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Poverty Alleviation and Equitable Growth: the Experience of Chile, Indonesia, and Malaysia

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ABSTRACT

In the following article I examine the poverty alleviation efforts of three newly industrializing countries: Chile, Indonesia, and Malaysia. While all three, like Mexico, have relied heavily on rapid economic growth to alleviate poverty, they have differed in the character of their growth, the nature of government targeting of poverty, and the extent of their redistributive measures. There is much that policy makers in Mexico can learn from their experience, both positive and negative, in attempting to reduce poverty.

RESUMEN

En el artículo que presentamos a continuación, se examinan los esfuerzos de tres países de industrialización reciente —Chile, Indonesia y Malasia— en torno a la disminución de la pobreza. Mientras que estos tres países —al igual que México— se han apoyado en gran medida en su crecimiento económico para aliviar la pobreza, difieren entre ellos por la naturaleza de su crecimiento, el carácter de la intervención gubernamental para atacar la pobreza y los alcances de sus medidas redistributivas. Los estrategas del gobierno mexicano podrían beneficiarse de la experiencia —tanto positiva como negativa— de estos tres países en sus intentos por reducir la pobreza.

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1. Chile

DURING the Pinochet dictatorship from 1973 to 1990, Chile followed a monetarist growth-oriented strategy of development which resulted in a regressive transfer of income from the poor to the rich. The income share of the poorest 40 percent of the population fell during this period, while the share of the richest 20 percent rose. Yet a number of analysts of the Pinochet years claim that the dictatorship was able to develop efficiently targeted programs to alleviate the condition of the *extremely* poor. Various social indicators, such as infant mortality and child malnutrition, suggest that certain living conditions of the extremely poor did indeed improve. However, this improvement was the consequence mainly of redistribution *among* the poor themselves. Measures based on less restrictive definitions of poverty point to a clear worsening of the conditions of the broad ranks of the poor.

Under Christian Democrat Eduardo Frei (1964-70) and Socialist Salvador Allende (1970-73) the state undertook an active role in providing social welfare for the Chilean population. The Pinochet dictatorship, which seized power in 1973, curtailed many of the social services benefiting the middle class and working class, but designed programs narrowly targeted at the poorest segments of Chilean society. Its poverty alleviation program was based on the laissez-faire notion that poverty is chiefly the result of distortions in the functioning of markets. To reduce poverty, the optimal approach is to allow markets to operate freely in allocating resources, rather than to reform the structure of the economy in order to achieve a more equitable distribution of income and wealth. Poverty alleviation is regarded as a temporary measure, addressing the needs only of those in extreme poverty who are unable to care for themselves. Programs are not designed to elicit the active participation of the poor or to promote public investment in enhancing their capabilities to provide for themselves, such as investing in their human capital. The basic approach is strictly limited, temporary, narrowly targeted, and top-down.[1]

Although debate continues on whether poverty was reduced by this approach, substantial numbers of Chileans remained poor throughout the 1980s. Estimates of poverty during the 1980s vary from a low of 14 percent, claimed by the government, to over 45 percent. Part of the controversy centers on the methodology to determine the poverty line itself, with the government setting a low line -- for extreme poverty only -- and giving added weight to the monetary value of government in-kind subsidies such as food subsidies.[2] One credible independent study estimates that about 30 percent of the population were extremely poor.[3] When the definition of poverty is broadened beyond indigence (which results from insufficient income even to meet basic food needs), to include those families whose consumption of food does not meet their minimum caloric requirements, some analysts estimate that 45 percent of the Chilean population were poor.[4]

Low-income groups in general saw their absolute living standards fall during the Pinochet years, due in large part to a rise in unemployment and a fall in real wages. The total consumption share of the poorest 20 percent, for instance, declined

1 See Carol Graham, *From Emergency Employment to Social Investment: Alleviating Poverty in Chile* (Washington, D.C.: The Brookings Institution).

2 Tarsicio Castaneda, *Combating Poverty: Innovative Social Reforms in Chile during the 1980s* (San Francisco: International Center for Economic Growth, 1992), p. 12.

3 Pilar Vergara, *Políticas hacia la extrema pobreza en Chile, 1973-1988* (Santiago: FLACSO, 1989). The estimate is for 1985.

4 A. Torche, "Distribuir el ingreso para satisfacer las necesidades básicas," in *Desarrollo económico en democracia*, ed. Felipe Larrain (Santiago: Catholic University of Chile, 1987).

by about 35 percent between 1969 and 1988.[5]

Chile is a predominantly urban society: only about 19 percent of families live in rural areas. Hence, the majority of the poor live in urban areas, with most of them concentrated in Santiago. One study of poor households in Santiago determined that the share of total households that were extremely poor or indigent increased from 8.4 percent in 1969 to 14.9 percent in 1989. Those households considered poor (e.g., with a level of income twice that of indigence) also increased from 20.1 percent to 26.3 percent of all households during the same period. Despite the prevalence of urban poverty, the poor are still disproportionately concentrated by population share in rural areas: over 49 percent of rural families are in the bottom quintile of the total population. The rural poor are more difficult to reach, particularly with a top-down approach combined with a neoliberal reliance on market forces in the rural economy. After the expropriation of the latifundia during the Frei and Allende land reforms, the Pinochet dictatorship dismantled the rural cooperatives and state farms in 1973 and distributed land to individual households. While large estates were not reinstituted, land concentration increased[6] and resulted in greater landlessness: in 1983, for example, 44 percent of the agricultural workforce were landless farmworkers.[7] Pinochet's policies of rural counter-reform partly explain why the Gini coefficient of the distribution of income remains high in comparison to other developing countries.[8]

Despite the general increase in poverty, the Pinochet dictatorship appears to have had some success in targeting the social conditions of the extremely poor. Food subsidies were targeted at pregnant mothers and at children under 6 years of age, and breakfast meals were provided to children in primary schools. Some of the results were impressive: the infant mortality rate dropped from over 65 deaths per 1,000 live births in 1974 to only 19 in 1989, one of the lowest rates in Latin America.[9]

Yet during the Pinochet years, total social spending by the government fell in per capita terms by 20 percent. The cutbacks were mainly in areas that disproportionately affected the poor -- health, education, and housing.

The brunt of Chile's structural adjustment of the 1980s was borne by workers. Unemployment increased to over 31 percent in 1983 and remained high thereafter. As a consequence, real wages plummeted by about 29 percent between 1982 and 1987.[10]

It was this substantial fall in real wages that was at the heart of the government's efforts to achieve a real devaluation of its currency and raise the country's international competitiveness. There was little effort to raise labor productivity through funding for technical training and education beyond primary school. Chile was attempting to enter the ranks of export-oriented, newly industrializing countries by depressing the standard of living of its workers, driving many of them into the ranks of the poor.

The severity of Chile's structural adjustment during the 1980s threatened political

5 Patricio Meller, "Adjustment and Social Costs in Chile during the 1980s," *World Development* 19:11 (November 1991): 1546.

6 David E. Hojman, "Introduction," in *Neo-liberal Agriculture in Rural Chile*, ed. D. Hojman (New York: St. Martin's Press, 1990), pp. 5-8.

7 Keith Griffin, *Alternative Strategies for Economic Development* (London: Macmillan, 1989), p. 176.

8 Various estimates give a Gini coefficient of over 0.50 for the late 1970s and the 1980s. See Eliana Cardoso and Ann Helwege, "Below the Line: Poverty in Latin America," *World Development* 20:1 (1992).

9 Graham, op. cit., p. 3.

10 Meller, op. cit., p. 1557.

destabilization. In response, the Pinochet government departed from its free-market principles and intervened in the labor market with large public employment programs. These included a minimum employment program (PEM) and an occupational program for heads of households (POJH). At their height these programs employed over 500,000 workers, or about 11 percent of the country's workforce.[11] The wage offered in these programs was well below the minimum wage, and workers resented having to stigmatize themselves as extremely poor in order to qualify. More than half the unemployed were never employed in these programs. Those who did receive jobs were often employed on projects for the military, such as building an airfield, or for the rich, such as building an access road to the airport for the wealthy suburbs of Santiago. These were not intended as permanent programs designed on the assumption that poverty was a structurally determined chronic condition of certain segments of the population. By 1989, when unemployment had decreased, all public employment programs had been phased out.

While workers were facing wage deindexation and unemployment, the rich in Chile were receiving huge public subsidies to cover the debts they incurred, as well as government insurance and indexation to inflation for their financial assets. As extensive as the public employment programs became, their cost never exceeded 1.5 percent of GDP, while the cost to the government of assuming the external debts of private firms that were in danger of default totaled at least twice that amount, namely, 3 percent of GDP.[12] It is not surprising that the distribution of income became significantly more regressive in Chile during the Pinochet years: the Gini coefficient, for example, rose from 0.49 in 1970 to 0.54 in 1982-84.[13]

While the government did provide a minimal safety net for those deemed to be extremely poor, this net was paid for in effect by the loss of wages and benefits of the large number of Chileans just above this very low poverty line.

2. Indonesia

Official statistics suggest that the Indonesian government's poverty reduction measures in the last 20 years have been remarkably successful. At the poverty line set by the government, 15 percent of the country's population were poor in 1990, with two-thirds of them located in rural areas. Ten years earlier the percentage had been almost double that, namely, 29 percent. Twenty years earlier, in 1970, 60 percent of Indonesians were poor.[14] One reason for this apparent success is that economic growth in Indonesia has been more broad-based than in Chile, largely because of a rise in agricultural production and rural incomes. As a result, poverty has declined more rapidly than in Chile, which in contrast started out the same period with the great majority of its poor in cities, not in the countryside. The Chilean government was more preoccupied with *lowering* the wages of its urban workforce than with raising poor people out of poverty.

The Indonesian results are contingent, however, on setting the poverty line at a relatively low level. With a poverty line set artificially low, it is much easier for a government to score dramatic improvements in poverty alleviation based on growth alone. While there seems to be little controversy that poverty has been reduced in Indonesia, the magnitude of this achieve-

11 Graham, op. cit., p. 12.

12 Meller, op. cit., p. 1559.

13 Meller, ibid., p. 1546.

14 Frida Johansen, *Poverty Reduction in East Asia: The Silent Revolution*, World Bank Discussion Paper No. 203 (Washington, D.C.: The World Bank, 1993), p. 4.

ment remains in doubt. The basket of necessities that defines the Indonesian poverty line assumes that 95 percent of the expenditures of the rural poor and 85 percent of the urban poor are on food, and that for both groups 81 percent of the required minimum of 2100 calories is achieved through consumption of relatively low-cost grains. A more diversified diet -- with a higher percentage of non-grain foods containing more protein, minerals, and vitamins -- would not only be healthier but also significantly more expensive. By translating this diversified diet into a food basket with fewer calories, e.g., 2000 calories, but with only 66 percent derived from grains, the poverty line is raised significantly. With this higher poverty line, about 22 percent of the Indonesian population would be considered poor in 1990 (instead of 15 percent) -- with an almost equal percentage of the rural and urban populations falling below the poverty line.[15] This modification leaves unchanged the official assumption of a high food-to-total-expenditure ratio, which also imparts a downward bias to the poverty line. Changing this restrictive assumption would raise the estimate of poverty even further.

In essence, the Indonesian government -- like the Chilean government -- has defined its poverty line in order to focus attention on the extremely poor. This approach ignores the large numbers of Indonesians who are just above this low poverty line and who are vulnerable to falling into extreme poverty because of a lack of productive assets, education, or lasting income-earning opportunities.

Poverty alleviation efforts in Indonesia have enjoyed the advantage of starting with a distribution of income that has not been grossly unequal by international standards. Historically, Indonesian society has been less dominated than many other developing countries by powerful landholding and industrial elites -- such as those found in Latin America. The size distribution of landholdings is not highly concentrated by international standards. However, it is relatively unequal by East and South-East Asian standards. Numerous small, fragmented, largely owner-operated plots have predominated. About half the farmers work plots of 0.2 hectares or less, and many have no access to fertile or irrigated land.[16]

Although much of the income of the rich is undoubtedly underreported, Gini coefficients of the distribution of income in Indonesia have generally been below 0.40.[17]

This condition contrasts with that of Chile, which has historically had a more inegalitarian distribution of income. A number of analysts maintain that poverty alleviation in Indonesia has been accomplished mainly by a rapid rate of economic growth which has been relatively broad-based in character. One study of the 1980s estimates that 86 percent of the reduction in poverty was due to the rise in mean consumption levels based on economic growth, while only about 6.4 percent was due to a favorable change in the distribution of consumption.[18] However, while the Indonesian strategy of poverty alleviation has been able to spread the benefits of rapid growth broadly among the population, should that economic growth falter, large numbers of Indonesians could fall back into extreme poverty. Based on a more realistic poverty line, 25-30 percent of the Indonesian population would have

15 Ibid., p. 29.

16 Anne Booth and R.M. Sundrum, "Income Distribution," in *The Indonesian Economy during the Soeharto Era*, ed. A. Booth and Pete McCawley (Kuala Lumpur: Oxford University Press, 1981), pp. 182-183.

17 Gustav F. Papanek, "Income Distribution and the Politics of Poverty," in *The Indonesian Economy*, ed. G. Papanek (New York: Praeger, 1980), p. 58.

18 Martin Ravallion and Monika Huppi, "Measuring Changes in Poverty: A Methodological Case Study of Indonesia during an Adjustment Period," *World Bank Economic Review* 5:1 (January 1991): 74.

been considered extremely poor in 1990, and a large percentage would have been only marginally above extreme poverty. While Gini coefficients of the distribution of income during the 1980s suggest that income inequality has decreased, skeptics point out that underreporting among the rich may be biasing the estimates more than previously. Apparent inconsistencies are arising because the rich are becoming more open about flaunting their material wealth. The government itself seems to be more concerned than multilateral agencies such as the World Bank about the potential unrest arising from differentials in income between the rich and the poor. Linked with President Suharto politically, the wealthy Chinese minority in Jakarta is accused in particular of benefiting disproportionately from the country's prosperity.

Those who claim that Indonesia's growth has been broad-based attribute this feature to several sources. Since the 1970s the government has emphasized raising agricultural productivity and achieving self-sufficiency in rice. Exchange rate depreciation, incentive pricing, subsidized inputs, and credit to encourage the adoption of modern rice varieties improved the domestic terms of trade of agriculture and improved the condition of the agricultural workforce. This in itself helped to alleviate poverty, since the vast majority of the poor in Indonesia derive their main source of income from agriculture. Cash crops accounted for a large share of the increase in non-oil exports in the late 1980s, and thus the rural poor who were net producers of tradable goods likely increased their income. However, large and medium-sized farmers who produce most of the export crops benefited disproportionately.[19]

Various estimates of poverty -- such as the headcount ratio, the proportionate poverty gap, and the distribution-sensitive FGT index -- suggest that the lion's share of the alleviation of poverty in Indonesia during the 1980s was in rural areas, although most of this improvement was concentrated in Central and Eastern Java.[20]

Marked regional disparities in poverty persist in Indonesia: significant percentages of the population in the Outer Islands, for example, remain poor.

One study maintains that roughly half the reduction in poverty in Indonesia from 1984 to 1987 was accounted for by an improvement in the consumption levels of self-employed rural farmers.[21] However, the distribution of land has become more concentrated, and landlessness has been on the rise.[22]

For poverty to have been reduced among landless agricultural workers, it was crucial for off-farm employment to have significantly increased. Some analysts claim, however, that the government undertook no concerted program of rural industrialization to promote employment.[23] Moreover, real agricultural wage rates may have decreased during the 1980s.[24]

Even analysts who have done the most detailed examination of the sectoral composition of poverty accept that real wage rates have not increased in either agriculture or unskilled manufacturing jobs. The gains to the poor, they argue, have come from employment growth, mostly in a growing rural nonfarm sector.[25]

19 Erik Thorbecke, "Adjustment, Growth and Income Distribution in Indonesia," *World Development* 19:11 (November 1991): 1610.

20 Ravallion and Huppi, op. cit., p. 72.

21 Monika Huppi and Martin Ravallion, "The Sectoral Structure of Poverty during an Adjustment Period: Evidence for Indonesia in the Mid-1980s," *World Development* 19:12 (December 1991).

22 Thorbecke, op. cit., p. 1601.

23 Rizwanul Islam, "Rural Poverty, Growth, and Macroeconomic Policies: The Asian Experience," *International Labour Review* 129:6 (1990): 709.

24 Ravallion and Huppi, op. cit., p. 59.

25 Huppi and Ravallion, op. cit., p. 1672.

As a result, aggregate incomes of poor agricultural workers enlarged, and wages also became an important source of income for poor self-employed farmers. This controversy, however, only underscores the primacy of continued growth as the foundation of further poverty alleviation. Alternatively, the government could focus on redistributive measures that more directly channel income or assets to the rural poor, but this has not been a hallmark of its strategy of development.

As a second source of broad-based growth, the government undertook a major effort in the 1970s to build up the social and physical infrastructure in the countryside, such as roads, primary schools, and health clinics. The poor gained greater access to basic services such as health, education, family planning, water supply, and sanitation. In contrast to poverty alleviation programs in other countries, Indonesia did not emphasize income transfers, subsidies for consumers, or public employment. Instead, the poor were encouraged to build up their own human capital and were given greater access to the use of public assets. Despite government efforts, however, Indonesia still lags behind other South-East Asian countries in a number of social indicators such as life expectancy, infant mortality, adult literacy, and mean years of schooling.[26]

As ratios to GNP, expenditures on both health and education are low by developing country standards. While there has been tremendous progress in providing primary education, the quality of the schools appears to be low, particularly in rural areas. In 1988 almost 80 percent of enrolled students dropped out of primary school. Part of the explanation is the inability of the poor to afford sending their children to school. Community health facilities and volunteer-staffed preventive health care clinics have been spread throughout the countryside, but they are still substantially underfunded. Fifty-seven percent of the Indonesian population still do not have access to health services.[27]

As a third source of broad-based growth, Indonesia's export-oriented industrial policy appeared to favor the growth of more labor-intensive industries employing significant numbers of unskilled and semiskilled workers.[28]

Some analysts claim, however, that employment grew at an even slower rate than output during the early 1980s and that the government had little success in promoting industrial employment.[29] The fourth claim for broad-based growth maintains that during the structural adjustment of the 1980s, the government insisted on taking a growth-oriented approach that preserved many of the expenditures which benefited the poor, such as expenditures on agriculture and human resource development.

The exact distributional effect of these policies remains unclear: the wages and salaries of civil servants, who are among the higher-income groups in the country, were also shielded, and public investment as a whole declined sharply after 1985-86, lowering the employment offered to the poor by construction and public works projects. Government policies did favor the poor insofar as they preserved small-scale construction projects which provided employment for unskilled rural labor, while they discontinued many large capital-intensive projects in industry and mining.[30] In conventional terms the recurrent expenditures on agriculture and human re-

26 See United Nations Development Programme, *Human Development Report* 1993 (New York: Oxford University Press, 1993).

27 For a discussion of government efforts to provide health and education services, see Dillon Banerjee, "Indonesia: Human Development Profile and Policy Agenda" (International Development Program, The American University, 1994). Mimeo.

28 World Bank, *Indonesia: Strategy for a Sustained Reduction in Poverty* (Washington, D.C.: The World Bank, 1990), pp. 20-21.

29 Islam, op. cit., p. 709.

source development would be regarded as part of public consumption, but many were directed at financing human capital formation, which is a form of investment that often generates very high social rates of return. This form of investment is also one of the surest means of disbursing the benefits of economic growth broadly among the population.

Despite these efforts, the absolute number of poor in Indonesia remained large. At the higher poverty line mentioned above (set for a more diversified diet with only 66 percent of calories from grains), 40 million people were still poor in 1990.[31] A 1990 World Bank study found that by raising the official poverty line by only 10 percent, the number of poor increased by a third.[32]

This underlines the concern that large numbers of Indonesians are "near-poor," that is, their standard of living barely exceeds the government's low poverty line. Poverty remains a serious problem in Indonesia, and its extent should not be underestimated.

3. Malaysia

Malaysia's success in poverty alleviation compares favorably to that of Chile and of Indonesia. By 1970 the country had already made considerable progress in reducing extreme poverty: the World Bank estimates 18 percent of the population to be poor based on a low poverty line (the same as that for Indonesia). In contrast, an independent study of 1970 government data, which uses a higher poverty line, estimates that about 40 percent of the Malaysian population were poor.[33]

In comparison to the other two countries, Malaysia's task after 1970 was more difficult. The government had to devise means to reach the most marginalized, "hard-core" poor -- with very low incomes, few assets, and little education. Poverty was mainly a rural phenomenon, with the great majority of the poor being ethnic Malays. Yet government policies have been remarkably successful. Assuming again a low poverty line, only 2 percent of the country's population were poor in 1990, a percentage even lower than that for the Republic of Korea.[34]

On the basis of a broader definition of poverty, the incidence of poverty decreased from over 46 percent in 1976 to about 17 percent in 1990.[35] Even with reference to a higher poverty line, Malaysia has certainly progressed farther in reducing poverty than either Indonesia or Chile.

Malaysia's strategy combined broad-based rapid growth with redistribution of income and wealth. Redistributive measures were deliberately targeted at poor rural Malays concentrated in low-productivity agriculture. Poverty was reduced, and the distribution of income among Malays came to more closely approximate the distribution of income among other ethnic groups. Yet overall inequality in the distribution of income was not substantially reduced during the decades of the 1970s and 1980s. In 1973 the richest quintile of the population received about 56 percent

30 For a more detailed description of the broad-based features of Indonesia's growth, see World Bank 1990, op. cit., chap. 2.

31 Johansen, op. cit., p. 30.

32 World Bank 1990, op. cit., p. 14.

33 See Sudhir Anand, *Inequality and Poverty in Malaysia: Measurement and Decomposition* (New York: Oxford University Press, for the World Bank, 1993), pp. 114, 127. Anand uses a poverty line for 1970 of M$25 per capita per month, which closely corresponds to the poverty line set by the Malaysian Ministry of Welfare Services. The Ministry's line requires an income level necessary to maintain a family in "good nutritional health" and provide it with "minimum conventional" nonfood needs.

34 Frida Johansen, op. cit., p. 42.

35 Ismail Mudh Salleh and Saha Dhevan Meyanathan, *Malaysia: Growth, Equity, and Structural Transformation* (Washington, D.C.: The World Bank, 1993), p. 39.

of total income, and the ratio of the income share of the top 20 percent to the share of the bottom 20 percent was 16 to 1. By 1987 the share of the top quintile had only been reduced to 51 percent, and the ratio of the share of the top 20 percent to that of the bottom 20 percent was still 11 to 1. In contrast, the share of the richest 20 percent in Indonesia in 1987 was only about 41 percent; and that of the poorest 20 percent, almost 9 percent -- a ratio of about 4.7 to 1.[36]

Unlike Japan, Korea, and Taiwan, Malaysia did not adopt a strategy of redistribution *before* growth. The former three countries all had extensive land reforms after World War II, which continued to help equalize the distribution of income during the subsequent periods of their rapid economic growth.

The Malaysian government was constrained by the necessity of maintaining racial harmony among the Malay, Chinese, and Indian ethnic groups among its population. While the government recognized that the poor were predominantly Malays and that income and assets needed to be redistributed to them, this redistribution could not be carried out at the expense of the other two ethnic groups, at least in terms of absolute levels of income and holdings of wealth. The alternative was to rely on rapid economic growth that expanded the income and wealth of all groups and enabled the government to redistribute to the Malays *on the margin*.

The government's New Economic Policy, which was incorporated in the Second Malaysia Plan (1971-75), embodied this general approach. Its two main goals -- eradicating poverty and correcting economic imbalances -- implied that Malays would be targeted for poverty alleviation programs and that they would be given greater opportunities to secure government and modern-sector jobs and to own businesses. Quotas were established for the hiring of Malays, and a 1990 target was set for Malay ownership of 30 percent of corporate equity. One of the reasons that the distribution of income has been unequal in Malaysia is that much of the wealth in the country has been owned by foreign interests or the Chinese minority. In 1970 foreigners owned about 61 percent of the equity capital of limited companies, while the Chinese held 22.5 percent. The Malays, who were over half the population, owned a mere 2 percent of equity capital.[37] The target of Malay ownership of 30 percent of equity capital was to be achieved at the expense of foreign ownership of assets, not of non-Malay ownership. By 1990 the actual ownership of corporate assets by foreigners had indeed been reduced to 25 percent, but the actual ownership by Malays had risen to only 20 percent; the Chinese had increased their share to about 45 percent.[38]

Another reason that the distribution of income has remained relatively inegalitarian in Malaysia is that land is unequally distributed. As an outgrowth of British colonialism, the best land has been owned by large estates. In 1960 the estate sector owned 36 percent of acreage under crops and 50 percent of acreage under rubber. In the 1970s roughly half the agricultural workforce were landless or owned uneconomically small plots: the average plot for both rubber and rice smallholders was about 3 acres.[39]

The country was fortunate, however, to have a relatively small population but abundant land that potentially could be used for cultivation. The estate sector was

36 Johansen, op. cit., p. 54.

37 Anand, op. cit., pp. 11-12.

38 "New Ethnic Economics?" *The Banker*, July 1991, p. 50.

39 Parvez Hasan, "Growth, Structural Change, and Social Progress," in *Malaysia: Growth and Equity in a Multiracial Society*, ed. Kevin Young, Willem C.F. Bussink, and P. Hasan (Baltimore: The Johns Hopkins University Press, for the World Bank, 1980), p. 44.

left intact, but redistribution occurred through government investment in the clearing of new land. Most of this new land was allocated to Malays. The large number of Indian laborers on the estates, among the poorest of Malaysians, were left to eke out a living on subsistence wages.

The land development programs of the Malaysian government were limited in scope and targeted mainly at the landless: the actual number of families resettled on new land was small -- only 33,000 between 1956 and 1975, for example.[40]

Along with land development programs, the government invested heavily in irrigation for rice smallholders and in the replanting of high-yielding rubber trees for rubber smallholders. These latter two measures substantially raised yields on small landholdings. Like Indonesia's population, Malaysia's population was predominantly rural in 1970; and like the Indonesian government, much of the Malaysian government's success in alleviating poverty stemmed from promoting agricultural productivity and growth. As a consequence of its policies, food production doubled in the 1980s.[41] One of the main differences between the policies of the Malaysian government and those of the Indonesian government is that the former systematically targeted rural Malays, who were the majority of the poor in the country. According to one estimate, in 1970 about 78 percent of poor households were Malay, and almost 88 percent of all poor households lived in rural areas.[42]

An additional factor helping to reduce poverty was that many rural Malays were moved out of agriculture and provided with employment in the burgeoning manufacturing sector. Manufactured exports boomed in the 1980s, providing many new jobs, but traditional resource-based exports -- such as rubber, tin, palm oil, timber, and, more recently, petroleum -- also grew. Malaysia's total exports grew by almost 11 percent from 1980 to 1991. The growth rates of Indonesia's exports and Chile's exports were 4.5 percent and 5.2 percent, respectively. Moreover, Malaysia's exports were much less natural-resource-based: in 1991 only 39 percent of the country's exports were primary products, while the other 61 percent were manufactures. For the same year the percentages of total exports that were primary products were 59 percent for Indonesia and a very high 85 percent for Chile.[43]

Like Indonesia, Malaysia had to undergo a painful process of stabilization and structural adjustment in the 1980s, due in Malaysia's case to a decline in its terms of trade, an unsustainable fiscal expansion in the early 1980s, and an appreciating real exchange rate which eroded its international competitiveness. Yet poverty continued to be reduced during the 1980s in the midst of fiscal retrenchment. The incidence of rural poverty declined, particularly among rice paddy farmers, who continued to benefit from the productivity increases resulting from previous government investments in rural infrastructure.[44] Also of benefit to the poor was the continuing rise in recurrent expenditures for health and education throughout the 1980s. Between 1979 and 1987, operating expenses for education increased in real terms by about

40 Alice Galenson, "Agriculture and Rural Poverty," in *Malaysia: Growth and Equity in a Multiracial Society,* ed. Kevin Young, Willem C.F. Bussink, and P. Hasan (Baltimore: The Johns Hopkins University Press, for the World Bank, 1980), p. 250.

41 Johansen, op. cit., p. 16.

42 Anand, op. cit., p. 127.

43 World Bank, *World Development Report 1993* (New York: Oxford University Press, for the World Bank), tables 14, 16.

44 Lionel Demery and David Demery, "Poverty and Macroeconomic Policy in Malaysia, 1979-87," *World Development* 19:11 (1991), p. 1621.

66 percent, and expenses for health increased by about 45 percent.[45]

By no means did Malaysia's high rates of government social spending confront it with a trade-off between growth and equity. For the period 1980-91 the average annual growth rate of its GDP was 5.7 percent, slightly faster than Indonesia's 5.6 percent rate and substantially faster than Chile's 3.6 percent rate.[46]

With the government continuing to give high priority to investment in human capital, social indicators for Malaysia improved substantially throughout the 1970s and 1980s. By 1990 life expectancy had reached 70 years, equal to that achieved in Korea and China. In that same year Malaysia had the lowest infant mortality rate in East Asia, with 16 deaths per 1,000 live births. In calories per capita Malaysia ranked second only to Korea. These results are due to the relatively high rates of government expenditures in these areas. About 22 percent of central government expenditures are allocated to health and education, which represents about 5 percent of the country's GNP -- the highest percentage in East Asia.[47]

Malaysia's impressive performance on many of its social indicators could not have been attained without its concerted poverty alleviation efforts. The poor, especially those concentrated in the countryside, have benefited from the government's large investments in social infrastructure. Malaysia is a rapidly growing capitalist economy in which income inequality has remained relatively high. But the government's redistributive measures have markedly improved the absolute condition of the poor and provided them with education, credit, infrastructure, and assets to begin integrating themselves into the growth dynamic of the economy.

4. Conclusion

Of the three countries we have examined, Chile appears to have been the least successful in alleviating poverty. Much of its apparent success relies on utilizing an artificially low poverty line that exclusively targets the extremely poor. The condition of the extremely poor has been improved in a number of significant respects, but mainly because of a redistribution of income away from the less poor. Economic growth has not been broadly based: the rich have enlarged their share of national income, while workers and the poor have seen their standards of living suffer.

Indonesia's success in poverty alleviation has also been measured by an unrealistically low poverty line. Yet its economic growth has been more broadly based than that of Chile. The Indonesian government has channeled considerable resources into agricultural development and social and physical infrastructure in the countryside, and it has maintained expenditure levels for the poor during its belt-tightening of the 1980s. However, its strategy of poverty alleviation has relied too heavily on growth alone. Real wage rates in agriculture and industry have not risen, and employment growth has lagged behind the growth of output. Rural and urban industry is having difficulty absorbing the large supply of landless workers seeking employment. This is a key symptom of an economy that is struggling to incorporate at least 40 million people who are still mired in poverty.

Malaysia has clearly been the most successful of the three countries we have examined in alleviating poverty. By 1990 poverty had been reduced by growth and government redistributive policies to minimum levels for a developing country. This claim is supported by the country's high ranking on a number of social indicators

45 Ibid.

46 World Bank 1993, op. cit., table 2.

47 Johansen, op. cit., annex tables.

that are strongly correlated with poverty reduction. Malaysia's economic growth was more broadly based than that of Indonesia, and it insisted on maintaining social spending for the poor during its structural adjustment of the 1980s. Where it differs from both Indonesia and Chile is in its policies to directly redistribute income and wealth to the poor. However, because of the constraint binding the government to maintain multiracial harmony, its redistributive efforts had to be carried out on the basis of rechanneling the *increments* to national income resulting from economic growth, rather than mounting a frontal attack on the country's unequal distribution of land and industrial assets. As a result, while the severest forms of poverty have been dramatically reduced, substantial income and wealth inequality remain that could undermine the future basis of equitable growth.