SIR ARTHUR LEWIS MEMORIAL CONFERENCE

ECONOMIC GROWTH, POVERTY AND INCOME INEQUALITY

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SUMMARY

Economic growth, poverty and income distribution are central, interrelated facets of much economic analysis and discussions of economic trends across the globe. Sir Arthur Lewis noting the "depths of West Indian poverty" in 1938 saw economic growth as the route to poverty reduction.

Between 1985 and 2004, Caribbean countries enjoyed respectable economic growth but poverty remains a major problem with poverty rates exceeding 20% in many countries and above 10% in most. Poverty has multiple negative effects on economic growth. Economic growth also affects poverty especially because of the volatility of Caribbean economies and inadequate social safety nets. Sustained increases in economic growth could reduce poverty in the Caribbean.

There is substantial inequality of incomes in the Caribbean, even though there may have been reductions in the degree of inequality in some countries. The influence of income inequality on economic growth although much studied is still unresolved. One view is that inequality by boosting national savings facilitates growth. The contrary view is that inequality by causing misallocation of investment, constraining investment in human capital, and contributing to social tensions and political instability retards economic growth. Income inequality also directly influences the level of poverty. "Income distribution matters as much as growth for poverty reduction." (Bourguignon).

The distribution of earned incomes is a good place to start analysing income inequality even though there are other sources of income including dividends and capital gains. Data for Trinidad and Tobago for 1998 to 2006 reveal substantial inequality in income across economic sectors and within economic sectors. The trend has been for inequality to decrease during the period of relatively strong economic growth. The income share of the top 20% has been upward as has been that of the bottom 20% while the middle has been falling. The inequality of earned incomes reflect the influence of education and skill differences among occupations, possibly attenuated by trade union bargaining, government policies and public sector employment.

Modern societies have a limited tolerance for poverty and income inequality. The approach to reconciling the goal of a more egalitarian income distribution with economic efficiency and economic growth is likely to include effective minimum wages policy, provision of greater access to education and training, lower tax rates for the poor, the targetting of public expenditures to low income households, and engendering a more even distribution of capital assets.