Especially in the cases of South Africa, Brazil, Venezuela, and Mexico, their rank performances in terms of growth and redistribution have been falling relative to other countries. Most of the other 26 countries show rank improvements in growth and/or redistribution. There are four complexities.

**Table 1.** Performance rankings of growth with redistribution index for thirty countries, in two periods.

	Country score 1991-2000			Country score 2001-2012		
	GDP pc growth pa	Gini index reversed rank inversed	GWR index	GDP pc growth pa	Gini index reversed rank	GWR index
China	30	17	<b>23.5</b>	29	11	<b>20.0</b>
Indonesia	23	29	<b>26.0</b>	17	23	<b>20.0</b>
Philippines	11	11	11.0	11	9	10.0
Thailand	26	12	19.0	15	15	15.0
Malaysia	28	6	17.0	10	10	10.0
Vietnam	29	18	<b>23.5</b>	21	20	<b>20.5</b>
India	25	28	<b>26.5</b>	22	24	<b>23.0</b>
Pakistan	14	26	20.0	5	30	17.5
Bangladesh	19	27	23.0	18	26	22.0
Sri Lanka	24	24	24.0	20	16	18.0
Nepal	18	20	19.0	7	18	12.5
Bhutan	27	16	21.5	27	12	19.5
Türkiye	17	14	15.5	12	14	13.0
Iran	21	13	17.0	13	17	15.0
Kazakhstan	3	23	13.0	28	25	<b>26.5</b>
Uzbekistan	4	10	7.0	24	21	<b>23.0</b>
Azerbaijan	2	22	12.0	30	22	<b>26.0</b>
Tajikistan	1	30	15.5	26	27	<b>26.5</b>
Egypt	20	25	22.5	8	29	18.5
Algeria	7	19	13.0	4	19	11.5
Morocco	13	15	13.0	16	13	14.5
Nigeria	10	9	9.5	23	8	15.5
S. Africa	5	3	<b>4.0</b>	3	1	<b>2.0</b>
Ethiopia	6	21	13.5	25	28	<b>26.5</b>
Brazil	9	2	<b>5.5</b>	6	3	<b>4.5</b>
Mexico	15	5	10.0	1	6	<b>3.5</b>
Argentina	22	7	14,5	14	5	9.5
Colombia	12	4	8.0	9	2	5.5
Venezuela	8	8	8.0	2	7	<b>3.5</b>
Peru	16	1	8.5	19	4	11.5

Sources: World Bank at <http://databank.worldbank.org/>.

## 6. Concluding Remarks

Economic thought and empirics have emphasized the complementarity between the two goals of economic growth and diminishing equality (progressive redistribution of endowments across the population), in short, GWR. The economic development literature has also elaborated on alternative policy strategies towards achieving more GWR and the timing aspect of GWR. In spite of these advances in insight, there is as yet no fully meaningful and acceptable measurement index that combines both goals, and this is likely to be untenable. In the circumstances, tailored measurements and contextual comparisons may serve as second best. Such considerate comparisons of growth with redistribution in the context of specific development regions and over longer periods give results that show similar underperforming results for the LAC countries of Brazil, Mexico, and Venezuela, joined by South Africa. They appear to be caught in the trap of a moderate to low economic growth with the most regressive income distribution among the studied thirty leading developing countries. The results suggest that the four countries have difficulties and are failing in switching sides along the Kuznets curve. At the other end, China, Indonesia, Vietnam, India (the EAP and SA regions), and some ex-Soviet countries in Asia appear to be the better performers in redistributing endowments to facilitate growth, and vice versa.

## Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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