

# *The Idea of Antipoverty Policy*

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*“Is there anyone today who would not commit to eliminating poverty?” (Jim Yong Kim, 2013)*

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*How did we come to think that eliminating poverty is a legitimate goal for public policy?*

*What types of policies emerged over time in the hope of attaining that goal?*

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# Three premises are now widely accepted:

Premise 1: **Poverty is a social bad**

Premise 2: **Poverty can be eliminated**

Premise 3: **Public policies can help do that**

- But these premises did not have broad scholarly support 200 years ago.
- There has been a dramatic change in economic thinking about poverty—a new model of poverty.

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## The evolution in thinking, in four quotes

- *“The poor ... are like the shadows in a painting: they provide the necessary contrast.”* (Philippe Hecquet, 1740).
- *“Everyone but an idiot knows that the lower classes must be kept poor or they will never be industrious.”* (Arthur Young, 1771).
- *“May we not outgrow the belief that poverty is necessary?”* (Alfred Marshall, 1890).
- *“Our dream is a world free of poverty.”* (Motto of the World Bank since 1990).

This presentation aims to document and understand this huge change in how we think about poverty in the last 200+ years

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# A simple expository model and some definitions

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## Model of personal wealth dynamics

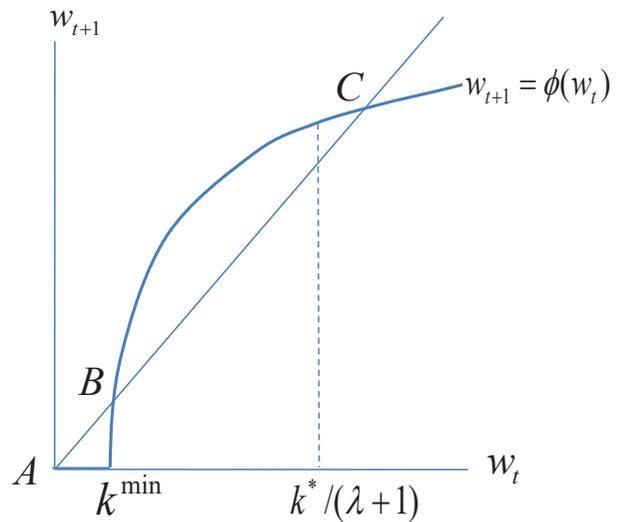
- The credit market is imperfect, such that individuals can only borrow up to  $\lambda$  times their wealth.
- Each person has a strictly concave production function yielding output  $h(k)$  from a capital stock  $k$ .
- Given the interest rate  $r$  (taken to be fixed) the desired capital stock is  $k^*$ , such that  $h'(k^*) = r$ .
- Those with initial wealth less than  $k^*/(\lambda + 1)$  are credit constrained: after investing all they can, they still have  $h'(k_t) > r$ , while the rest are free to implement  $k^*$ .
- A fixed share of current wealth is consumed.

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# Wealth poverty trap

Threshold capital stock such that  $h(k) = 0$  for all  $k \leq k^{\min}$ . No demand for capital unless the borrower's wealth is sufficient to cover  $k^{\min}$ .

- Three equilibria,  $A, B, C$ , but only  $A$  and  $C$  are stable.
- Wealth poverty trap at  $A$ .
- Positive consumption(=income) for those at  $A$ .
- And uninsured risk => transient income fluctuations.



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## Two types of antipoverty policies

1. **Protection policies** provide short-term palliatives by assuring that current consumptions do not fall below some crucial level, even though poor people remain in the wealth poverty trap.
2. **Promotion policies** allow poor people to break out of the poverty trap, by permitting a sufficiently large wealth gain, to put them on a path to eventually reach their own (higher and stable) steady state level of wealth.

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# Antipoverty policy = Protection + promotion

- Political philosophy emphasizes a **rights-based** definition of “distributive justice” (e.g., Rawls, Fleischacker)
- States can and do ascribe legal rights, but sometimes little more than symbolic, given weak administrative capabilities.
- Instead, the focus here will be on whether policy helped people permanently escape poverty by changing the distribution of wealth, or merely offered a transient (though important) short-term palliative to protect people from negative shocks.
- In short the test for a good antipoverty policy is whether it is aimed at **both promotion and protection**.
- **The last 200 years has seen a shift in emphasis from “protection only” to promotion. This came with important changes in the underlying economic model of what causes poverty.**

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## Mercantilist thinking on poverty in 16<sup>th</sup>-18<sup>th</sup> century Europe

# The mercantilists: poor people as the means to an end

- Mercantilism dominated economic thinking from 16<sup>th</sup> to 18<sup>th</sup> centuries. It was the first attempt to construct a rigorous economics of means and ends.
- The end was to maximize the nation's export surplus—the balance of trade, which was equated with the future prosperity and power of the realm.
- The means were cheap production inputs, i.e., cheap raw materials (for which Colonies proved useful) and cheap, and therefore poor, labor at home.

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## *“The utility of poverty”* (Furniss)

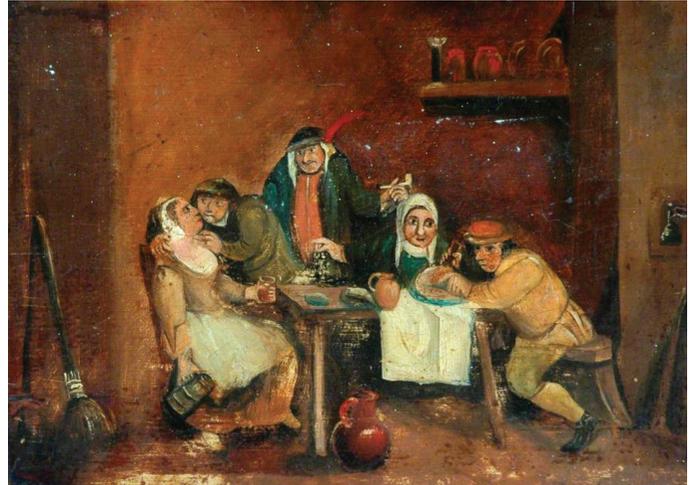
- Poverty was seen as essential for economic development.
- In the absence of slavery, it was believed that workers needed to be kept poor to assure that they were willing to work.
- Hunger would encourage work, and lack of hunger would do the opposite.
  - *“The poor know little of the motives which stimulate the higher ranks to action—pride, honor and ambition. In general, it is only hunger which can spur and goad them onto labor.”* (Joseph Townsend, 1786)

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# Negatively sloped labor supply schedule

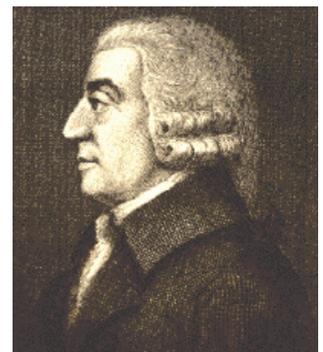
- Income effect of higher wage rate was (implicitly) assumed to dominate the substitution effect
- Higher wages, then...  
→ Off to the pub!

– *"It is observable that where the highest wages are given, there they do the least work..(spending) .. the rest of their money at the alehouse." Thoughts on the Present State of the Poor.*  
London, 1776.



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*"The surest wealth consists in a multitude of laborious poor.. [and].. great Numbers of them should be Ignorant as well as Poor"*  
(Bernard de Mandeville, 1732)

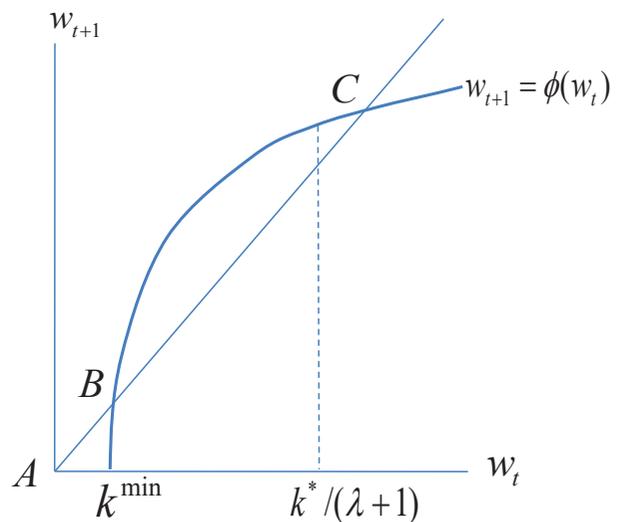


- The mercantilists did not favor educating poor people; this would simply make them want more material goods, demand higher wages, create frustration, and achieve little economic gain.

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## Could de Mandeville have been right?

- The poor—the working class—are concentrated at the wealth poverty trap (point A).
- A small increase in their wealth, in the form of extra human capital only sufficient to get them to the threshold (say), will not bring any lasting benefit. In due course the dynamic forces will push them back to point A.



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## A young scavenger's choice in a Mumbai slum

From Katherine Boo's vivid description of life in in a Mumbai slum: with reference to Sunil, a young scavenger:

*"He'd sat in on [the English class taught in the slum] for a few days, mastering the English twinkle-star song, before deciding that his time was better spent working for food."* Katherine Boo, *Behind the Beautiful Forevers*, p.68)

Twin-kle, twin-kle, lit - tle star, how I won-der what you are!

5 Up a - bove the world so high, like a dia-mond in the sky.

9 Twin-kle, twin-kle, lit - tle star, how I won-der what you are!

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# Protection has a long history

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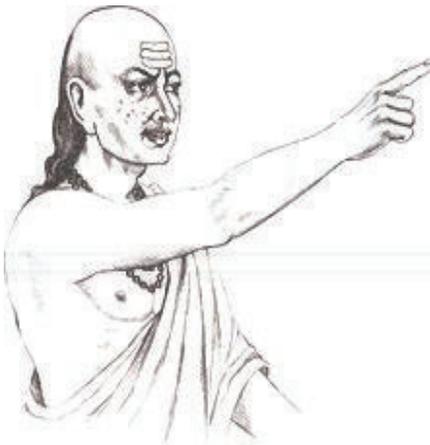
## Persistent poverty was seen to be caused by moral failings

- One of the oldest themes: **poor people themselves are the main cause of their own poverty.**
- Moral weaknesses; excessive fertility, laziness, bad choices (esp. spending at the alehouse).
- This view gave little scope for public action to promote people from poverty.

Any public responsibility was confined to limited protection

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# Public responsibility for protection from extreme poverty is an old idea



Around 300 BC, the Indian academic and advisor to Royalty, Chanakya (also known as Kautilya) recommended that when famine looms a good king should *“..institute the building of forts or water-works with the grant of food, or share [his] provisions [with the people], or entrust the country [to another king]”*.

India still gives greater weight to protection than promotion!

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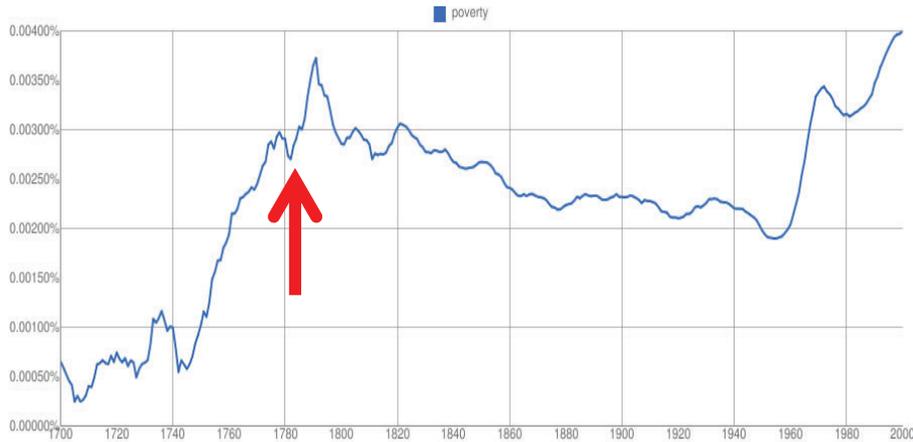
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## The Elizabethan (“Old”) Poor Laws

- Dating back to the 16th century, they provided a system of locally-implemented (Parish-level) state-contingent relief available to all, financed by local property taxes.
- Cash transfers conditional on old age, widowhood, disability, illness, or unemployment.
- There was little obvious attempt to change the distribution of wealth—to assure promotion.
- The Poor Laws made sense to the mercantilists in that they helped assure a relatively docile working class, and with little threat to the steady-state distribution of wealth.

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# The First Poverty Enlightenment 1780-1800



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## Changing popular attitudes to poverty

- The late 18th century saw new awareness of the scope for economic and political institutions to serve the material needs of all people (Brinton).
- Popular politics flourished in the alehouses and coffeehouses of London in the late 18<sup>th</sup> century; e.g., the “*London Corresponding Society*.”
- New questioning of established social ranks was found among the working and middle class.



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# The Marriage of Figaro

- In the 1780s, *The Marriage of Figaro*, by Pierre Beaumarchais, had Parisian audiences taking side with the servants in laughing at the aristocracy.
- The play was censored for many years. Banned by Louis XVI. Precursor to French Revolution.

## Figaro's famous 5<sup>th</sup> Act speech

*"Just because you are a great nobleman, you think you are a great genius—Nobility, fortune, rank, position! How proud they make a man feel! What have you done to deserve such advantages? Put yourself to the trouble of being born—nothing more. For the rest—a very ordinary man! Whereas I, lost among the obscure crowd, have had to deploy more knowledge, more calculation and skill merely to survive than has sufficed to rule all the provinces of Spain for a century!"*



23

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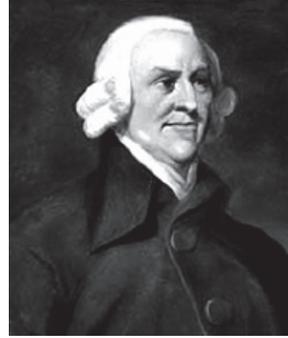
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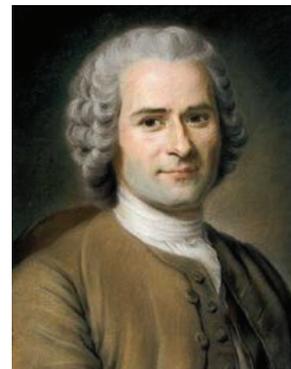
# Adam Smith's critique of Mercantilism



- Smith's (1776) *Wealth of Nations* lambasted the mercantilist view that a country's economic welfare was to be judged by the balance of trade. Smith argued for:
  - A broader conception of welfare based on aggregate command over commodities (including basic consumption goods).
  - Seeing progress against poverty as a goal for development, rather than a threat to it.
  - Promotional antipoverty policies, such as basic schooling of the “common people”.
- Smith was evidently far more progressive than most of his peers.

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# Rousseau on the origins of inequality

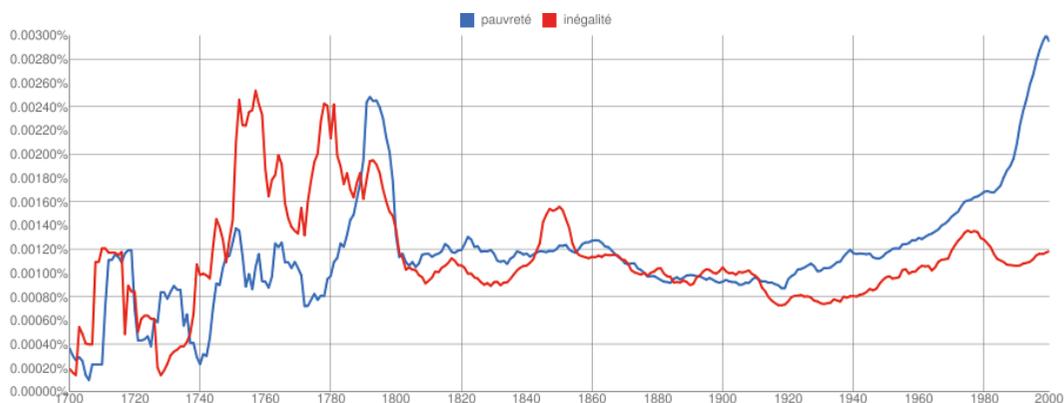


- In *Discourse on the Origin of Inequality* Jean-Jacques Rousseau (1712-1778) made a key step in recognizing the distributional role played by institutions, incl. governments.
- Self-interest in the natural state yes (as in Hobbes), but also empathy for the suffering of others.
- It is their socialization that generates poverty and inequality.
- Civil society as an invention that generates inequalities, which the powerful defended as need be.
- **Poverty was not then inevitable.**

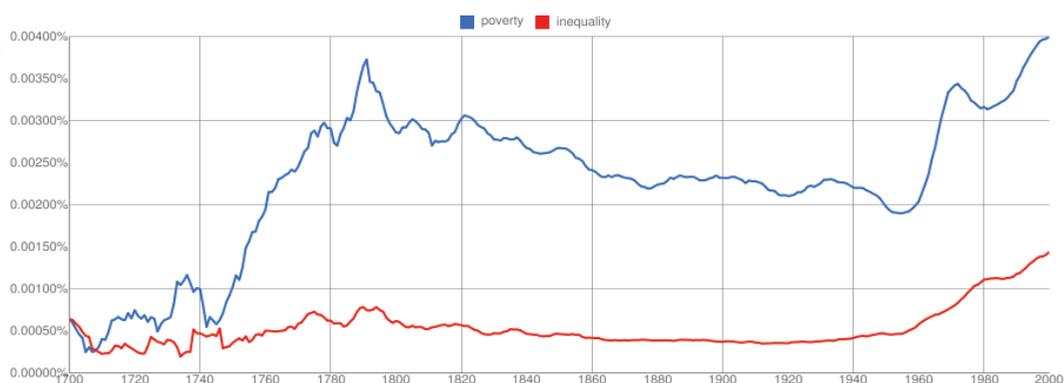
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# New attention to inequality, at least in France!

French



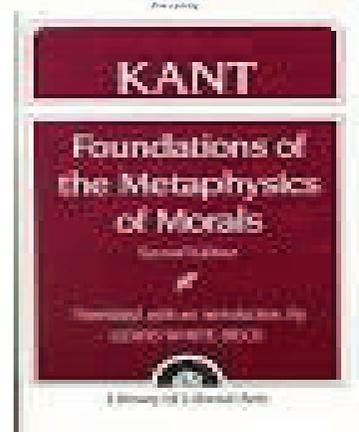
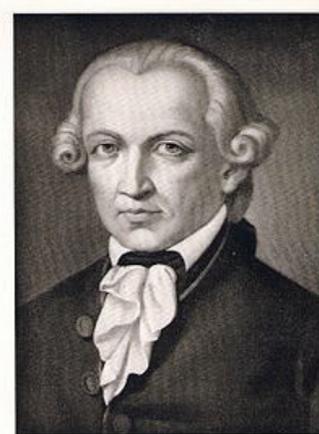
English



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## Kant: New respect for poor people, as ends not means

- Immanuel Kant (1724-1804) proclaimed that every human being “*exists as an end in himself and not merely as a means.*”
- This was a radical idea, which gave poor people the same moral value as rich people. The poor were to be respected.
- Again empathy. “Emotional identification” (de Waal)



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# Kant: Is charity really so virtuous?

- Philosophy and theology had long applauded charity as virtuous.
- Kant recognized the unequal relationship between giver and receiver in charity for the poor.
- In the late C18th, Kant questioned whether it is “virtuous” to give alms that flatter the giver’s pride.
- Kant “... *looks to the state to provide for a more respectful relationship between rich and poor.*” (Fleischacker).

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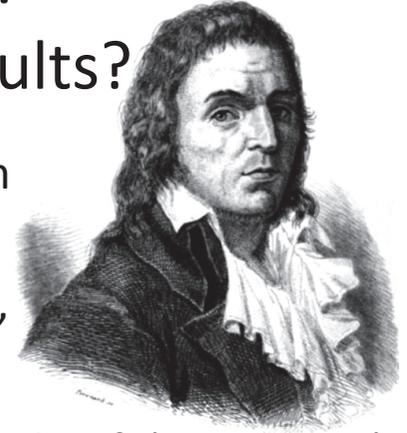
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## Liberty, equality and fraternity

- ***Liberté, égalité, fraternité***, the motto of the French Revolution (adopted as France’s national motto in late 19th century).
- From *Declaration of the Rights of Man and of the Citizen*, 1789:
  - **Liberty**: “... *consists of being able to do anything that does not harm others: ... the natural rights of every man or woman has no bounds other than those that guarantee other members of society the enjoyment of these same rights.*”
  - **Equality**: The law “*must be the same for all, whether it protects or punishes. All citizens, being equal in its eyes, shall be equally eligible to all high offices, public positions and employments, according to their ability.*”
- **Fraternity** was not defined so clearly; John Rawls came back to this 200 years later.

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# Equality of what? Opportunities or results?



- The 1789 *Declaration* defined equality in terms of **opportunities**.
- The rival concept was **equality of results**, but this had few advocates!
- The activist François-Noël (“Gracchus”) Babeuf (1760-1797) tried to start a second French Revolution around this idea.
  - Babeuf advocated progressive taxation and “one man one vote” (not weighted by social standing).
  - Lost his head over it! Babeuf’s advocacy of a second revolution aimed at addressing the persistent problems of poverty and inequality led to his trial and execution in 1797.

(Today: return to emphasis on inequality of opportunity.)

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## A progressive market economy?

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# What hope for poor people from an expanding market economy?

- Adam Smith's anti-mercantilist views meant he was more optimistic about the scope for overall social progress.
- The classical economists (Smith, Malthus, Ricardo, Bentham, Mill ) expected technical progress to be labor augmenting (shifting MPL).
- However, they warned that population growth ("moral weaknesses") would undermine the gains to poor people.
- Marxism also assumed a fixed subsistence wage but for a different reason: excess supply of labor ("reserve army").
- Either way, the poor would not benefit from technical progress in a capitalist economy.

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## The only real hope was "moral restraint" by poor people

- Some hoped (Smith, esp., J.S. Mill) that education would help.
- But little or no advocacy of promotional policies, which could have made growth more pro-poor.
- Concerted national public action for mass education did not emerge until later in the 19<sup>th</sup> century.

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# The industrial revolution and poverty: Optimists and pessimists

- Throughout the C19<sup>th</sup>, Classical and Marxist economists were pessimistic on the scope for poverty reducing growth.
  - Little hope for rising real wages even with technical progress. From Smith (1776) to Wicksell (1901).
- Recent revisionist view (Clark). And the “lagged view” (Allen).
- Pessimists were right for many decades after the industrial revolution started (1760).
- However, in due course, real wages and nutritional status in England improved despite continuing population growth.

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## Why did real wages not respond faster?

- **Lewis model?** Maybe. But farm sector was only about 1/3 of labor in England.
- With workers too poor to save, the new investments could only be financed by high profits; once enough capital had accumulated real wages started to rise, from about 1830 (Allen).
- But with such a large number of poor, even small savings rate by workers could have financed accumulation. Weak **financial institutions** were the root cause.
- Also **falling food prices** later in C19<sup>th</sup> (imports from America and Australia).

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# Controversial reforms to the Poor Laws in the 1830s

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## Debates on the Poor Laws in early C19<sup>th</sup>

- The Poor Laws had become a fiscal burden on the politically powerful landholding class.
- Adverse **incentive effects** claimed, esp., on work and fertility.
  - Townsend: *“These laws, so beautiful in theory, promote the evils they mean to remedy, and aggravate the distress they were intended to relieve.”*
  - Ricardo: *“..it is quite in the natural order of things that the fund for the maintenance of the poor should progressively increase until it has absorbed all the net revenue of the country.”*
- The extent of these effects is unclear. Potential positive benefits ignored (insurance and development) (Solar).
- Exaggerated incentive effects to serve political economy?

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# Targeting through workhouses

- Influenced by Malthus and Ricardo, significant reforms to the Poor Laws were implemented in 1834.
- Huge contraction in public spending on poor relief. 2.5% of national income around 1830 to 1% in 1840 (Lindert)
- Calls for **better targeting**. Main change: greater use of **workhouses**, whereby recipients were confined and obliged to work for their keep as a form of “self-targeting.”
- These were intended for the poorest, and for the “deserving poor” in particular, not as a general remedy for poverty.
- But staunch social criticism from the start. Charles Dickens (esp., in *Oliver Twist*) and Benjamin Disraeli.



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## Targeting fetishism is not new!

- Workhouses can be interpreted as a means of getting around the information and incentive problems of targeting.
- But they do so by imposing costs on participants that are essentially **deadweight losses**—notably the foregone earnings and the welfare costs of stigma and subjugation (as Oliver Twist experienced).
- A truly utilitarian-welfarist assessment would be ambiguous.
- England’s workhouses of the mid 19<sup>th</sup> century clearly went too far in imposing costs on participants to assure self-targeting.
- In short, the obsession with finer targeting undermined the Poor Laws, even as a protection policy. Lessons for now!

# Incentives and redistribution

- Past discussions of antipoverty programs have been polarized between those who emphasize incentive effects and those who ignore them.
- 200 years ago the emphasis was on incentive effects (“behavioral responses”) creating limits to redistribution.
- But based on anecdotes/characterizations; evidence was weak.
- Tax/benefit incidence (with micro-data) emerged much later but it has been largely non-behavioral.
- No clear reason why this is any closer to the truth than the debates on the Old Poor Laws.
- Continuing debates on incentive effects.

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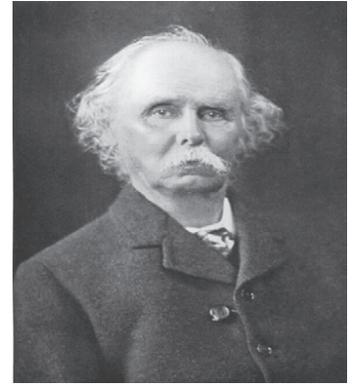
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The emergence of promotional policies in the late 19<sup>th</sup> century

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# New thinking on poverty

- In the late C19th it came to be recognized that poverty “*could and must be eliminated*” (Webb).
- Alfred Marshall (1842-1924) asked in the opening pages of his *Principles of Economics*, “*May we not outgrow the belief that poverty is necessary?*”.



*“The inequalities of wealth, and especially the very low earnings of the poorest classes..(are)... dwarfing activities as well as curtailing the satisfaction of wants” (Marshall, 1890, p. 599).*

Marshall:

- advocated policies for fighting poverty, premised on the view that persistent poverty was a constraint on wealth generation.
- emphasized promotional policies that would make the children of the unskilled skilled.

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## Empirical research on poverty: Booth and Rowntree...

- ... documented the living conditions of England’s poor (in London and York respectively) in the late 19th century.
- Their work attracted much attention.
  - The public was shocked to learn that one million Londoners lived below Booth’s poverty line; this was a frugal line—equivalent to 1.5 pounds of good wheat per person per day.
  - Booth’s writings are thought to have been instrumental in Britain’s introduction of a public pension in 1908.
- Booth’s poverty line was indeed frugal—comparable to poverty lines found in developing countries today.
- England’s poverty line rose substantially in real terms over the following 100 years.

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# Poverty as an inverse metric of “social progress”

- After WW1 broad agreement in Europe that reducing poverty was a legitimate role for government, along with many other goals.
- The incidence of absolute poverty was recognized as an important yardstick for measuring social progress.
- Arthur Bowley (1915):
  - *“There is perhaps, no better test of the progress of a nation than that which shows what proportion are in poverty and for watching the progress the exact standard selected as critical is not of great importance, if it is kept rigidly unchanged from time to time.”*

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## Compulsory schooling, child labor and poverty

- It is the children of poor parents who are less likely to be in school, and more likely to be working; this **economic gradient in schooling** persists to this day almost everywhere.
- This has long been seen as a factor perpetuating poverty.
- The policy debate on schooling:
  - Condorcet advocated free mass schooling around 1790.
  - Lobbying by industries dependent on child labor. Evasion likely (Marx).
  - Compulsory schooling and/or banning child labor imposed a short-term cost on poor families: the foregone earnings of children.
  - Advocates argued that the longer-term benefits from breaking out of a poverty trap outweighed these costs.
- Some progressive initiatives (e.g., Massachusetts in late C17<sup>th</sup>) but national legislation to make basic schooling compulsory was rare until the end of the C19<sup>th</sup>.

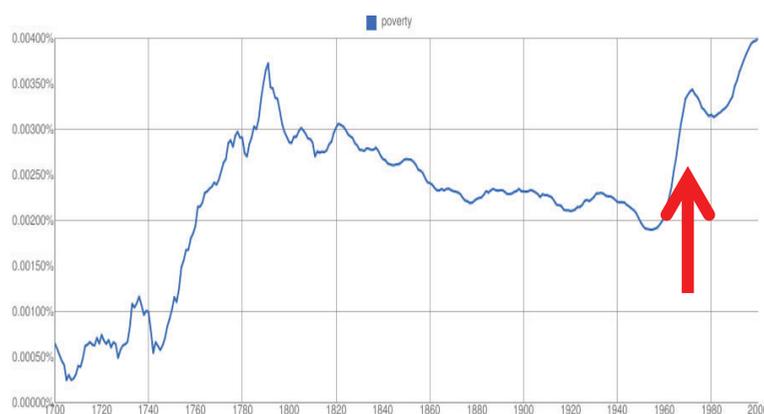
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# Targeted tuition subsidies → CCTs

- Adam Smith supported limited tuition subsidies for the “common people.” But little take up.
- Marshall proposed instead penalizing poor parents (“paternal discipline”) who neglected to send their children to school or to care for their health.
- The school boards in England set up in the late C19<sup>th</sup> gave some targeted tuition subsidies.
- Australia had a means-tested school bursary program from the 1960s.
- In developing countries, tuition subsidies, called “conditional cash transfer” (CCT) programs started to be popular in the 1990s.

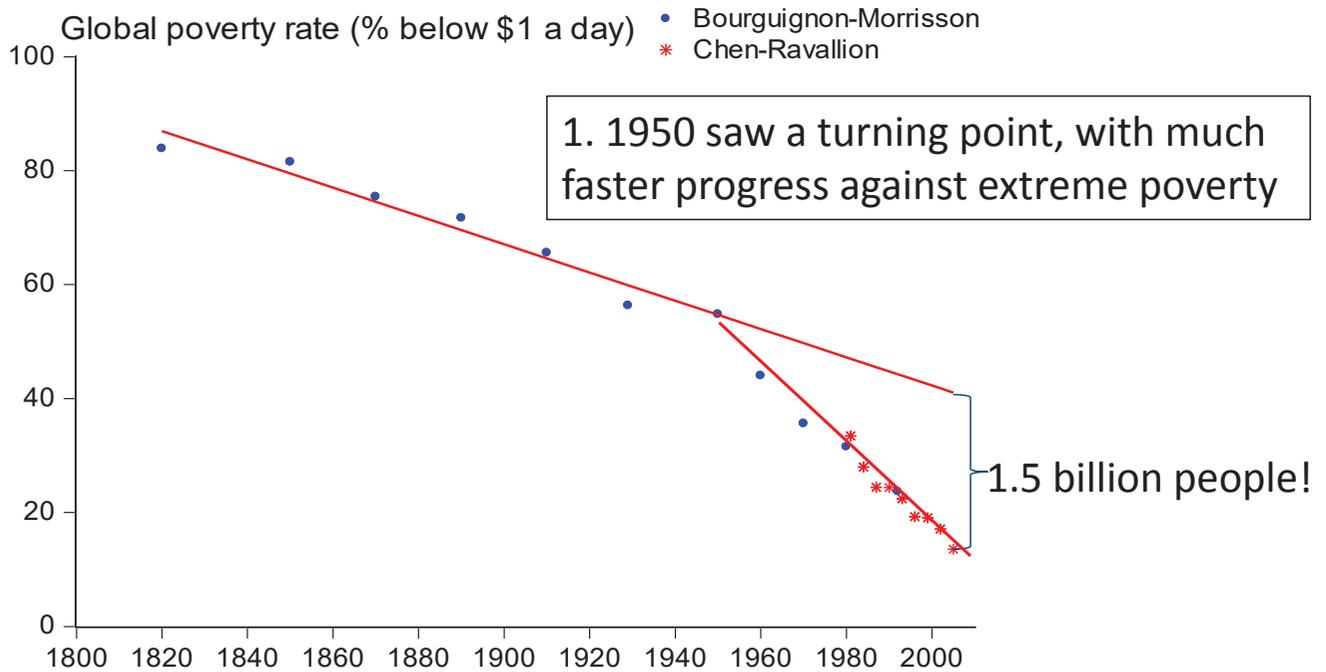
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## The Second Poverty Enlightenment, 1960-80



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# New trajectory in the 2<sup>nd</sup> half of the C20<sup>th</sup>

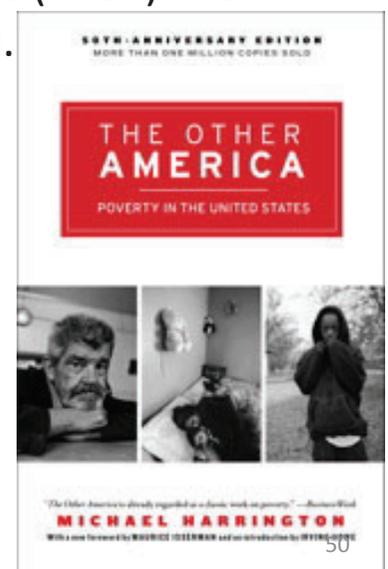


2. Attention to poverty is higher now than ever, while the incidence of extreme poverty in the world is lower than ever.

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## The re-discovery of poverty in America

- There was a sharp rise in concern over poverty in affluent societies that built up from the 1960s, notably in the US.
- In the wake of the civil rights movement (starting around 1955), important social commentaries: J.K. Galbraith's (1958) *The Affluent Society* and Michael Harrington's (1962) *The Other America* (both best sellers at the time).
- Surprising success of *Other America*; first print-run= 2,500 copies; 1.3 million by 1990.
- Political response in the US, including new social programs under the Johnson administration's *War on Poverty*.



# Resurrecting interpersonal comparisons

- Impossible to discuss poverty and inequality, and policies for addressing them, without making interpersonal comparisons of utility, though ordinal comparisons will sometimes suffice (as in maxi-min).
- Kenneth Arrow's "Impossibility Theorem" led to a new questioning of the efforts of economists over 1930-50 to base social choices solely on ordinal utility information without making inter-personal comparisons of utility.
- Even the Pareto principle started to be questioned, notably when Amartya Sen showed that it was inconsistent with seemingly mild requirements for personal liberty.

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## Rigorous formulations of incentive constraints on redistribution

- The Mirrless (1971) optimal tax model: what income tax schedule when there is a trade-off between equity and efficiency, given behavioral responses through labor supply?
- Utilitarian objective in Mirrlees.
- Alternative (non-welfarist; poverty focused) versions emerged in late 20<sup>th</sup> century (Kanbur- Keen-Tuomala).

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# Rawls vs. the utilitarians

- If there is a single scholarly landmark of the Second Poverty Enlightenment it is John Rawls's (1971) *Theory of Justice*.
- This was the first serious competitor to utilitarianism as the basis for thinking about the role of the state in social policy.
- Unlike utilitarianism this was fundamentally a rights-based approach that put human freedom center stage.
- Key issue: the **justice of social institutions**. Rawls argued that this should be judged by welfare of the least advantaged.
  - “Veil of ignorance” (including about probabilities) => difference principle; inequality is fine as long as the poor benefit.
  - Trade-off rejected; no gain to richest person justifies loss to poorest.
- Preferences still matter, but only those of the poor.

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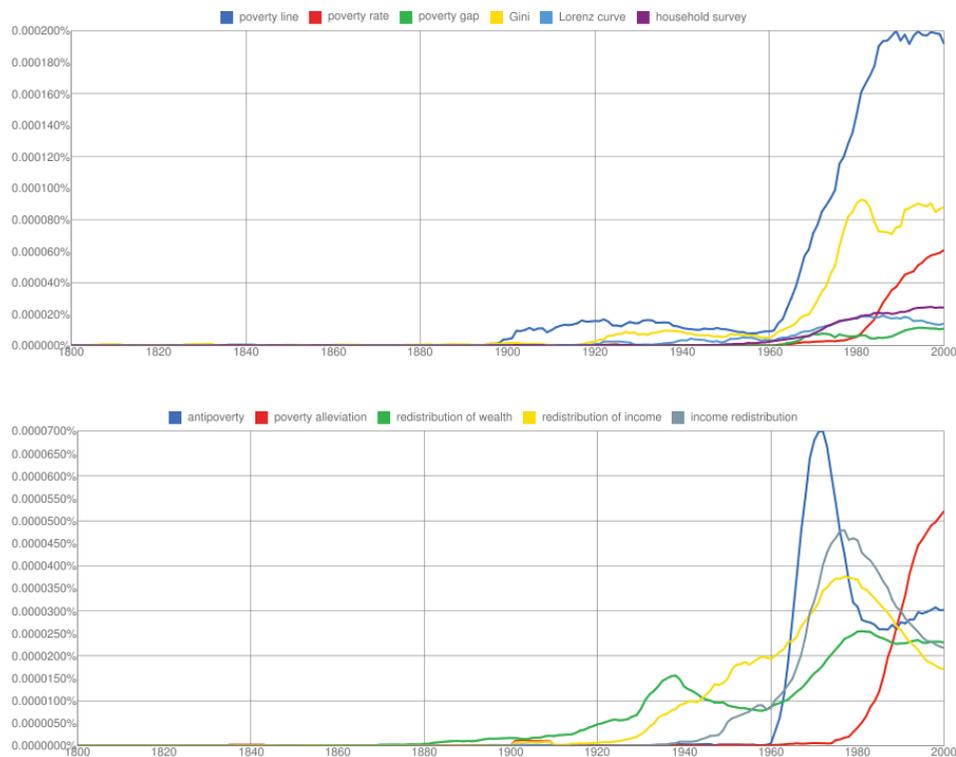
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## Rawls' re-interpretation of “fraternity”

- Recall that fraternity did not get as much attention as liberty or equality at the time of the French Revolution.
- Rawls saw the difference principle as defining “fraternity”: *“the idea of not wanting to have greater advantages unless this is to the benefit of others who are less well off.”*
- If there must be a dictator in social choice (Arrow) then it should be the poorest.
- The Rawlsian theory of distributive justice matches closely “liberty, equality and fraternity”:
  - Liberty: maximum individual freedom consistent with the same freedom for all.
  - Equality: equality of opportunity
  - Fraternity: difference principle (“maxi-min”)

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# Explosion of attention Post-1960



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## New knowledge about poor people

- Vital registration systems (mid-C19<sup>th</sup>).
- Early efforts in India; National Sample Surveys from 1960s.
- The UN National Household Capability Programme helped put household surveys on a sounder and more consistent basis.
- World Bank began its efforts to collect high-quality household and community data on a wide range of welfare indicators and their correlates, esp., the Living Standards Measurement Study.
- Just as the poverty studies by Booth and Rowntree were influential in 1890s England, in 1990 many were shocked to learn that there were about one billion people in the world living on less than \$1 per day, at purchasing power parity.
- Such data have been the empirical foundation of domestic and international efforts to fight poverty since the 1980s.

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# New analytic tools

- A succession of experiments with the prediction of policy impacts on the poor using Social Accounting Matrices and Computable General Equilibrium models offered promise, particularly in LDCs with relatively advanced basic data.
- New partial equilibrium tools esp., simulations methods, spending incidence studies.
- Linking types of data: household surveys and public finance data; macro and micro; geographic data.

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## Backlash: Critics of the new focus on poverty

- The “veil of ignorance” argument may lead to inferior social choices even from the p.o.v. of the poor. We know more, including on the probs. But we can have Rawls w/o the “veil.”
- Robert Nozick put property rights above all else, and argued against Rawls’ idea of distributive justice. But it was unclear why property rights were never to be questioned.
- Claims on incentives again: Charles Murray’s (1984) *Losing Ground*. But weak evidence. Even wrong (Ellwood-Summers)
- Welfare reforms in the 1990s: 30 years after declaring a “*War on Poverty*,” America declared a “*War on Welfare*.”
- Continuing debates today about poverty—its causes and the appropriate policy responses, throughout the world.

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# Thinking about poverty and policy in poor countries post-independence

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## The West's discovery of poverty in the "third world"

- Increasing awareness of the existence of severe and widespread poverty in the "third world."
- Debates (popular and scholarly) on how much responsibility people in rich countries have for the global poor.

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# Enthusiasm for fighting poverty post-independence, but limited effectiveness

- Poverty was not, of course, news to those thinking about policy in post-independence developing countries.
- The rhetoric of the post-independence intellectual climate was sympathetic to the poor.
- But effective action was less evident in the early post-independence decades.

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## Frustrated antipoverty plans

- Early plans of growth via accelerated capital accumulation were over-hopeful of the capacity of rapid industrialization to raise the demand for labor, and so enrich the poor.
- Anti-trade biases: yet the poor tend to earn livings converting non-tradable inputs, especially labor, into tradables.
- Also, the accelerated industrialization was financed by extracting a surplus from agriculture => tax on the poor.
- Early ambitious antipoverty plans were soon shelved.

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# East Asian success using promotional antipoverty policies

- Taiwan, South Korea and (later) China put greater emphasis on **promotion**; indeed, arguably protection was under-valued.
- They too had directive planning processes, "distorting" prices and foreign trade; extractive from agriculture.
- The key difference was that in these countries we saw:
  - Radical redistributive land reforms
  - Public support to human capital formation incl., poor people
  - Public investment in agriculture (irrigation and crop research)
  - Generally sensible poor-area development plans
  - Support for rural non-farm enterprises
  - Crucially: capable states.

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## Re-balancing 1: Rural development

- McNamara's (1973) "Nairobi speech" signaled a shift away from the heavy (and largely urban) infrastructural lending of the 1960s, toward rural development designed to benefit the "poorest 40 per cent", seen then as mostly "small farmers" rather than as landless laborers.
- "**Urban bias**" was increasingly recognized as bad for growth as well as for poverty reduction, though rooted in political structures in much of the developing world (Lipton).
- Hope for smallholder rural development:
  - "Green revolution" was seen, from the late 1960s, as potentially able to enrich even very "small" farmers.
  - Increasing evidence that farm size was inversely related to both employment and annual output per hectare.

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## Re-balancing 2: Human development

- The "basic needs" (BN) approach stressed "... human needs in terms of health, food, education, water, shelter, transport" (Streeten et al. 1981).
- Amartya Sen criticized Rawls for underplaying heterogeneity of people in terms of their income needs. Argued instead for viewing **human capabilities** as the "primary goods."
- Some exaggerated efforts at product differentiation (esp., international agencies) but a lasting recognition that:
  - Higher real income need not mean better health, education, drinking water, sanitation, police protection, etc.
  - Households vary greatly in their capacity to convert commodities into well-being.

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## New international commitment

- After a lapse for IFIs in 1980s, in the 1990s it became widely recognized that poverty mitigation had to be designed into reform programs initially—not added as a tranquillizer later on. *"Adjustment with a human face."*
- In the 1990s a *"world free of poverty"* became the World Bank's overarching goal.
- The UNDP's *Human Development Reports* argued for public action to promote basic health and education.
- The Millennium Development Goals (MDGs) were ratified in 2000 at the UN Millennium Assembly. The first MDG was to halve the 1990 "\$1 a day" poverty rate by 2015. Other MDGS of health, schooling,..
- Current debate on next goals: **we can lift 1 billion people out of extreme poverty by 2030!**

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# The final blow to the idea of the utility of poverty?

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## From the “utility of poverty” to the “inefficiency of poverty”

- It has long been understood that the rich have a higher savings rate than the poor.
- It was inferred that inequality was good for growth (by generating higher savings) though, by the same token, a higher poverty rate was bad for growth at given mean.
- Keynes (1936, Ch. 24) questioned the existence of a significant growth-equity tradeoff.
  - Lack of consumption prevented full-employment, and so a higher share of national income in the command of poor people would promote growth, until full-employment was reached.

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# Costs of inequality even in a fully employed economy

- In the 1990s, a new set of ideas emerged that seriously questioned the instrumental case for poverty and inequality.
    - Borrowing constraints associated with asymmetric information and the inability to write binding enforceable contracts.
    - Political economy: (i) distortions introduced to address inequality; (ii) inequality/polarization makes it harder to agree on reforms; lobbying by the rich.
- => High current inequality of wealth reduces an economy's aggregate efficiency and (hence) growth rate.
- However, when the thresholds are binding there will be increases in inequality at the lower end of the wealth distribution that can increase the growth rate of wealth.

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## Poverty comes to be seen as instrumentally bad

- There is an adverse effect on growth of high initial poverty at a given mean (Ravallion, 2012).
  - Consistent with models of economic growth incorporating low savings by poor people and/or borrowing constraints.
  - Also consistent with childhood nutrition => productivity.
- Inequality matters, but mainly via poverty.
- HD and distortions also matter.
- And a high initial incidence of poverty => lower subsequent rate of progress against poverty at given growth rate.
- Poverty can perpetuate despite sound economic policies.

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# Conclusions

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## Continuing debates, but a radical switch in models over 200 years

- Model 1: *poor people do not have the potential to be anything else.* Bad behaviors by poor. Little or no scope for policy beyond limited targeted protection from extreme poverty. Poverty is necessary and is to be accepted.
- Model 2: *poverty is due to market and governmental failures.* Promotional policies are perfectly consistent with a robust growing economy, and even an important source of growth.
- Recognizing the transition in thinking makes one more optimistic that progressive change is possible, and that the idea of eliminating poverty can be more than a dream.

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## *Why did we see this change in thinking?*

### The “protection only” equilibrium

- When the incidence of poverty is persistently very high and knowledge is poor, the cost to the non-poor of getting people out of a low-level trap may be seen to be prohibitively high.
  - If pressed, even de Mandeville could well have imagined the possibility of a big push lifting the entire distribution in a beneficial way, but this was unsure.
  - Far more modest reforms were all that could be seriously contemplated.
  - Similarly, very poor countries have low capacity for redistribution, given the extent of poverty and implied tax burdens.
- The political-economy may then lead to a situation in which protection is the sole focus, as in England’s Poor Laws.

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### The promotion + protection equilibrium

- By contrast, at sufficiently low levels of poverty and with better knowledge, the political economy will switch in favor of a promotion strategy (esp., human capital investments by poor families).
- Thus accelerating toward the eventual elimination of poverty.
- **More than anytime before, we really can talk seriously about largely eliminating extreme poverty within a generation.**

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## But the transition between these two equilibria is not easy

- *Catch 22*: High poverty also impedes overall growth prospects, limiting the available resources for funding social programs.
- May also make it harder to implement pro-poor reforms even in a democracy.
- Synergistic interaction of **improved knowledge + technical progress + political voice** was crucial to the transition in thinking about antipoverty policy.
- And they will remain crucial to eliminating poverty.

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*Thank you for your attention!*  
*Kiitos huomiota!*

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