

## GROWTH

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### Poverty, inflation and growth

A number of myths about growth and the reduction of poverty are dispelled in new research findings covering 80 countries over 40 years. The conclusions have profound implications for public policy in South Africa.

The key finding is that growth raises the income levels of the poor by as much as it raises those of the rich. This one-to-one relationship agitates strongly against the so-called trickle-down theory. It proves that the poor do not get crumbs some time after the rich had a loaf of bread. Income levels for the poor increase simultaneously with those of the wealthy.

The one-to-one relationship also holds during economic crises, be it an old or a new economy and irrespective of whether it is a developing or developed country.

However, the poor suffer more than the rich do from the negative impact of inflation. Inflation causes a proportionately *bigger* negative impact on their incomes. The rich can glibly talk about low inflation being a First World condition that developing countries should not try to achieve. The rich can buy inflation busters like shares, property and foreign currencies. The poor do not have such options.

The public policy consequences are clear: inflation must be brought within the range set by Government's inflation targets. If interest rates need to increase to achieve that, so be it. SA Reserve Bank Governor Tito Mboweni's recent remarks to that effect should be supported.

At the same time, growth must be pursued vigorously as the best way to help the poor. Government should stimulate growth through structural adjustment that includes but is not confined to privatisation, deregulation and a roll-back of State expenditure.

The same research indicates that a cut in public expenditure actually benefits growth and thus the incomes of the poor. It brings us back to the view that Financial Week has urged consistently: the excellent work done in reducing the Budget deficit must be taken further.

The deficit should be trimmed and a balanced Budget should be the ideal. That is the best way to stimulate growth and fight poverty.

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