Last Time

• Introductions

• A look at “poverty” and thinking about “development”

• Truman’s Inaugural Address – January 20, 1949

• GDP Is a Terrible Way to Measure a Country’s Economy – Bill Gates

• Poor Economics – Banerjee and Duflo
Poverty

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What is Poverty?

• The Poverty Line in India is 16 rupees per person and per day. This is also the average poverty line for the 50 countries where most of the poor live.

• 16 rupees is 36 cents.... But life is cheap in India, so if we correct for world prices, it corresponds to 99 cents (this is what we mean when we talk about “life under a dollar a day”):
  • You have to imagine living with 99 cents in the US...
  • The poverty line in the US is 14 dollars per day.
  • Average GDP per capita in the US: $47,400:$129 dollar per person and per day!

• 865 million people in the world live with less than 99 cents per day.
Aid and Income in Africa

Sources: Easterly, “Can the West Save Africa”, WDI
Poverty Is Not Only Lack of Income

• But also:
  • Poor health: 9 million children every year die under the age of 5, mainly of preventable disease
  • Poor education: 50% of children enrolled in school in India cannot read a simple paragraph
  • Poor quality of life: hours collecting water instead of playing, working, learning.
  • Difficulty to realize your ambition: Get a loan for a business, be insured for the risk of your farm.

• Amartya Sen: Development as Freedom
Food Prices

- Food prices increasing since 2005
  - Not sure why
- Collapse in 2008, rising again
- Anger in middle east related to this food price
- Especially in urban areas livelihood is affected
  - Consume food, but do not produce it
- China and India richer, increased consumption of meat
- Biofuels
  - Oil is an input to production of food
    - Oil is an input to the production of fertilizer
Poverty Traps

• A vicious cycle:
  • A farmer with low crop yield
  • Low yield, low income
  • Low income, not enough for fertilizer
  • Continue to have low crop yield
Poverty Traps

• Another example:
  • Not working because no job
  • When food prices increased, employers cut costs
  • Wage is too low to get enough food
  • Not enough food, not enough energy for labor
  • Not enough energy for labor, no point

• Individuals caught in multiple traps

• Recursive inter-generational trap
  • Smart kid sent to labor job instead of education for a better job
Poverty Traps

• Maybe get a loan until the kids finish school
• At the heart of it, it appears biological
• This is an old idea in economics, from the 50’s
• First few calories are just used to survive, next calories give strength
• Implicit Assumption: Someone who is very poor, may not have enough to eat to be productive, but if he could eat more he would be productive
Figure 1: The Capacity Curve - the Shape
Capacity Curve

- Income on x, the assumption is the more money you have, the more you eat
- On the y-axis, the work capacity
- How steep is the relationship between how much income they have and how much they eat
- Why is the shape this way? Seems reasonable?
- What happens when food prices goes up?
Figure 2: The Dynamic of income and the poverty trap
Figure 2: The Dynamic of income and the poverty trap
Other Curves

• Why is there an S shape?
  • First few years of education have low benefits
  • You could think either way, either first few years are important since you learn to read/write and can learn everything else
  • Or the other way, where its useless until you get a secondary education to get a good job
When does a poverty trap emerge?

• When we compare the different curves, there is something specific about Figure 1:
  • The S-Shaped curve intersects the 45 degree line from below: – For poor people, income grow slowly, so slowly that income tomorrow is below income today: the poor become poorer (up to a point)
  • At some point, the rate of growth of income start increasing: income yesterday becomes larger than income today: the middle class and the somewhat rich continue to be rich.

• Note that a double feedback loop (e.g. poor nutrition lower your income, and low incomes means you cannot buy a lot of food) does not always mean there is a poverty trap: the relationship has to be sufficiently strong: this is an error many policy makers make!
With a concave relationship between income today and income tomorrow there is no poverty trap!
Next Time

• Development as Freedom - Amartya Sen
• Digital leisure for development: reframing new media practice in the global South – Payal Arora and Nimmi Rangaswamy

• Other Texts:
  • The End of Poverty - Jeffrey Sachs
  • The White Man’s Burden - William Easterly