



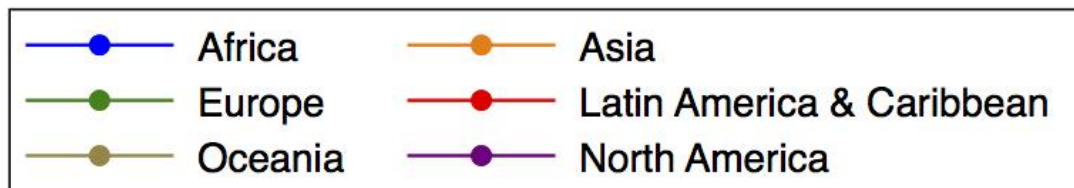
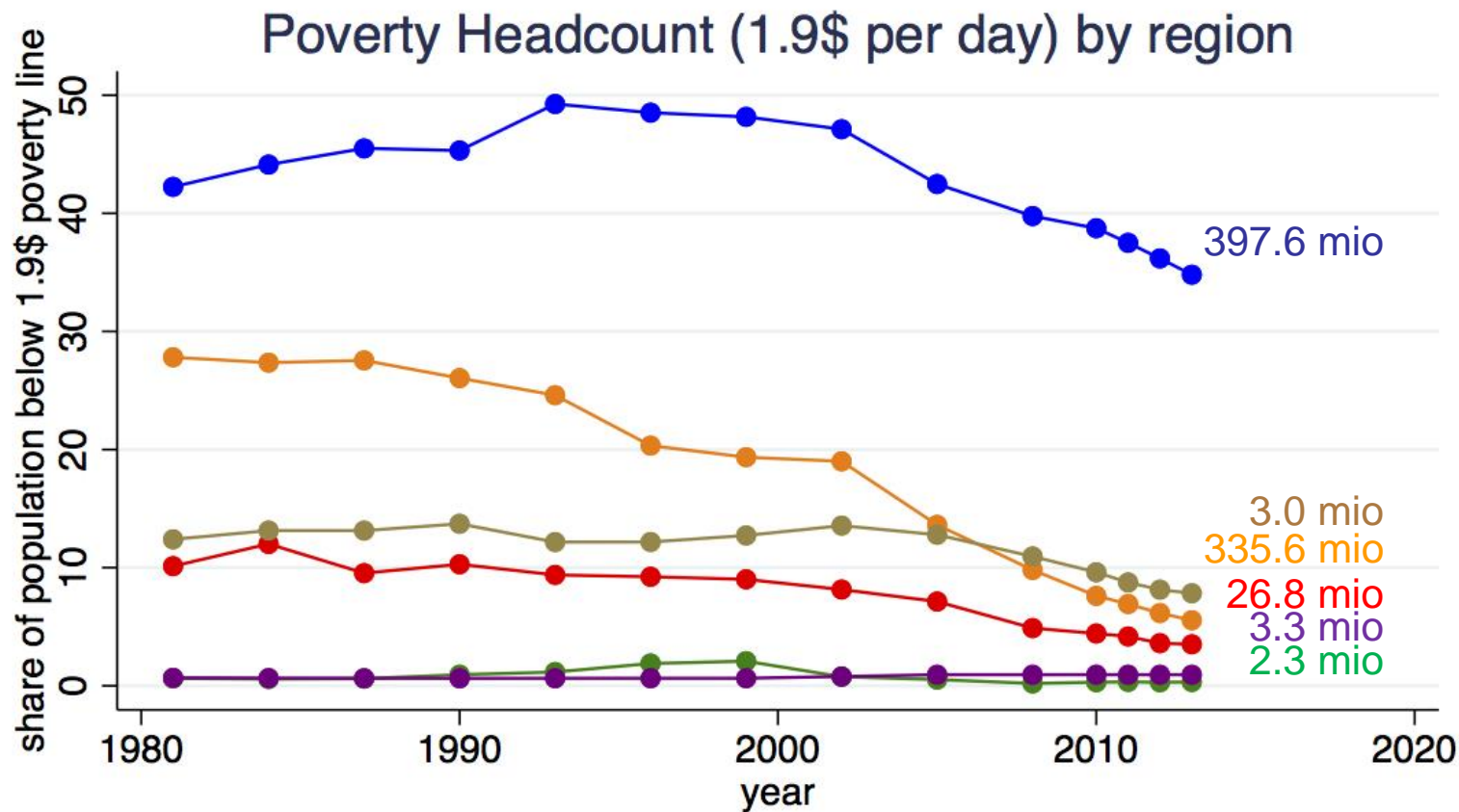
International
Growth Centre

Why do people stay poor?

Robin Burgess

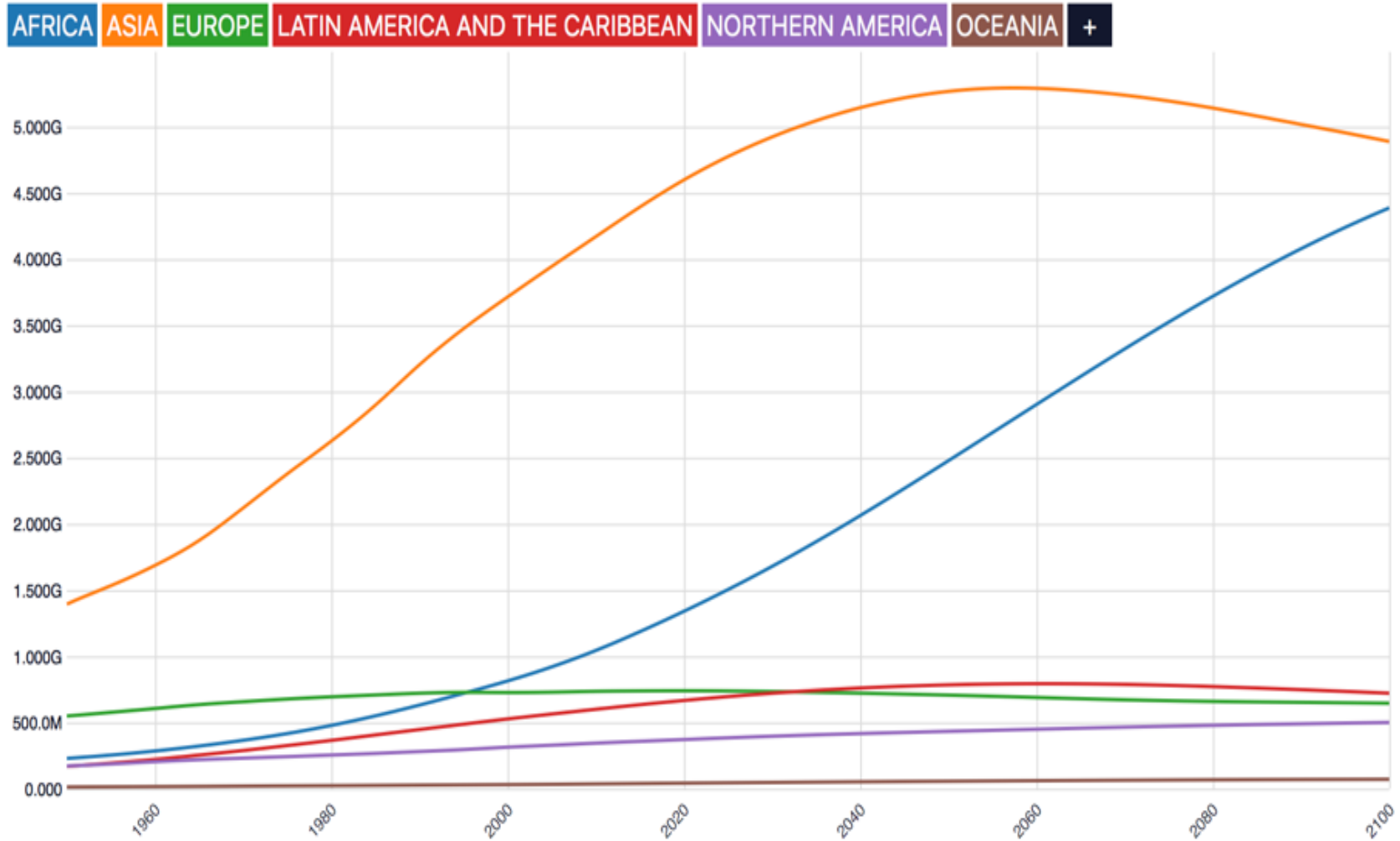
Director, IGC, LSE

Poverty has been decreasing but is still high in SSA and SA



These are the regions where population growth will be fastest

Population projections (1950-2100)



Eradicate extreme poverty by 2030 (SDG1)?

- Need to address the “stubborn poverty” problem: a lot of poor people are left behind even as countries grow
- Occupational choices and poverty are tightly linked →
→ bulk of poor doing casual, unproductive work (e.g. day laborers)
- We need to understand why people stay poor in order to design policies that lift the poorest out of poverty
- Key policy message → you need to change the production activities of the poor to get them permanently out of poverty → this requires a big push

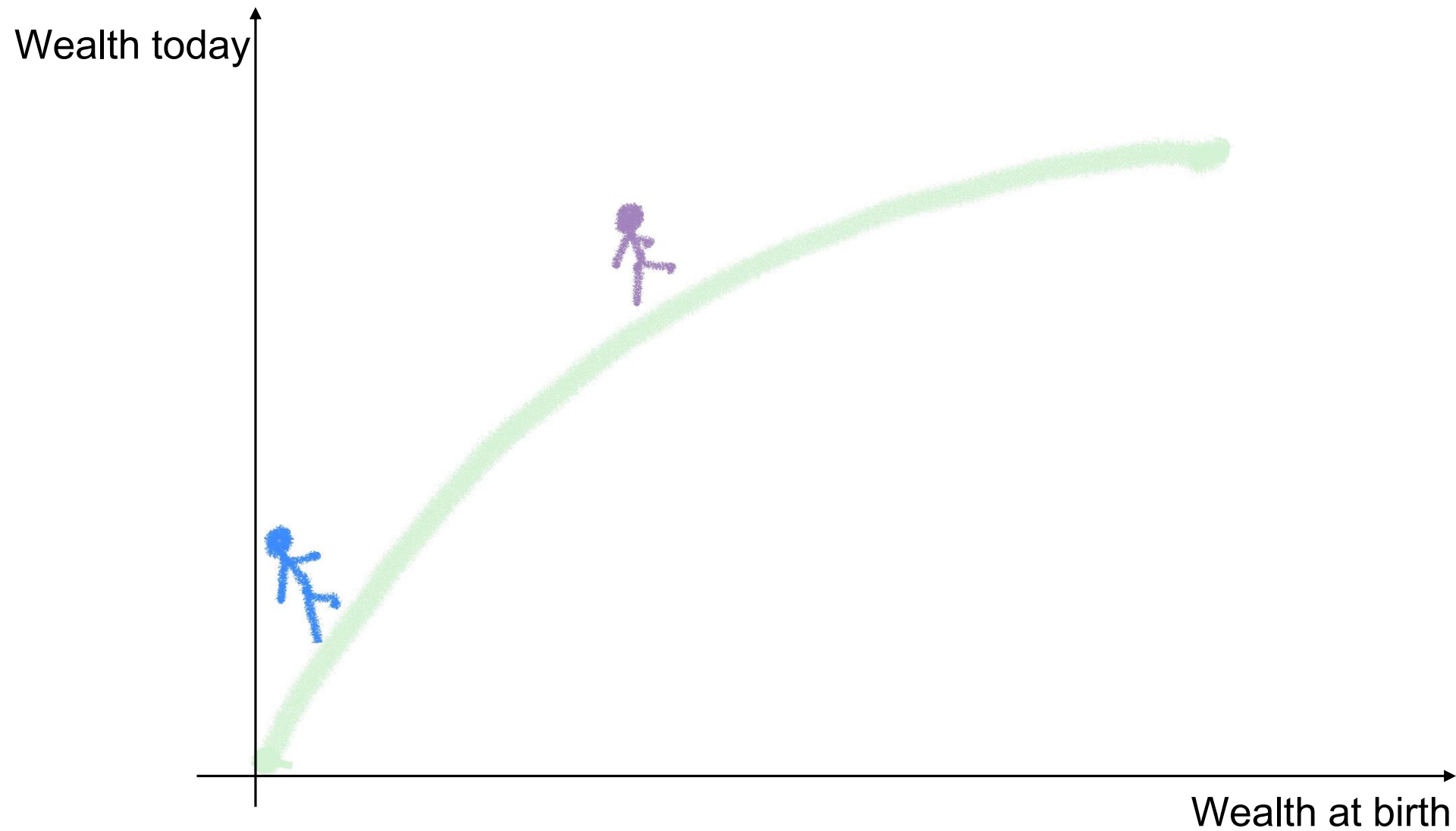
Two views of poverty

Equal access to opportunity, different traits

People have different innate traits which make them more or less suitable for stable, productive jobs

→ the poor do casual, unproductive jobs because they do not have the **innate talent** to do anything else

View 1: A hill anyone can climb



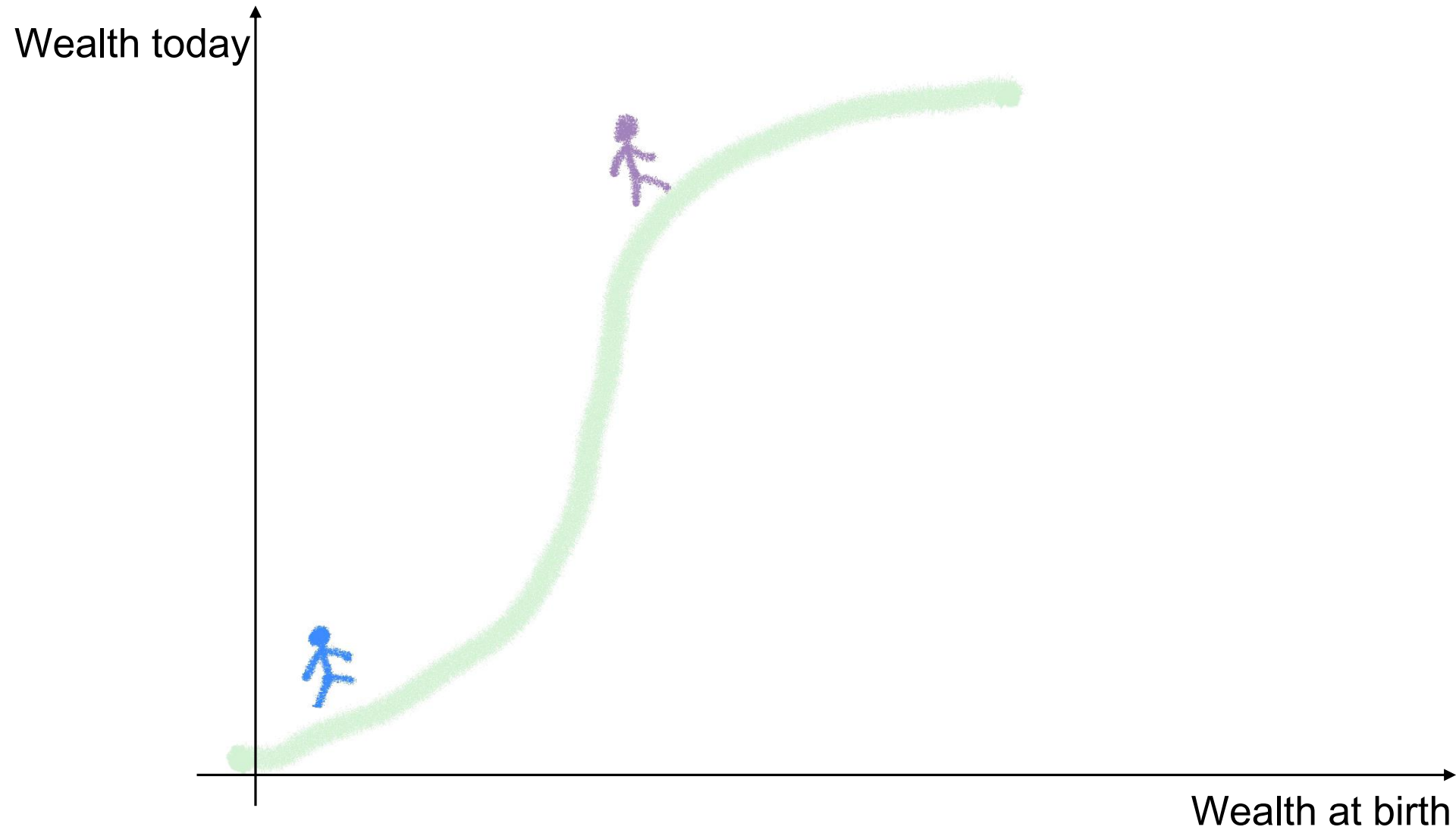
Two views of poverty

Unequal access to opportunity, same traits

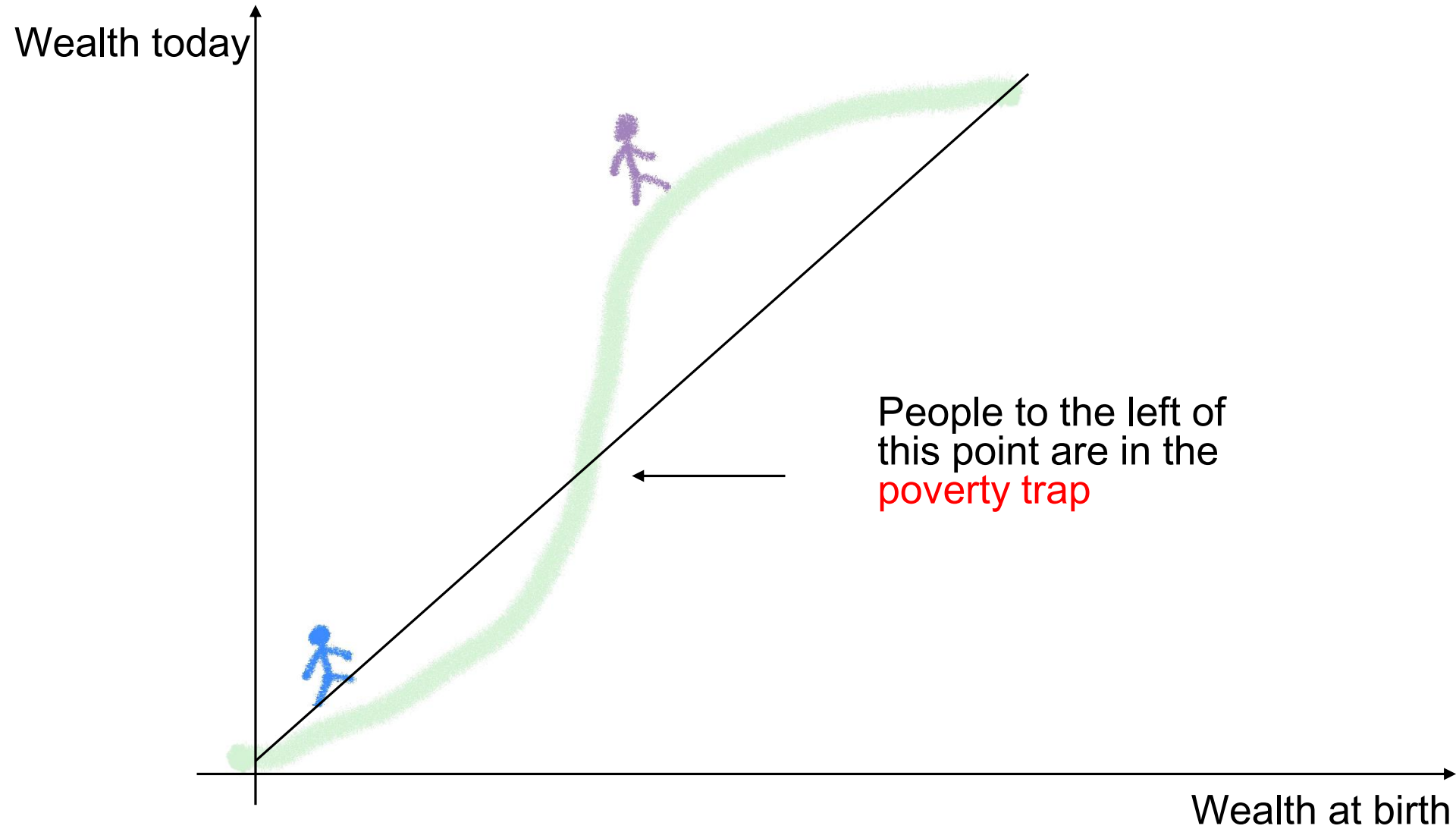
People have different access to opportunities

→ some of the poor have the **innate talent** to engage in stable, productive work but face barriers that prevent them from doing so

A steep mountain face



This generates a **poverty trap**



Two views of poverty

Equal access to opportunity, different traits

People have different innate traits which make them more or less suitable for stable, productive jobs

→ the poor do unproductive, casual jobs because they do not have the **innate talent** to do anything else

Unequal access to opportunity, same traits

People have different access to opportunities

→ some of the poor have the **innate talent** to engage in stable, productive work but face barriers that prevent them from doing so

Poverty traps are both unfair and inefficient

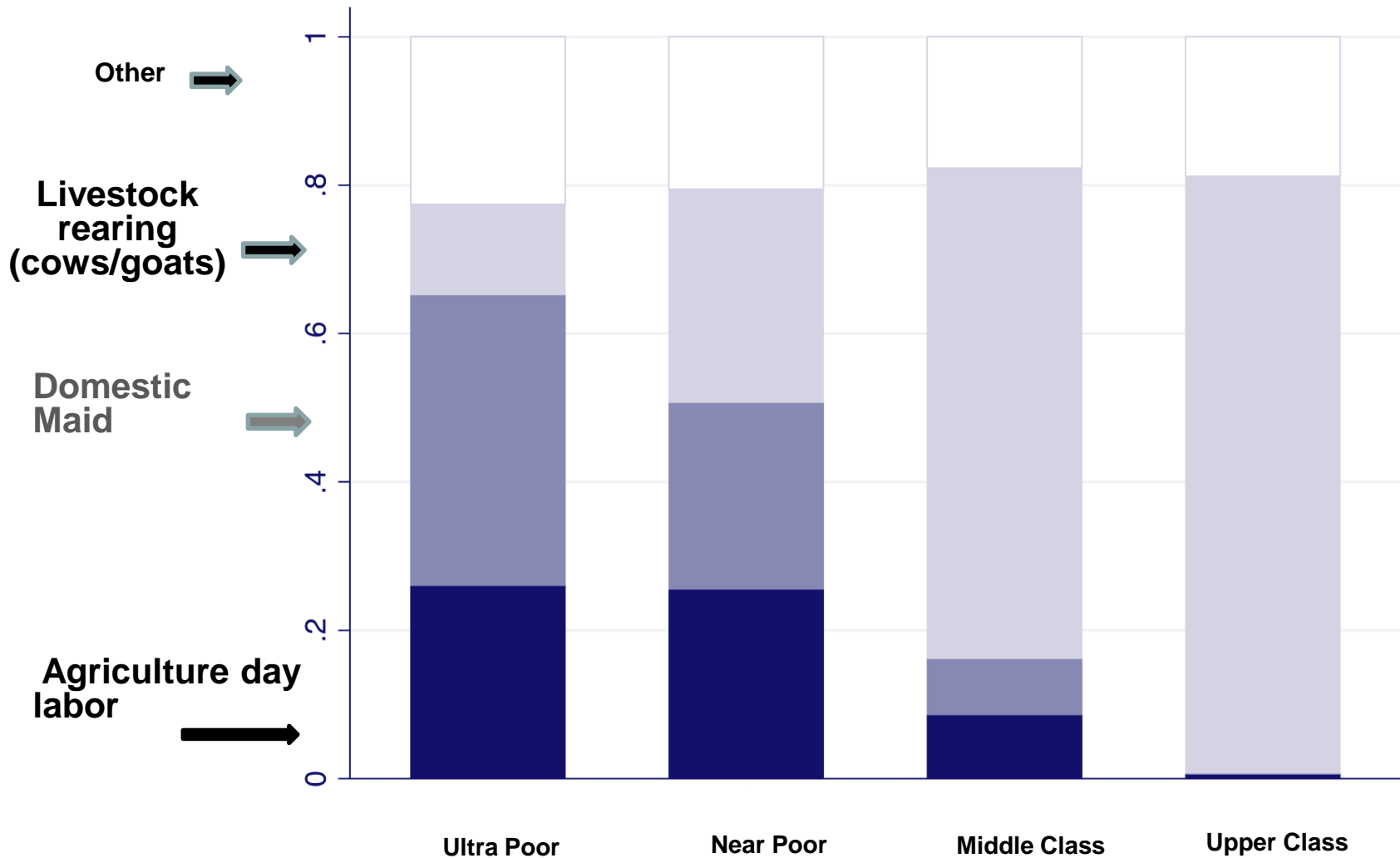
- Unfair because two people with the same talent end up with different standards of living because of accidents at birth → poorer person faces higher barrier
- Inefficient because highly talented people who are born poor will not be able to exploit that talent

Do poverty traps exist?

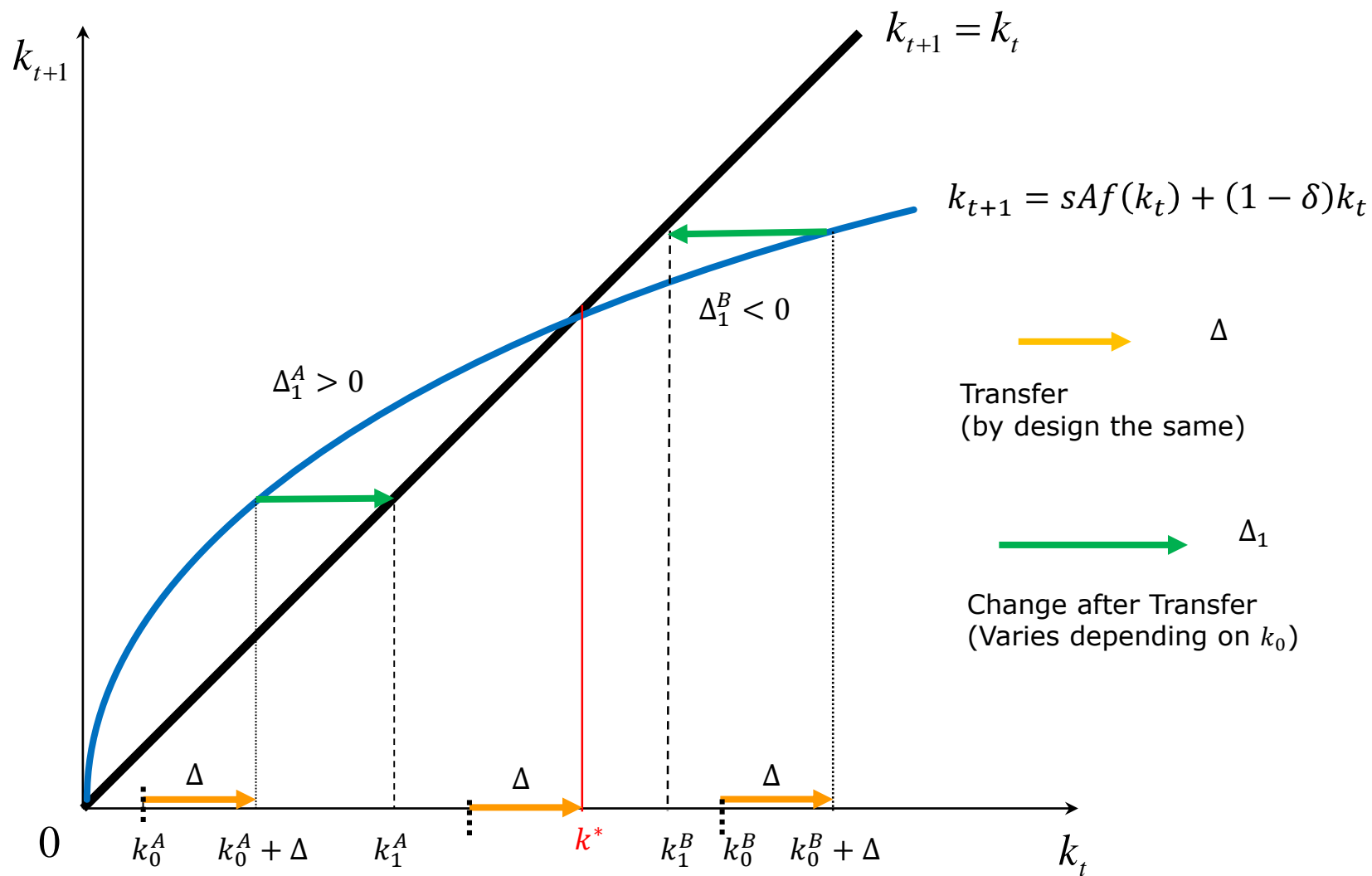
- We survey over 23k households in 1300 villages in rural Bangladesh to test
- BRAC
- the poorest women in randomly chosen villages receive a large asset (a cow) with “instructions”
- over 4000 beneficiaries engaged solely in casual labor at baseline
- four years later...

Testing for poverty traps in Bangladesh

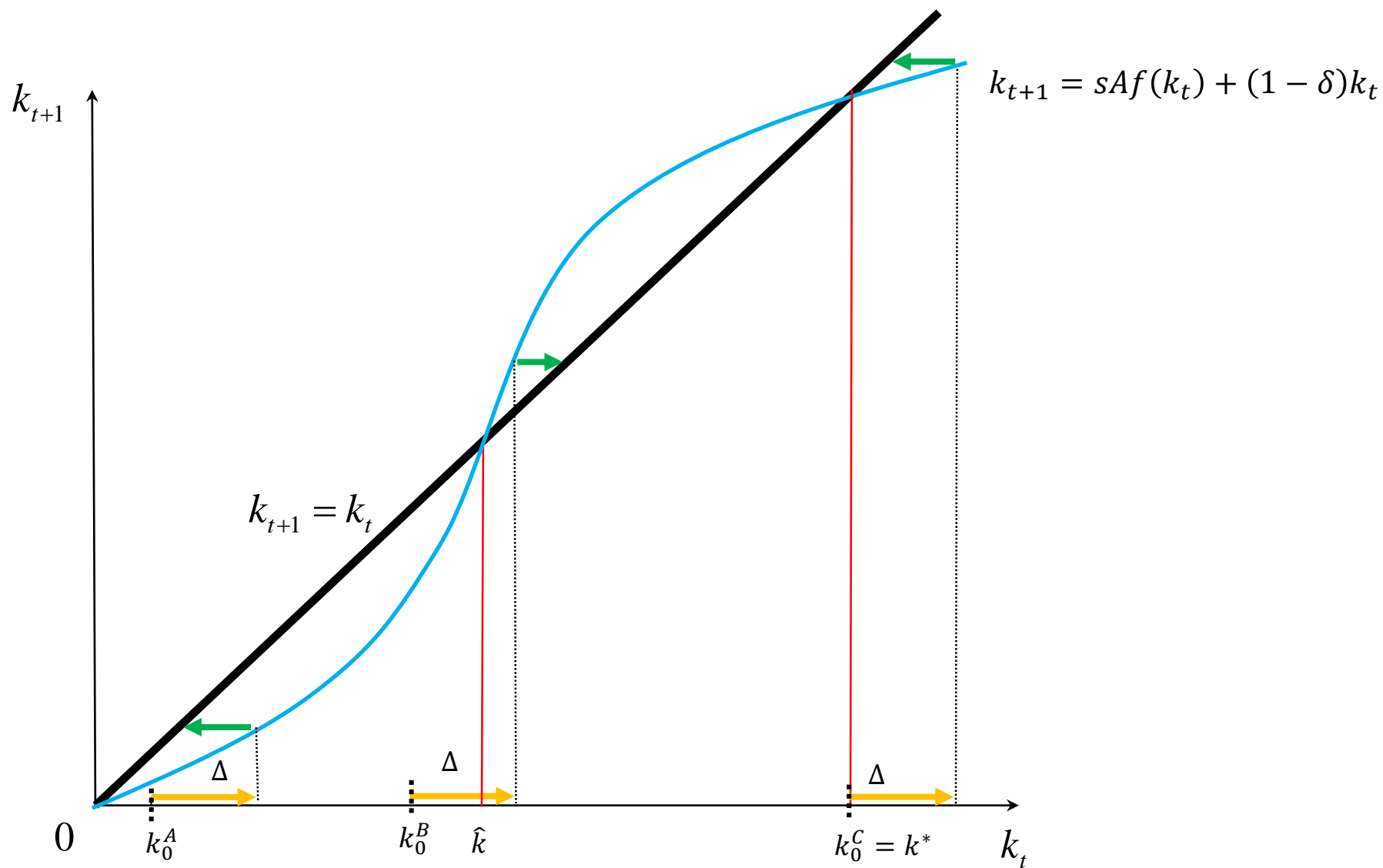
Share of time devoted to different occupations



The “hill” (equal opportunity view)

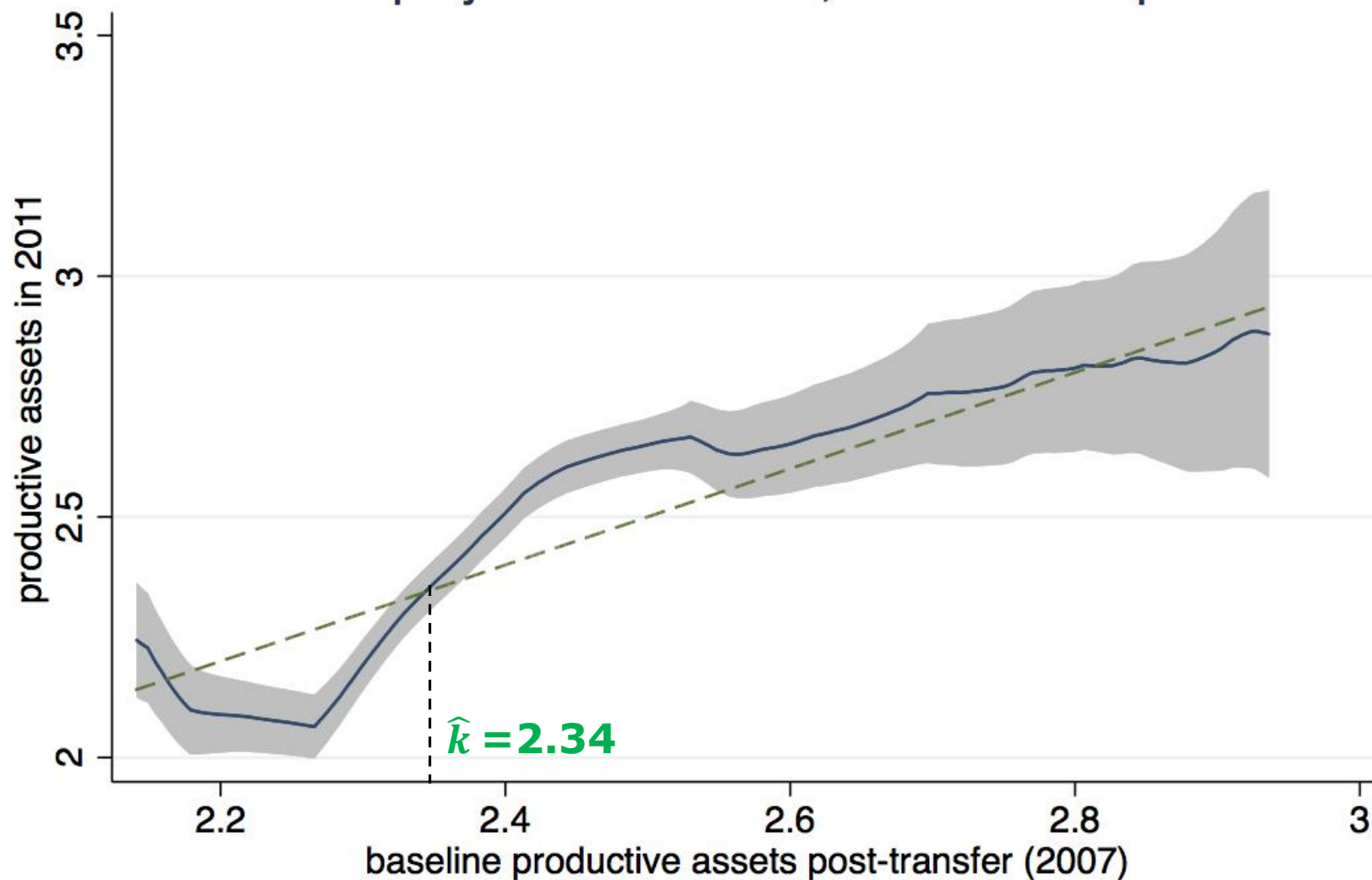


The “mountain” (unequal opportunity view)



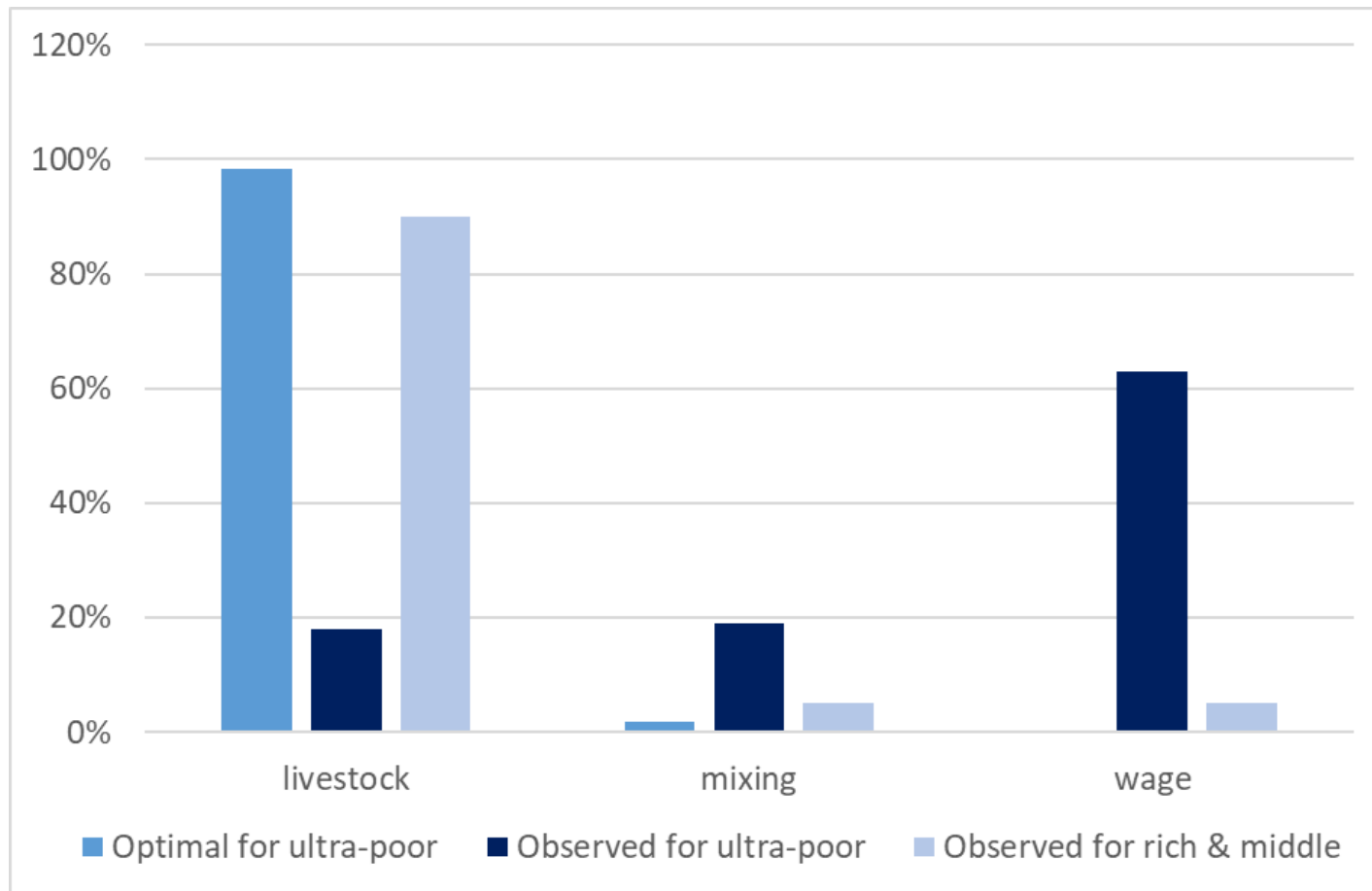
The test: data support the poverty trap view

Local polynomial smooth, treated ultra poor

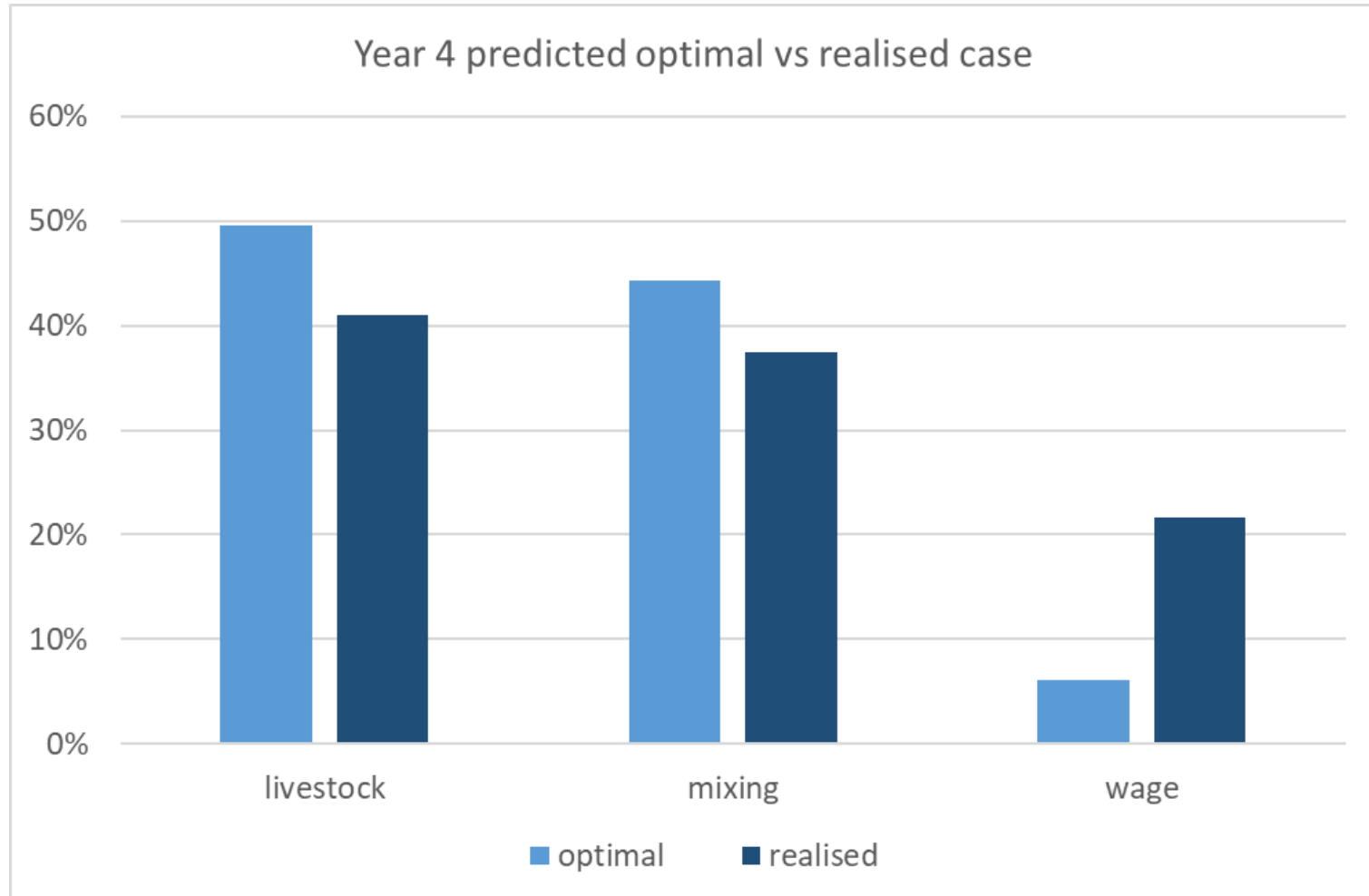


Sample includes treated ultra-poor households with baseline productive assets < 18,000 BDT.

The poor are misallocated: should mostly rear livestock but instead do mostly casual jobs



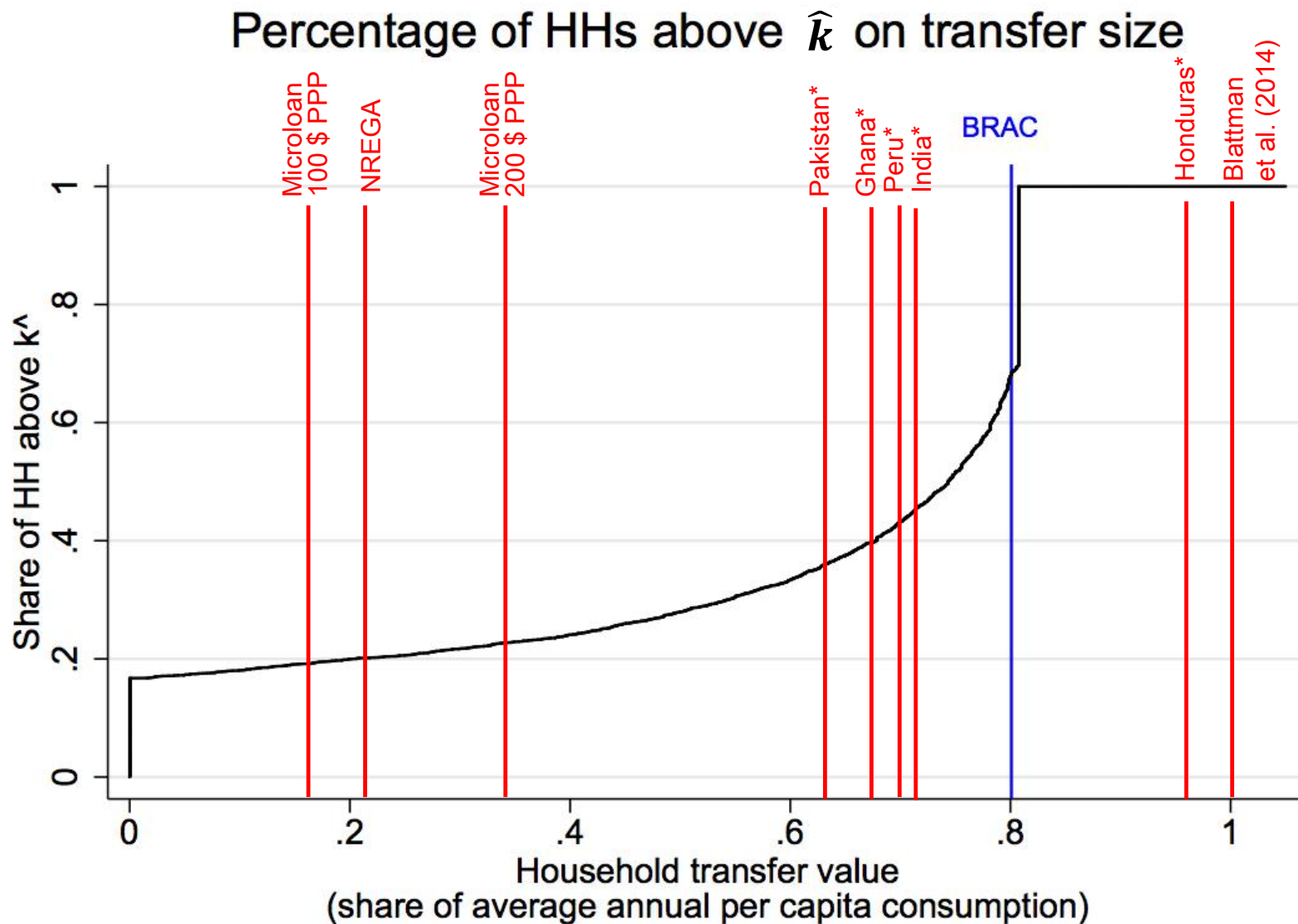
The program reduces this misallocation



Policy implications

- The existence of a poverty trap implies that only transfers large enough to push beneficiaries past the threshold will reduce poverty in the long run
- Smaller transfers might increase consumption for a short period but will have no long lasting effects

A big problem requires a big solution



* Country names refer to study sites in Banerjee et al. (2015)

Conclusions

- Key conclusion – misallocation of talent
- Poor people are not unable to take on more productive employment activities, they just lack the needed capital
- The existence of a poverty threshold implies that only transfers large enough to push beneficiaries past the threshold will reduce poverty in the long run
- Key policy conclusion – to tackle persistent poverty, need big push policies that unleash the talents of the poor and enable them to change their production activities

thank you