

# A poverty, inequality, and growth puzzle

The writer says the dichotomisation of data into rural and urban could be masking i



The headcount ratio and poverty gap measures have improved faster in rural than urban areas across Bangladesh, i

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**DHAKA** – Some key findings from the Household Income and Expenditure Survey (HIES) 2022, sensible economic narrative on poverty, inequality, and growth in Bangladesh. Backward calcu upper and lower poverty lines have not been done yet. It is therefore technically incorrect to c measures with their counterparts in previous surveys.

The poverty trend emerging from valid comparisons with the previous rounds of HIES may or i what the comparable numbers on poverty headcounts and gaps are. We hope the Bangladesh work sooner rather than later. Meanwhile, all we can do is search for the story within the avail.

### Three notable urban-rural differences

First, the incidence and depth of rural and urban poverty tended towards convergence (narrow gap measures improved faster in rural than urban areas. This is most notable in the case of ex ratio based on the upper poverty line. Poverty gap measures, based both on the upper and low Reduction in depth was faster in rural areas.

Second, trends in relative inequality diverged. The urban Gini coefficient (which measures income true irrespective of whether the Gini is computed from the distribution of income or consumption consumption Gini increased 7.9 percent in 2022 relative to 2016, compared, respectively, with over the same period.

Third, real income and consumption growth were higher in urban locations. Real monthly household increase in the Consumer Price Index (CPI) from nominal income growth, increased 49.6 percent increase in rural areas in 2016-22. Growth in the monthly average real household consumption and 50.4 percent, respectively.

### An apparent puzzle

These together create a puzzle. Lower income or consumption growth are associated with reduced Poverty reduction was faster in rural areas where inequality declined, while real income and consumption urban areas was slower with a sharp increase in inequality and stronger income and consumption phenomenon?

Structural changes can at best be part of the story. This includes almost universal access to electricity 68.9 percent in 2016 to 99.1 percent in 2022. Electricity access in urban locations improved from Electricity can directly increase welfare by enabling households to access a variety of services and information. Rural households caught up with their urban counterparts on developmental dimensions large improvements in access to electricity did not show up in stronger rural real income and consumption stronger effect on poverty measures.

There is no such discernible rural catch-up on other structural indicators. For instance, improved urban households, compared with 90.9 percent rural households. Access to drinking water from percent in rural areas, while access to "supply water" improved from 37.3 percent in 2016 to 51 opening a bank account in the past 12 months increased from 7.6 percent in 2016 to 13.4 percent percent and 15.7 percent, respectively, in urban locations.

Changes in social and demographic indicators are mixed. Male dominance in decision-making households that became somewhat larger in size in both urban and rural areas. The literacy rate 2016 to 70.3 percent in 2022, and in urban areas it increased from 71.6 percent to 82 percent,

Yes, the rise in the share of industry in GDP raised urbanisation, but employment shifted in (LFS) 2022 shows that urban share in total employment declined from 27.9 percent in 2016 declined by 2.8 percent, probably in urban-centric large and medium industries. The increase

were absorbed by a 30.4 percent increase in agricultural and 12.4 percent increase in services employment. The increase in inequality in the Kuznets world is the influx of cheap labour from rural to urban areas.

### **It's not a Kuznets phenomenon**

The Kuznets Curve (KC) has gained resonance in the establishment view of the data. Inequality increases with development, peaks at a mid-income level, and then falls as development proceeds further. Because the data show a rise in inequality with development and, therefore, it must be that KC is operative here.

The evidence on the validity of KC is at best mixed in the HIES data. In the three surveys (2010, 2016, and 2022), urban household income exceeds rural, and urban Ginis exceed rural Ginis, giving the appearance of a KC. However, in 2022, urban inequality relative to 2016 while inequality decreased, which disputes KC. Moreover, the data do not bear out the hypothesis that the increase in inequality is caused by a dual economy dynamic generated by the switch from agricultural to industrial sector.

Yes, the rise in the share of industry in GDP raised urbanisation, but employment shifted in the opposite direction. The 2022 shows that urban share in total employment declined from 27.9 percent in 2016 to 25 percent in 2022 by 2.8 percent, probably in urban-centric large and medium industries. The increased labour force participation by a 30.4 percent increase in agricultural and 12.4 percent increase in services employment – the increase in inequality in the Kuznets world is the influx of cheap labour from rural to urban areas.

Evidence from recent development experiences is similarly weak. Kuznets himself recognised this as a generalisation, calling it “perhaps 5 percent empirical information and 95 percent speculation, and 5 percent wishful thinking.”

### **The missing links**

What may explain the tripartite disconnect? There are several candidates.

A shift in employment towards rural-centric activities is consistent with a rise in inequality in urban areas, a reduction in rural inequality, and stronger urban income growth. The urban-centric large and medium industrial employment means decreased labour incomes of below-poverty-line urban households, while agricultural employment suggests greater sharing of incomes among the rural poor. This could have resulted in a faster poverty reduction in rural areas relative to urban areas.

A second candidate is Piketty, who hypothesised that inequality increases when the rate of return on capital grows faster than the economy. When capital grows faster than the economy, the concentration of wealth speeds up along with the economy.

Perhaps the excess of return on capital over economic growth increased in the urban areas. The debt-to-income ratio increased in urban areas and decreased in rural areas during 2016-2022. If the more privileged urban households, they were probably able to leverage a higher return on capital by borrowing. This could have caused the stronger but more concentrated income and consumption growth in urban locations.

The dichotomisation of data into rural and urban could be masking important heterogeneity. The data show the iceberg of a broader pattern of poverty, inequality, and income growth that transcends rural-urban divisions.

A third candidate, seemingly related to the above, is a sharper digital divide in urban areas. A c and the capacity to access smartphones, computers, and Wi-Fi. The new digital opportunities c digital literacy. Not surprisingly, therefore, the digital divide is greater in rural areas. The BBS S Households 2022 shows that the proportion of households with access to the internet is 63.4 p in rural areas.

However, variations in digital access between urban and rural socioeconomic groups matter. S areas (Population Census 2022), the 29.7 percent rural internet users constitute 20 percent of internet users also constitute 20 percent of the total population. The digital divide taking quali lower-speed wireless connections, lower-priced internet connections, and limited access to sul pronounced between different age groups, genders, occupations, and incomes in urban than i

Last but not necessarily the least, differences in migration patterns – overseas in particular – n exceeded internal migration (from one district to another). Overseas migration reported by rui same reported by urban households (6.3 percent) in all three surveys. Increase in the income c income Gini over time, since most rural overseas migrants are unskilled workers, many of whc

In these cases, there is no direct impact on the poverty headcount ratio. Also note that the diff urban household incomes turned from positive (one percentage point) between 2010 and 201 and 2022. This happened despite persistently higher overseas migration from rural household the puzzle.

### **Full data disclosure needed**

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The completion of work on the HIES 2022 and LFS 2022 is a very significant data development, dynamics of poverty, inequality, employment, and growth can be extracted, leveraging Census The BBS can maximise the public good from their work by publishing detailed tables and provi

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