Review of *Income Distribution and High-Quality Growth*,

by Vito Tanzi and Ke-Young Chu

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This volume contains the papers from a 1995 conference on income distribution and economic growth sponsored by the International Monetary Fund. The editors are Director of the Fiscal Affairs Department at the IMF (Tanzi) and a Senior Advisor in the same department (Chu).

The volume begins with introductory speeches by Michel Camdessus, Managing Director of the IMF, and Enrique Iglesias, President of the Inter-American Development Bank. Iglesias' is noteworthy for his insightful discussion of why income distribution is so unequal in Latin America (one reason is "destructive populism") and what might be done to achieve equitable growth (favoring products produced by the poor, increasing countries' commitment to education, implementing meaningful land reform, and deepening the interaction of backward regions with the rest of the economy).

The core of the book then contains essays on various aspects of development policy by some of the leading luminaries in the development field. Arnold Harberger asks how growth policies can help poor countries meet "the great priorities of our time," and elaborates the thesis that "most countries (most developing countries, at least) can do a considerably better job than they are now doing with respect to helping the poor meet their basic needs, without seriously impinging on the growth rates or growth potential of their economies." Taxes shouldn't do much redistributing in his view; public expenditures should. Governments have made many mistakes, including inflation, a boom-bust syndrome, and populism. To avoid these, Harberger offers thirteen features of good economic policy, repeated from a 1984 essay of his, along with ten new recommendations. This essay will be required reading the next time I teach development economics.

Joseph Stiglitz addresses the role of government, presenting six areas in which government action is vital (promoting macroeconomic and microeconomic performance, designing programs that are both growth-stimulating and equity-enhancing, responding to changing technology, reinventing how government does what it does, maintaining institutional infrastructure, and carefully tailoring government action to avoid rent-seeking). He elaborates on traditional and new market failures and discusses the positive role played by government in the East Asian experience. The heightened stress on opportunity and individual responsibility among liberal American policy intellectuals appears clearly in this essay.

Other essays are more focused on particular policy areas. Jagdish Bhagwati calls for a mixture of indirect and direct antipoverty strategies. He explains why an outward- orientation was important to the success of East Asia, which he contrasts with India's relatively poor economic performance, and concludes that even the unskilled in the rich countries will benefit from freer trade. Alberto Alesina decries "redistribution to the vocal," arguing that because social spending favors advantaged groups, it should not be maintained. Given that fiscal adjustment typically is distortive, he calls for a reform of budget institutions to safeguard the poor. John Flemming deals with the needs of transition economies, contending that the victims of transition should not be compensated; better, in his view, would be transitory protection and employment subsidies. Manuel Guitián sees a stable macroeconomic environment as critical and calls for an all-out attack on inflation. Vito Tanzi seeks to raise both output and employment by a judicious choice of government spending patterns and well-targeted safety nets. IMF adjustment programs, he says, can and should be pro-growth and pro-poor.

Some of the essays are primarily econometric. Michael Bruno, Martin Ravallion, and Lyn Squire examine the links between poverty, inequality, and economic growth. Theirs is the latest in a series of studies to find that “the ‘stylized fact’ that distribution must get worse in poor countries before it can get better turns out not to be a fact at all.” They show too that adjustment policies contribute to poverty alleviation by accelerating economic growth. They find, as did others before them, that initial inequality does not lead to higher growth—a conclusion challenged in the paper by Andrea Brandolini and Nicola Rossi who find, to the contrary, that initial inequality is *positively* related to subsequent growth. However, productivity growth is stimulated, not harmed, by equality-enhancing institutions.

Overall, these essays lead to the conclusion that there need not be a tradeoff between growth and distributional objectives. Rather, sound macroeconomic and structural policies can lead to sustainable economic growth, reduced poverty, and lower inequality. Although these essays point out how governments can do a great deal wrong, they also show how governments nonetheless can play a crucial role in creating a sound development program. Setting a goal of getting a fifth of the resources to the poorest fifth of the population (Harberger’s suggestion) would be a reasonable and laudable place to start.