

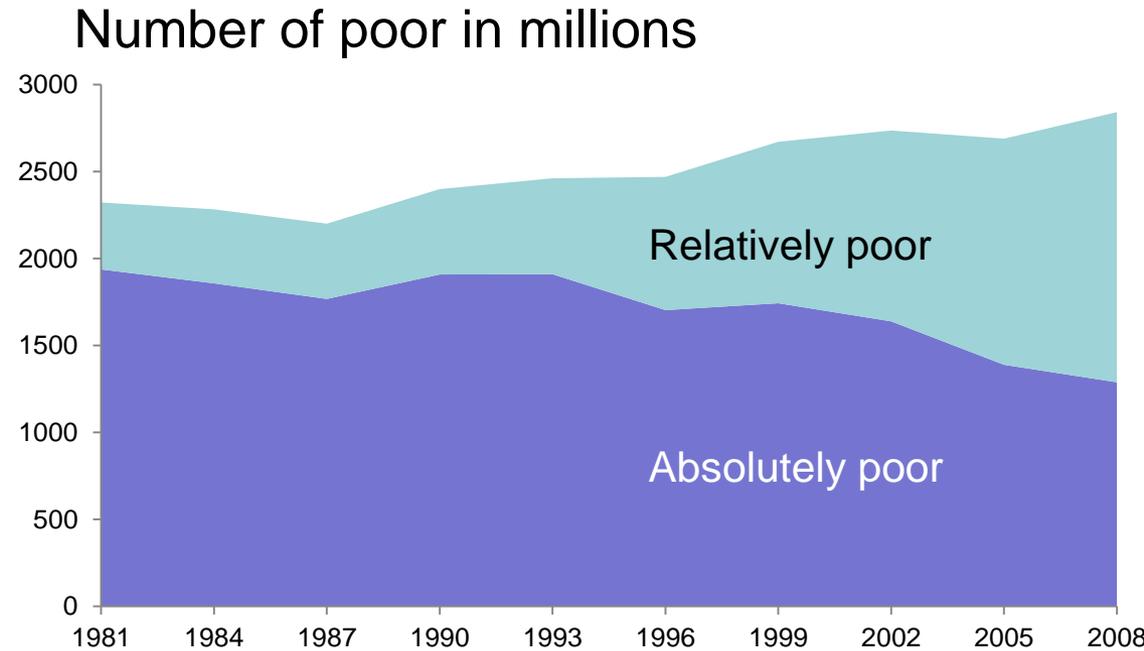


Martin Ravallion
Direct interventions
against poverty
in poor places

23 March 2016
Stockholm

Chronic poverty and pervasive risks

- Poverty is pervasive, by both a common international line and by lines typical of the country of residence.



- So too is uninsured risk:
 - Employment shocks
 - Health shocks
 - Agro-climatic shocks

Growth is not sufficient

- Relative inequality is rising in some growing countries, though falling in others.
- Rising absolute inequality in most growing countries.
- Economic growth has come with lower absolute poverty, but it has had much less impact on **relative poverty**.
- Losers as well as gainers. Churning.
- New evidence that the **poorest are left behind**. It may well be harder to reach the poorest.
- Growth in market economies leaves continuing **downside risk** everywhere, at virtually all income levels.

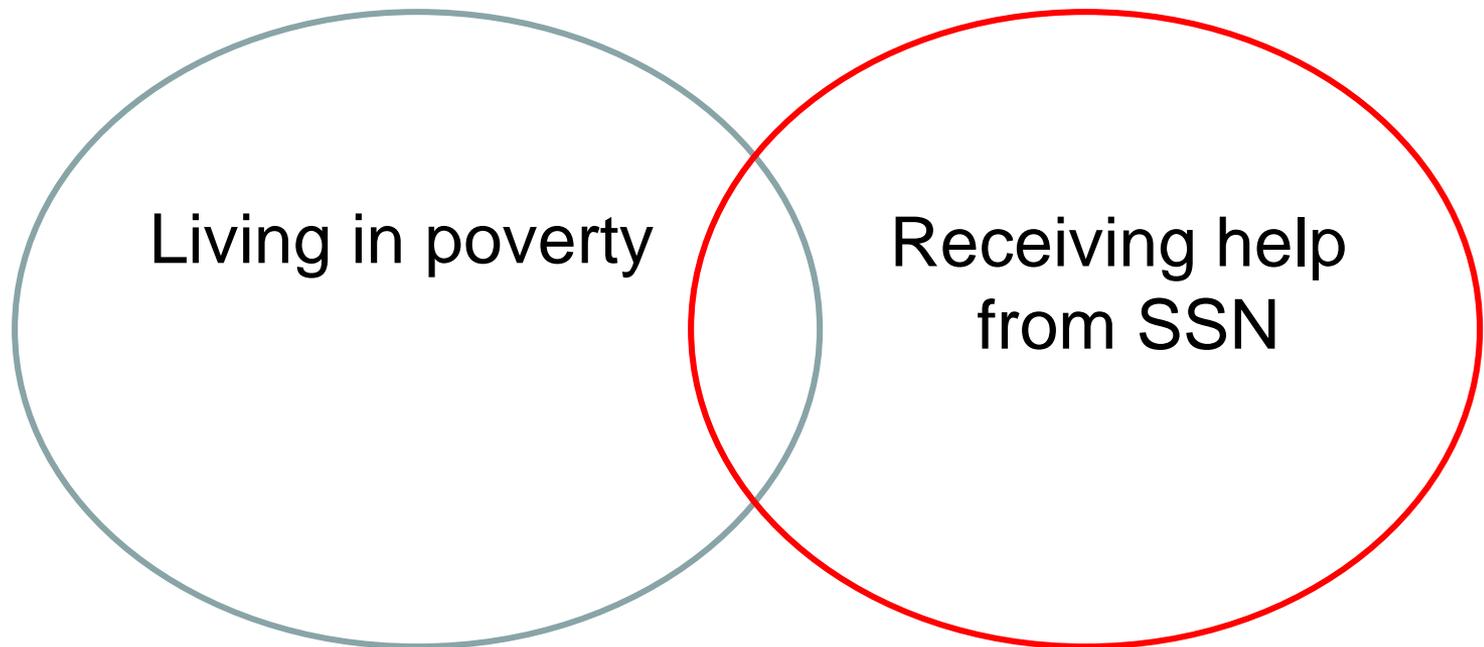
New attention to direct interventions

- Various labels: "social assistance," "social protection," "social safety nets," "welfare programs."
- Sustainable Development Goal 1.3:
"Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable."
- These interventions have been much debated in the history of thinking about poverty (Ravallion, 2016).

Many governments in the developing world are turning to direct interventions

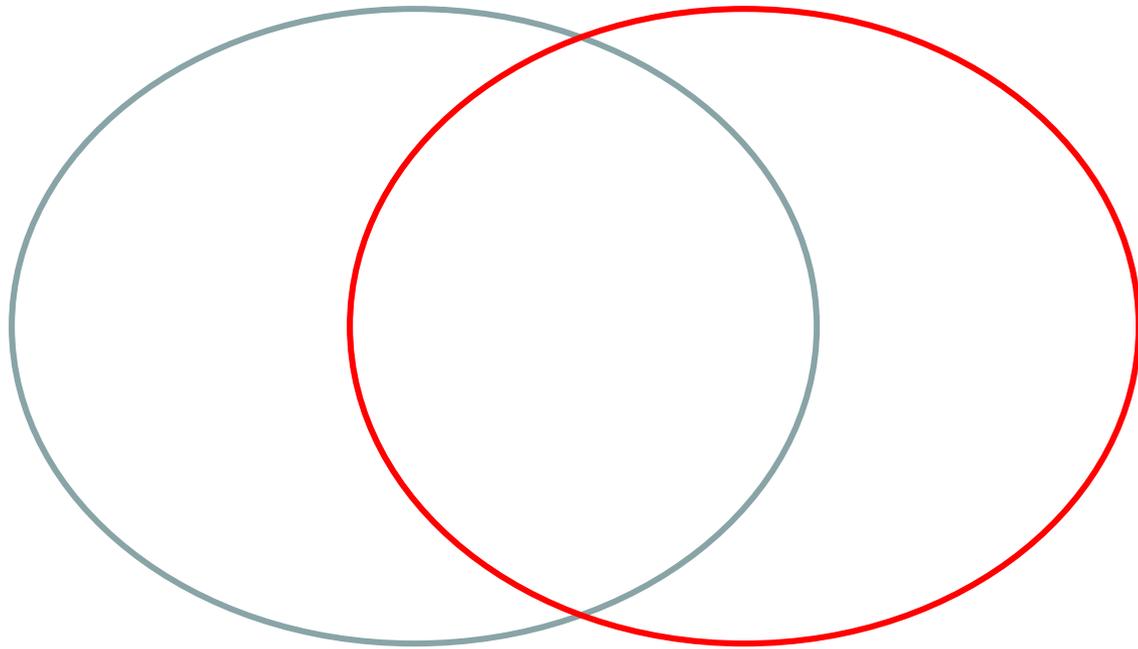
- SSNs were sparse in developing world prior to 1990.
- Since 2000, many developing countries have implemented SSNs.
- Today, about **one billion** people in developing countries receive some form of social assistance.
 - Most developing countries now have at least one such program (however small).
- The percentage of the population receiving help from the SSN is growing at **3.5% points per annum!**

One billion poor;
one billion SSN recipients

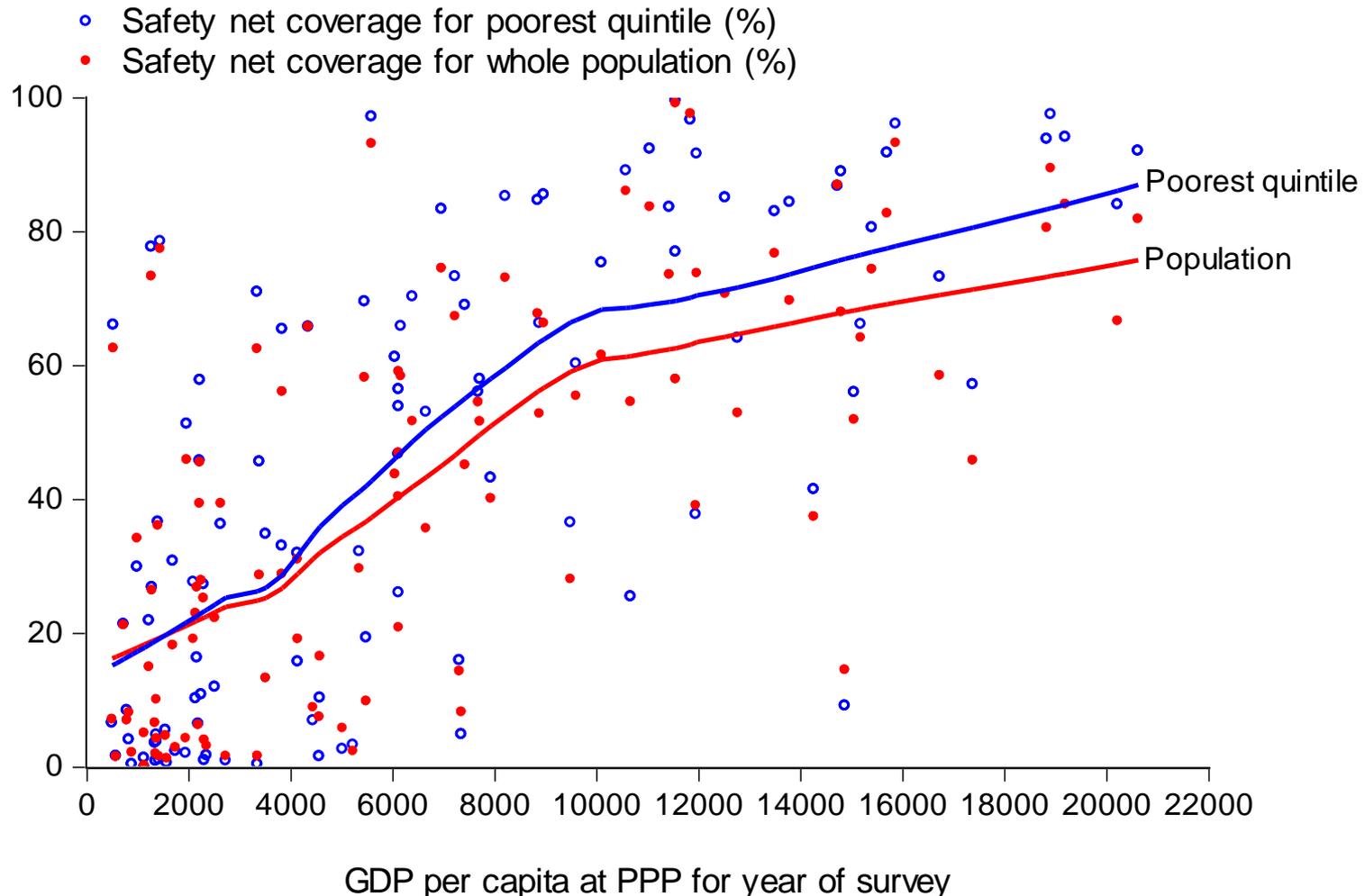


But mostly not the same people in poor countries!

Richer countries tend to be better at reaching their poor

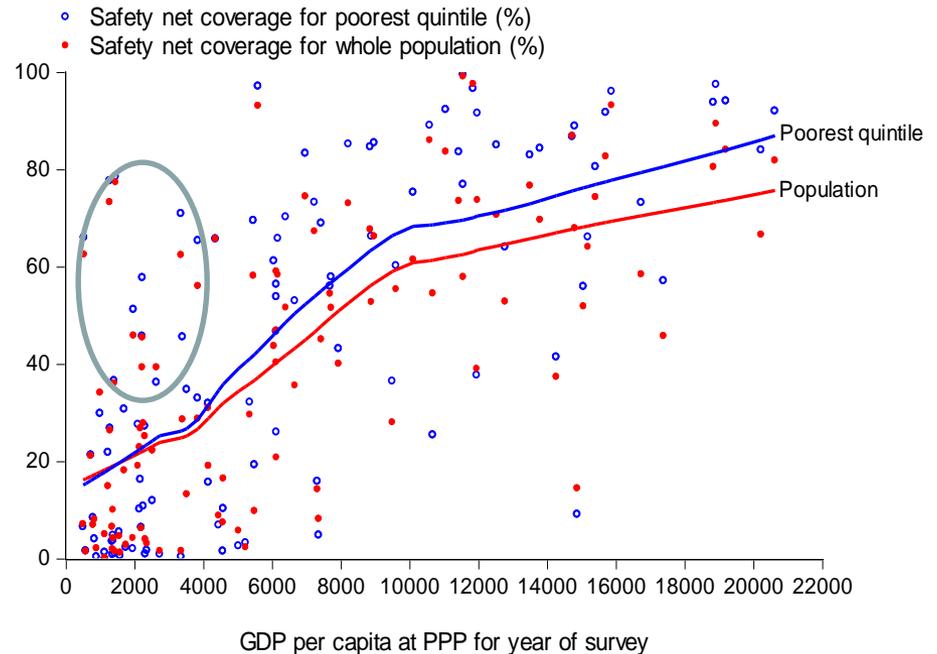


Cruel irony: Poorer countries are less effective in reaching their poor



But there is a variance in performance

- Some poor countries do better than others in reaching their poor.



- Also, compared to today's poor countries, today's rich countries appear to have done better at reaching their poorest when those countries were poor.

This lecture: Critical overview of the policy issues and lessons for reform

- The policy problem: Defining the **role** of direct interventions. The **economic arguments** for and against.
- **Three case studies** illustrate policy options in practice: England's Poor Laws; India's NREGA; China's *Dibao*.
- Lessons for pro-poor **policy reform**.

How might poor countries do better social policies?

Themes

- Protection and promotion (P&P): both valued but unclear if governments get the balance right.
- There is region of **trade-off** between P&P, but also scope for attaining both, esp., in vulnerable populations.
- **Incentive effects** are often exaggerated while other constraints get ignored, e.g., administrative capabilities.
- **Targeting** has turned into a fetish. Excessive emphasis on errors of inclusion over those of exclusion.
- **Information and technology** offers the promise of smarter social policies.
- **Evaluation and monitoring** are crucial + **adapting** to evidence.

The policy problem:
*Twin goals of protection and
promotion*

Causes of poverty

- Even a fully competitive market economy can have too much poverty and inequality
- **Unequal endowments + low productivity**
- Lack of marketable skills, social exclusion, geographic isolation, debilitating disease, or environmental degradation.

Market and governmental failures also create poverty

- Threshold effects => dynamic **poverty trap**:
 - Collateral constraints in credit market
 - Minimum level of capital/nutrition/human development
- Geographic poverty traps: external effects on individual productivity of living in a poor area
- With incomplete markets, **uninsured risk** can also spill over into production decisions:
 - Taking kids out of school
 - Forgoing investment in own enterprise
 - Succumbing to crime

Two types of antipoverty policies in such an economy

1. **Protection policies** provide short-term palliatives by assuring that current consumptions do not fall below some crucial level, even when some are trapped.
2. **Promotion policies** either:
 - (i) Allow poor people to break out of the trap, by permitting a sufficiently large wealth gain to put them on a path to their (higher and stable) steady state wealth, or
 - (ii) Raise productivity for those not trapped.

Protection has a long history



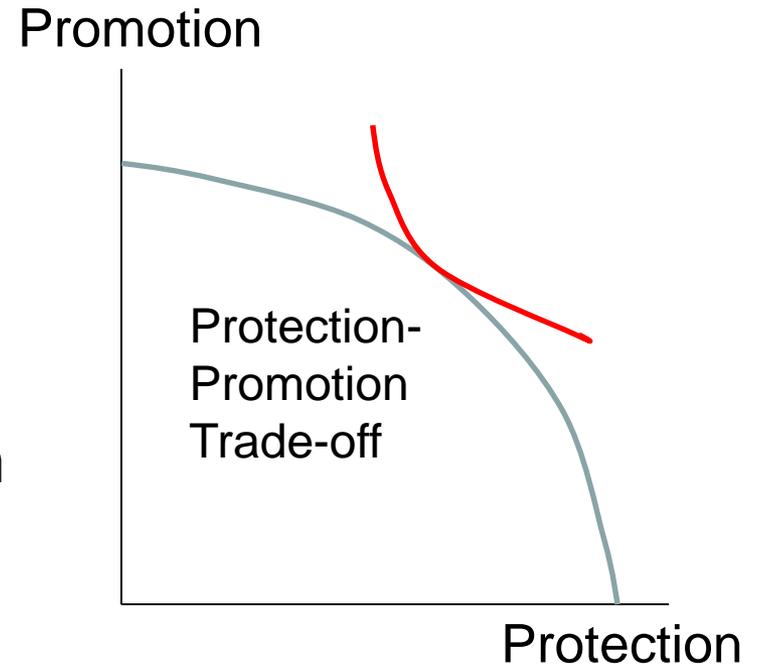
- Ancient Asia and Europe.
- Promotion is a modern idea (late C18th).
- Struggles for promotional policies in today's rich world (individuals, civil society and religious groups, labor movement).
- With economic development we tend to see greater emphasis on promotion.
- Protection tends to dominate in poor countries.

But does protection keep them poor?

Protection limits promotion, but how much?

- While policy makers typically want SSN to assure a minimum standard of living, this may discourage personal efforts to escape poverty by other means.
- Incentive effects on work, fertility, savings.

⇒ Protection-Promotion Tradeoff

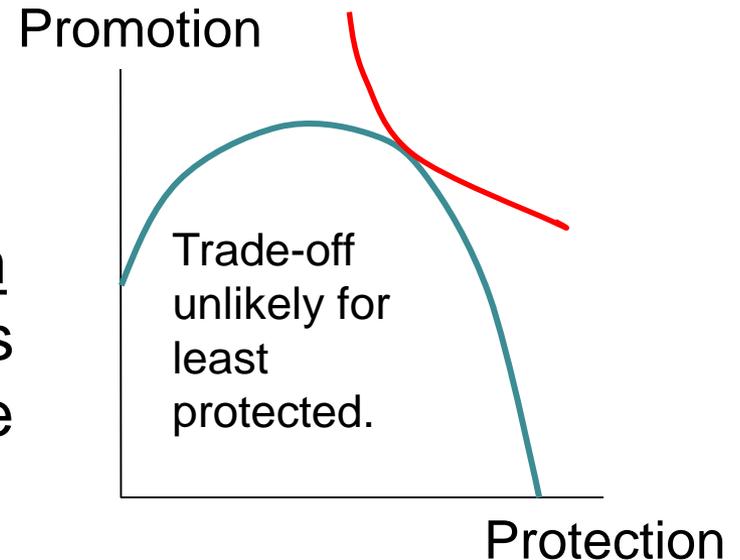


P&P trade-off is likely, but it can also be exaggerated

- Incentives cannot be ignored in policy design, but the trade-offs in practice can be exaggerated too!
- The bulk of the evidence for developed countries does not support the view that there are large work disincentives associated with targeted antipoverty programs.
- From what we know about **labor supply responses**, it is evident that poor people gain significantly from transfers in the U.S. (Moffitt, Saez).
- More evidence needed for developing countries, esp., with large **informal sectors**.

Promotion can also come with protection

- Short-run macro argument, with unemployment: a fiscal stimulus for the poorest raises aggregate effective demand, and hence output (Keynes)
- In the long-term, in a fully-employed economy: The idea of an inevitable long-run tradeoff can also be questioned:
 - Credit market failures + diminishing marginal products
 - Political economy: polarized dysfunctional states.
 - Multiple equilibria, poverty traps: protection from large negative shocks may be crucial for sustained promotion.



Neglected constraints

- Information: “The poor” in developing countries are not so easily identified; means testing is rarely feasible.
 - The appearance of “poor targeting” can stem from errors in assessing who is really poor!
 - Proxy-means tests (using regressions on survey data) are often poor proxies.
 - Better social protection requires investments in **better data**.
- Administration: Weak states => corruption/wastage/poor service provision
- Political economy: “*Programs for the poor are poor programs*” (Summers)

Constraints on flexibility in responding to shocks

- To provide protection, the SSN must respond flexibly to changing needs. The public safety net needs to be genuinely **state-contingent**.
- Yet few SSNs in practice provide effective insurance since they do not adapt to changing circumstances.
 - Fiscal stresses generated by flexibility.
 - Participant capture appears to be a common problem.
 - Moral hazard at local level =>

Agency problems across different levels of government

- **Moral hazard**: Local government can expect the center to help in a crisis.
- So local implementing agents may well undervalue protection relative to the center.
- **Political economy** (staying in power) may lead the center to emphasize protection. Crises are bad press, while chronic poverty might be taken for granted!

Administrative capacity for better SSN

- Effective social policies must fit the administrative capacity of the setting.
- The **administrative infrastructure** must be in place for addressing grievances. Stronger local state, not weaker.
- New technologies can help:
 - Identity cards; “smart” info systems; Aadhaar in India.

Challenges in making a pro-poor SSN politically sustainable

- Unclear that the middle class will support SSN reform in the form of finely targeted programs for the poorest.
- State-contingent SSNs that **insure** have a broader base of supporters than the current beneficiaries.
- Programs that impose conditions for **promotional behavior change** often get broader public support.
- **Community-based targeting** can sometimes help:
 - Better information available locally, though also scope for contamination/capture.
 - Community satisfaction is important to the acceptance/sustainability of SSN reforms.

Public information campaigns and timing

- Political sustainability depends in part on public information and perceptions.
- The reasons for reform efforts need to be well understood.
- Credibility is greater if the new SSN is in place before the old one is cut.

*Improving the trade-off:
Social policies that try to both
protect and promote*

Incentives can also play a positive role

- Incentives for promotion built into social protection.
- Self-targeting designs:
 - Only encourage those in need to seek out the program and
 - encourage them to drop out of it when help is no longer needed.
 - Subsidies on the consumption of **inferior goods** are self-targeted to the poor.
 - **Workfare**: work requirements for self-targeting. Only poor people will agree to participate.

Efforts to improve the terms of the protection-promotion trade off

- Some social policies (incl. generalized subsidies on normal goods) may only achieve significant protection at fiscal costs that jeopardize promotion, i.e., they face a severe trade off between protection and promotion.
- A number of (old and new) schemes aim to achieve both protection and promotion => “social investment.”
- A key element is the use of incentive mechanisms through **conditionalities**.

Conditional cash transfers (CCT)

- Aim to strike a balance between reducing current poverty and reducing future poverty
- Children of the recipient family must have adequate school attendance and health care/maternal training.
- Now widely used:
 - Early examples: *Food-for-Education Program* in Bangladesh; Mexico's *PROGRESA (Oportunidades)* ; *Bolsa Escola* in Brazil.
 - 30+ developing countries.
- Research points to benefits to poor households.
 - both current incomes and future incomes, through higher investments in child schooling and health care.

Concerns about CCTs

- Concerns about inflexibility
 - A previously ineligible household hit by (say) unemployment may not find it easy to get help from such schemes.
 - Proxy-means tests tend to be based on inflexible correlates of chronic poverty.
 - Efforts should be made to re-assess eligibility.
- Concerns about the conditions
 - Do they really change behavior in a positive way?
 - Design issues (e.g., schooling level).
 - Paternalistic?
 - Tradeoffs? Current poverty vs. future poverty (forgone income)?
- Is the problem on the demand side?
 - Service delivery: More kids in school but do they learn?

Make workfare more productive?

- Workfare programs also impose conditions—work requirements.
- Policy makers tend to emphasize current income gains to workers—protection over promotion.
- One direction for reform is to assure that workfare is productive—that the assets created are of value to poor people (or that cost-recovery can be implemented for non-poor beneficiaries).
- Contrasting approaches at different level of development
 - India's NREGA vs. FDR's New Deal or Argentina's Program *Trabajar*

The dynamic tradeoff in workfare

- P&P tradeoff between achieving short-term flexibility in response to current needs versus longer-term goals in fighting poverty.
 - Absorbing large amounts of labor in relief work may mean that the technologies use too little capital to create durable assets.
 - It is very likely that the optimal labor intensity of relief work will be higher than normal during a crisis.
- Improving the terms of the P&P trade off: **Asset creation** in poor communities can also facilitate future protection (climate change, environmental degradation)

Targeting as an aspect of policy design

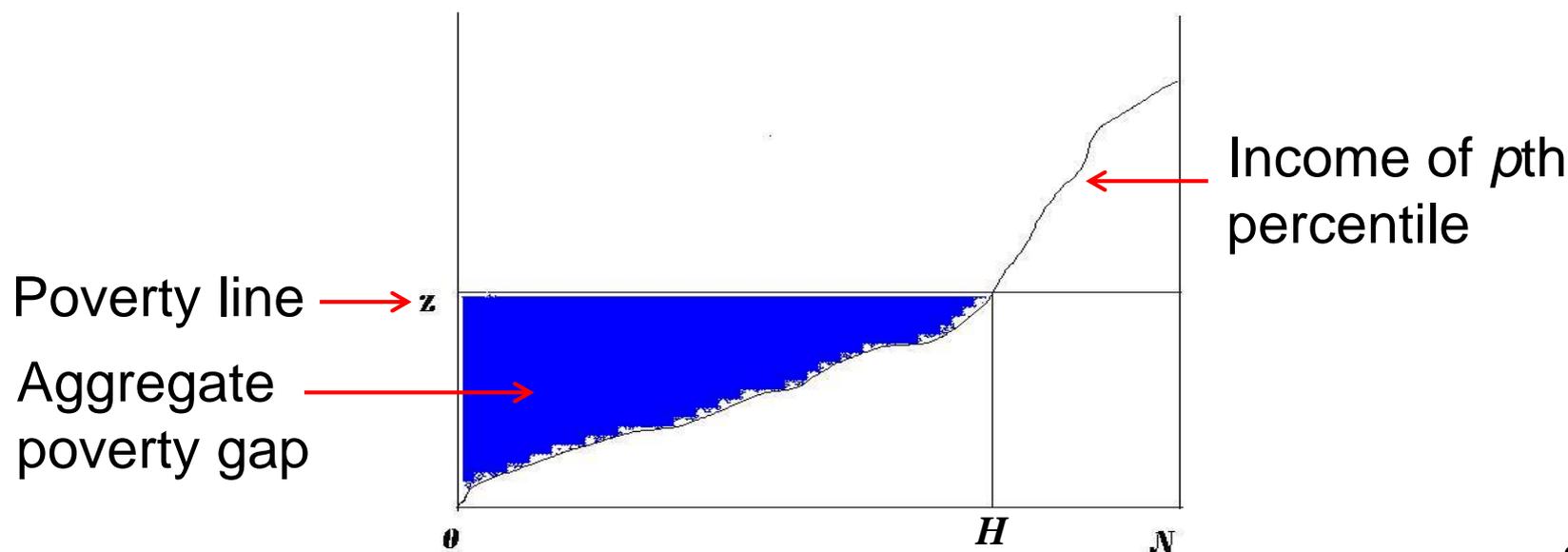
At one extreme: Untargeted SSN

- The “**basic income**” idea:
 - Everyone receives the same transfer whether poor or not
 - Income effects, but no other behavioral effects (good or bad) of the transfer; **financing** will still have such effects
- Concerns:
 - No built in mechanism for responding to shocks
 - The financially affordable basic income may be very low
 - Or significant protection comes at a high cost to promotion
- Universal (un-targeted) subsidies on normal goods
 - Potentially large cost, which leaves fewer public resources for other things relevant to promotion
 - And not much protection either: little goes to the poor; unresponsive to shocks

=> **Calls for “better targeting”**

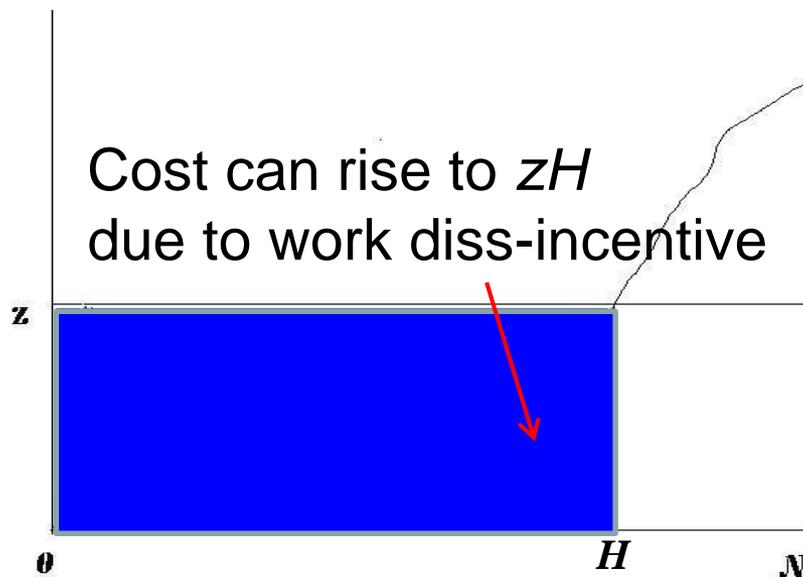
“Perfect targeting” can create a poverty trap

- Advocates of finely targeted policies often observe that the aggregate “poverty gap” can be rather small.
- However, this understates the likely cost of perfectly targeted transfers given behavioral responses.
- **High marginal tax rates** reduce the incentive to escape poverty and increase the fiscal cost of the policy.



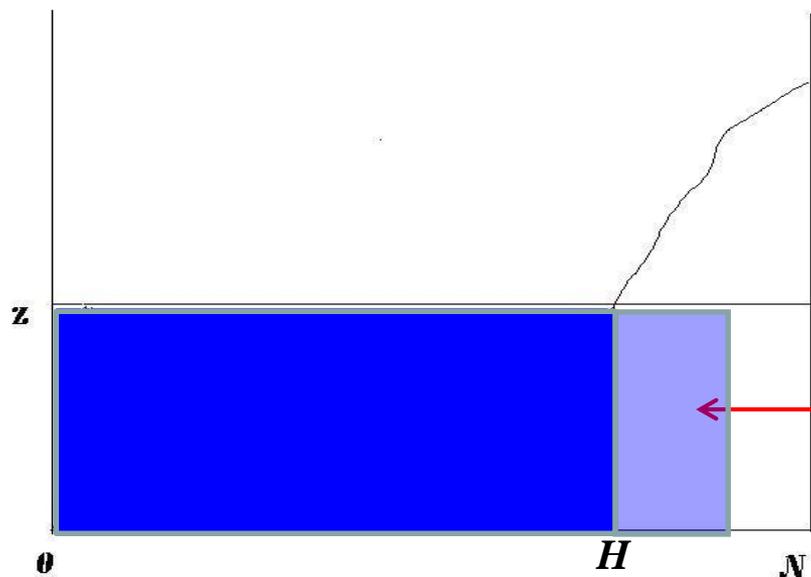
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Cost rises further
when some non-
poor are attracted

Budget constraints can push policies toward minimizing errors of inclusion

- Two types of **errors**:
 - Inclusion errors (leakage): incorrectly classifying a person as poor
 - Exclusion errors (under-coverage): incorrectly classifying a person as not poor
- Budget constrained policy making emphasizes inclusion errors.
- But under-coverage is often the bigger concern.

Case studies:

1: England's Poor Laws

The Elizabethan (“Old”) Poor Laws

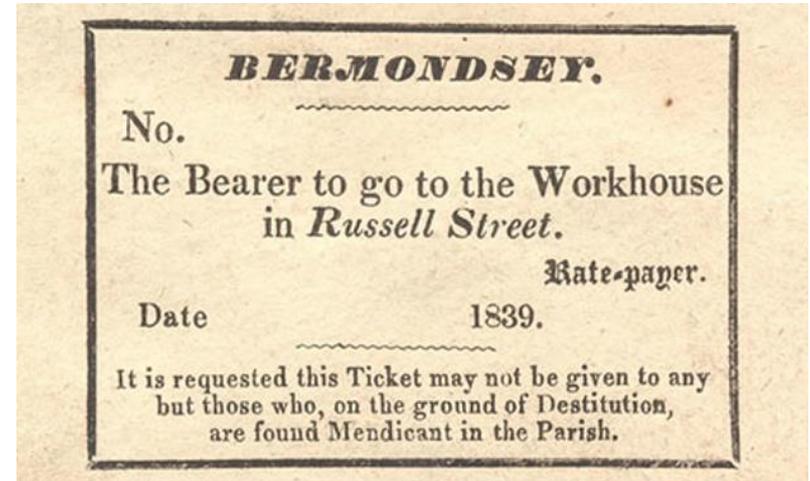
- Dating back to the 16th century, the Poor Laws provided locally-implemented (Parish-level) **state-contingent relief financed by local property taxes**.
- Protection by cash transfers conditional on old age, widowhood, disability, illness, or unemployment.
- Little obvious attempt at promotion.
- The Poor Laws helped assure a docile working class, and with little threat to the distribution of wealth.

Debates on the Poor Laws in early C19th

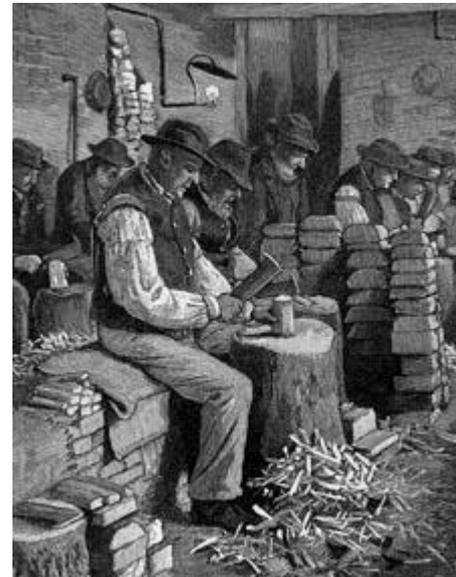
- The Poor Laws had become a fiscal burden on the politically powerful landholding class.
- Adverse incentives claimed, esp., on work and fertility.
 - David Ricardo: “*..it is quite in the natural order of things that the fund for the maintenance of the poor should progressively increase until it has absorbed all the net revenue of the country.*”
- The extent of these effects is unclear. Exaggerated incentive effects to serve political ends?

Workhouses

- First emerged in the late 16th century.
- The idea was that welfare recipients would need to agree to be incarcerated, obliged to work for their upkeep.
- Intended for the “deserving poor”, not as a general remedy for poverty.



A Bermondsey workhouse admission ticket, issued to people seeking relief.



Men chopping wood in a workhouse 42

Self-targeting through workhouses

- Influenced by Malthus and Ricardo, significant reforms to the Poor Laws were implemented in 1834.
- Calls for **better targeting**. Main change: greater use of workhouses.
- Huge contraction in public spending on poor relief. 2.5% of national income around 1830 to 1% in 1840 (Lindert)
- But staunch social criticism:
 - Charles Dickens (*Oliver Twist*)
 - Benjamin Disraeli and Florence Nightingale



Targeting bias?

- Workhouses were a means of getting around the information and incentive problems of targeting.
- But they did so by imposing **costs on participants** that are essentially deadweight losses
 - Foregone earnings and the welfare costs of stigma and subjugation (as Oliver Twist experienced).
 - A truly utilitarian-welfarist assessment is ambiguous.
- England's workhouses of the mid 19th century clearly went too far in imposing costs on participants to assure self-targeting.
- **In short, the emphasis on errors of inclusion undermined the Poor Laws, even as a protection policy.**

2: India's Employment Guarantee Schemes



Legislating a right-to-work?

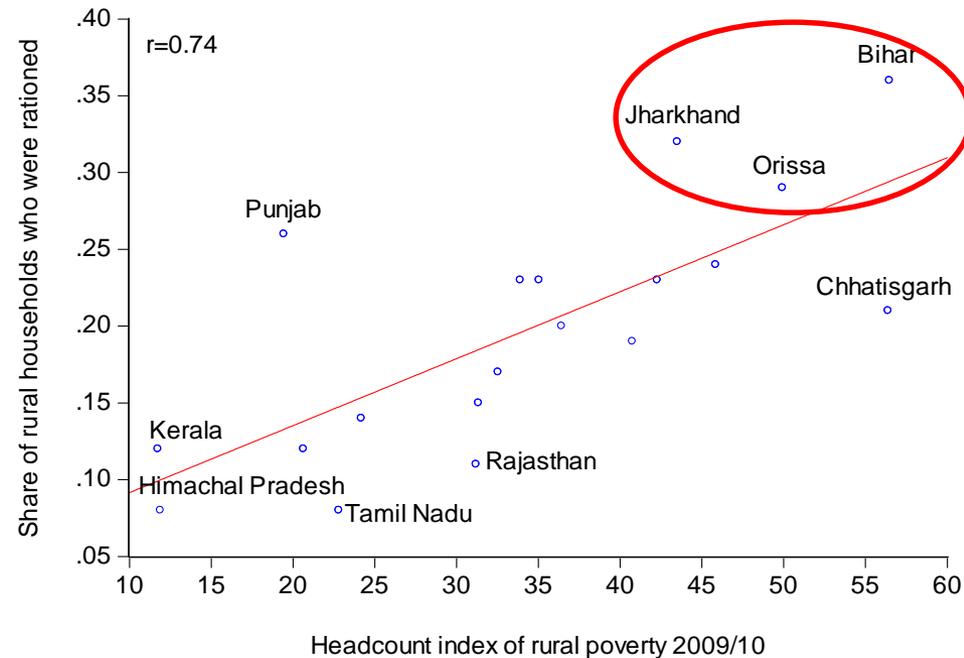
- *Employment Guarantee Scheme (EGS)* in Maharashtra, India, which started in the early 1970s.
- Employment guarantee aims to support the insurance function, and also helps empower poor people.
- India's *National Rural Employment Guarantee Act (NREGA)* (2005):
 - Guarantee 100 days/ h'hold/year of unskilled work on public works projects in rural areas
 - Provides work on demand after h'holds obtain a job card;
 - Pays a piece-rate such that a normal worker can earn the state-specific minimum wage rate set for the scheme
 - Gives women equal wages to men for the same work

Limited poverty impacts from the extra labor earnings from *NREGA*

- Factoring in all the costs (forgone income; non-wage costs), the extra earnings from this scheme in Bihar had less impact on poverty than either
 - a basic-income scheme, providing a uniform transfer of the same gross budget to everyone (whether poor or not), or
 - a uniform transfer to all those holding a government-issued ration card intended for poor families.
- So, the much vaunted self-targeting mechanism is not enough for unproductive workfare to dominate cash transfers.

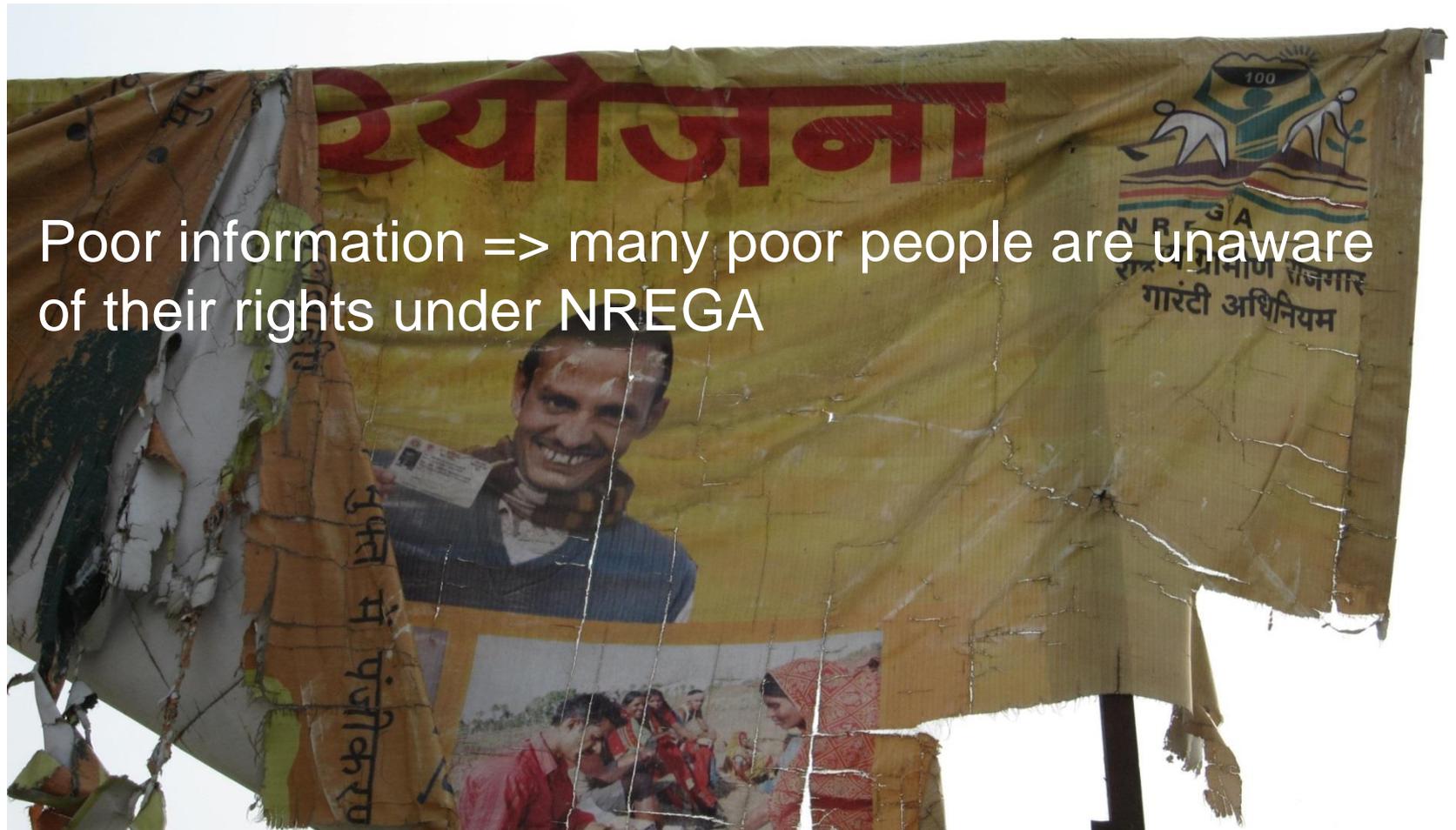
Performance issues are limiting the potential benefits of *NREGA*

- Extensive rationing (unmet demand) in poorer states
- Rationing: *did you seek NREGA work but not get it?*
- Unlikely that there will be large insurance and empowerment benefits.
- Shocks do not predict participation.



In only a few states might it be argued that India's "Employment Guarantee Scheme" is in fact guaranteeing employment.

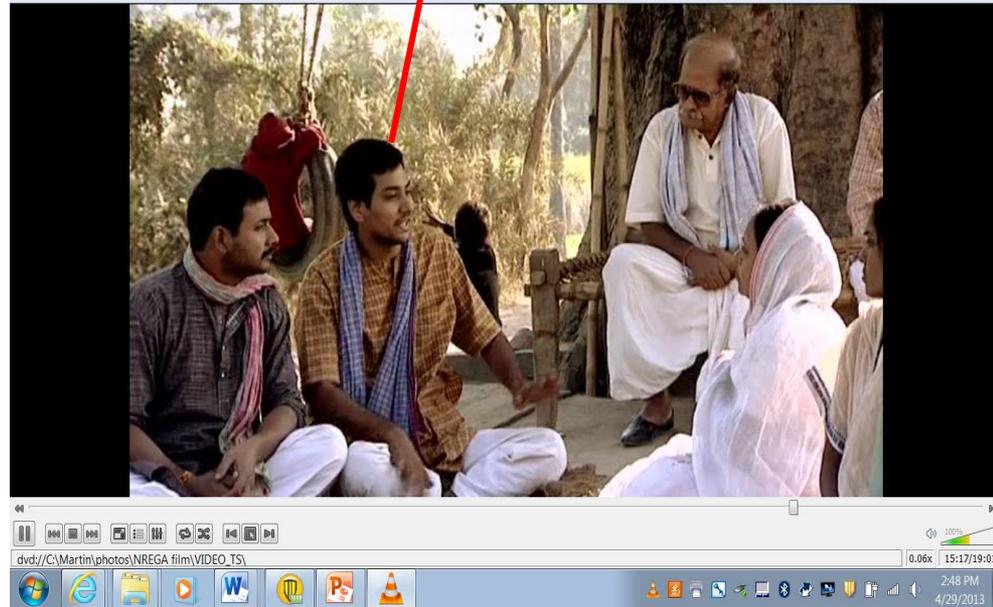
Causes of poor performance 1: Poor public information



Awareness intervention: “*BREGS: The Movie:*”

- RCT of an entertaining fictional movie.
- Teach poor people their rights under the NREGA.
 - Significant impacts of knowledge.
 - Direct exposure matters most for the poor; social frictions.
 - But less sign of impact on wages and employment.

“You can see the whole movie at economicsandpoverty.com”

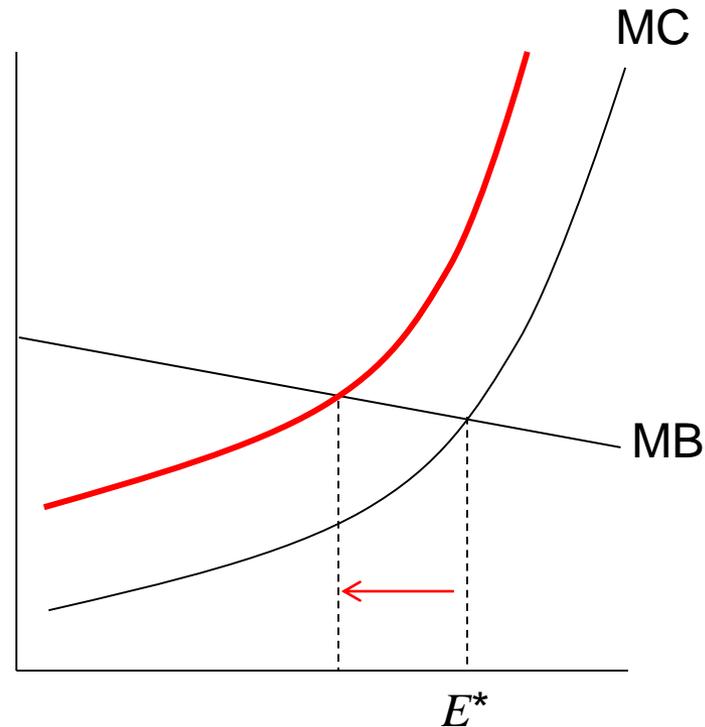


Ravallion, Martin, Dominique van de Walle, Rinku Murgai and Puja Dutta, 2015, “Empowering Poor People through Public Information? Lessons from a Movie in Rural India,” *Journal of Public Economics* 132: 13-22.

Causes 2: Poorer supply response in poorer places

- *NREGA* is a valuable resource for villages, but it aims to constrain the power of village leaders.
- The supply side also needs to be more responsive.
- Trade-off between gains from decentralized provision and the effects of **local costs** on public supply.
 - With cost-sharing requirements and skill shortages in poor areas, supply restrictions emerge, as in NREGA in Bihar
- Also a **rising marginal cost of corruption** facing local leaders, esp., in complex programs in poor places.
 - Efforts to fight corruption by increasing its marginal cost will reduce local public provisioning.

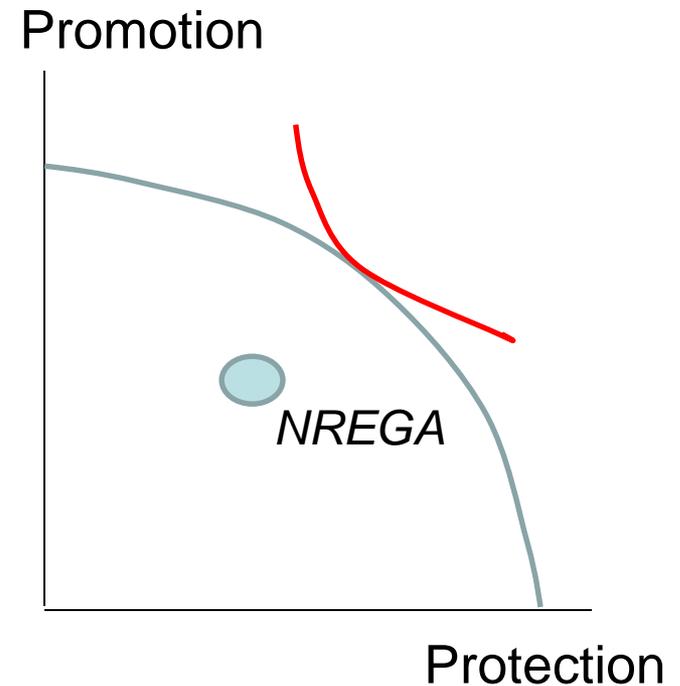
Increasing the marginal cost of corruption **lowers** employment on *NREGA*



The better way to reduce corruption is to make it impossible for local officials to ration NREGS jobs: Public Awareness + social monitoring will make this model irrelevant.

NREGA currently underperforms on both Ps

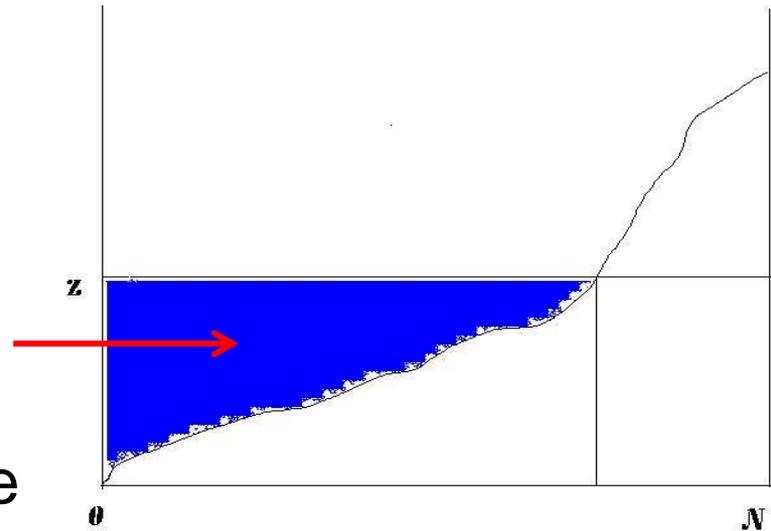
- Rationing and corruption undermine the insurance benefits.
- What to do?
 - Close the wage gap
 - Make supply side more responsive
 - Social audits/monitoring
 - Asset creation favoring the poor



3: China's Dibao Program

China's *Dibao* Program

- *Dibao* provides a transfer to all registered urban households with incomes below a DB line set at municipal level.
- The aim is to close the gap between the recipient's income and the local DB line so that a **minimum income** is guaranteed.
- Decentralized implementation => **horizontal inequity**.



Errors of inclusion are modest, but errors of exclusion are large on *Dibao*

- Targeting: good at avoiding leakage to the non-poor.
 - The share going to the DB poor is eight times higher than under uniform allocation
 - Excellent targeting performance; *Dibao* does better than the best targeted program in Coady et al. (2004).
- Coverage is the bigger problem.
 - DB is not reaching the majority of those households with an income below the DB line.
- However, if DB is a poverty trap, then not a good idea to expand coverage. Rationing as 2nd best response.

Is *Dibao* a poverty trap?

- Benefit withdrawal rate (BWR) = amount the transfer payment falls for each extra unit of pre-transfer income
- In theory, DB exactly fills the gap between current non-DB income and the DB line (as is the scheme's aim).
=> **100% BWR**; earned income net of DB will fall to zero (assuming that work yields disutility)
- Optimal BWR under plausible labor supply responses: 60-70% (Kanbur et al.)
- **On paper DB creates a poverty trap**, whereby participants face little incentive to raise their own incomes.

However, the actual BWR is too low!

- Low BWR in practice: 5-20% not 100%!
- It appears unlikely that the program would provide any serious disincentive for earning extra income.
- However, such a low BWR raises concerns about how well the program protects.
- Concerns about how well the program is addressing uninsured risk and transient poverty.
- Adverse incentives do not appear to be a problem, but protection from poverty is a concern.

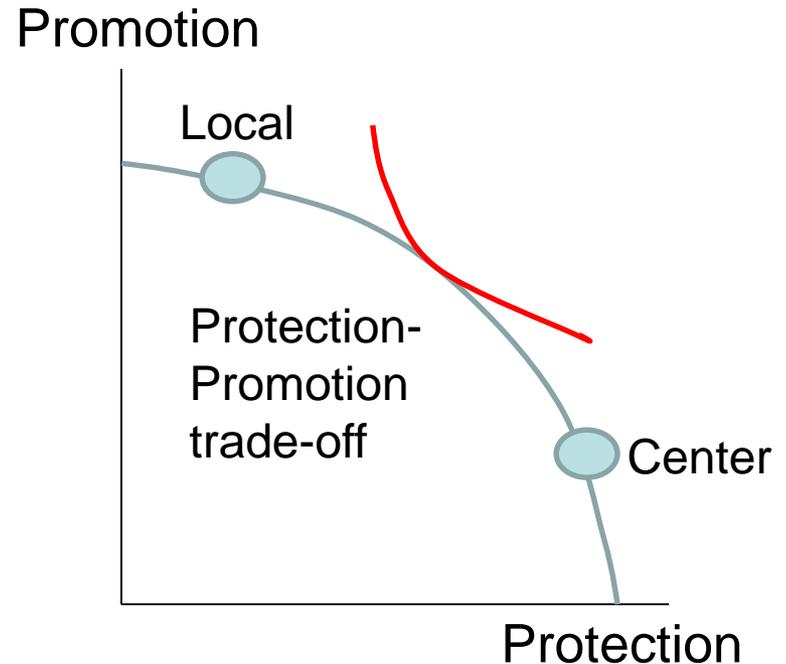
Ravallion, Martin, and Shaohua Chen, 2015, "Benefit Incidence with Incentive Effects, Measurement Errors and Latent Heterogeneity: A Case Study for China," *Journal of Public Economics*, Vol. 128, pp. 124-132.

Participant capture in local implementation

- The center clearly puts a high weight on protection, but it must rely on local implementing agents.
- Qualitative observations: local agents actively “smooth” DB payments and participation.
- Their incentives are closer to a **promotion objective**.
- Possibly moral hazard in local govt. behavior
- **Not so much “elite capture” as “participant capture.”**

Lessons from *Dibao*

- Local agents implicitly put a far higher weight on promotion than implied by the central government's design for the scheme.



- Since the local administration's preferences are not aligned with the center's a **more complex contract** would be needed to achieve effective protection.
- Policy implication: expanded coverage on *Dibao* should come with a higher BWR in practice.

Conclusions:

Two lessons for SSN reform

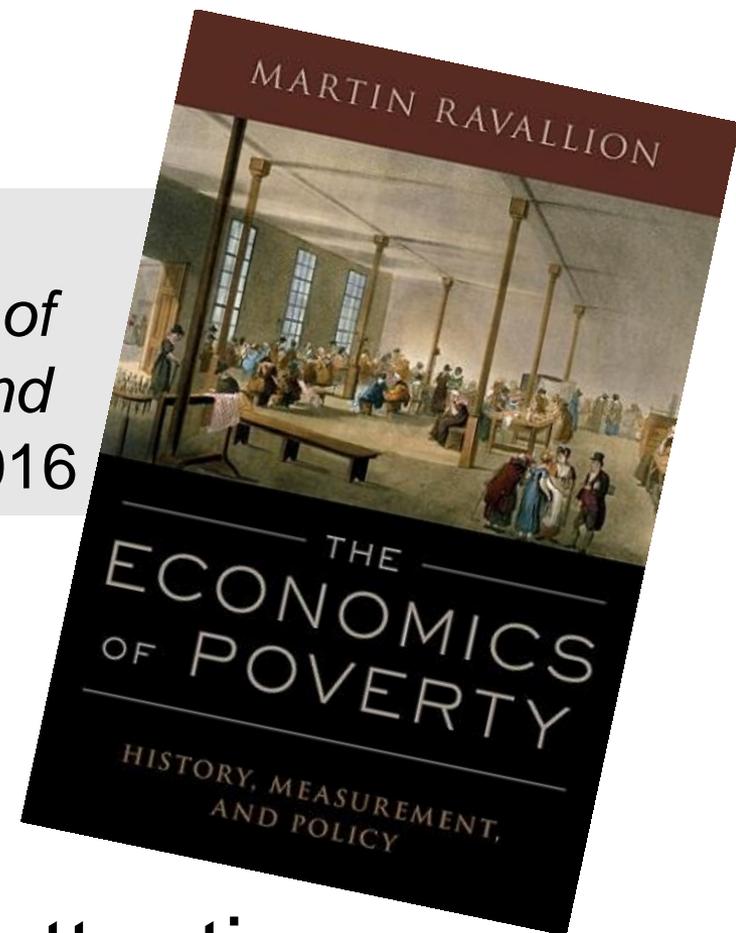
Lesson 1: Focus on protection and promotion not finer “targeting”

- The most finely targeted policy (lowest inclusion errors) need not have the most impact on poverty
 - Information problems; measurement errors
 - Hidden costs of participation
 - Potential for adverse incentives: high marginal tax rates=>poverty traps.
 - Political economy
- A P&P trade-off can be expected, but it is often exaggerated by critics of SSN policies

Lesson 2: Strive to improve the protection-promotion trade-off in practice

- Transfers have a role in allowing markets to work better from the perspective of poor people.
- “Social investment” approaches (CCT and workfare) show promise, though assessments must consider all the costs and benefits and avoid paternalism.
- Greater flexibility is needed in responding to shocks. Participant capture is a common problem. Also local moral hazard.
- Don’t be too ambitious: administrative capacity is a key constraint in practice.
- Monitor and evaluated, and adapt accordingly.

Further reading:
Martin Ravallion, *The Economics of Poverty: History, Measurement and Policy*, Oxford University Press, 2016



Thank you for your attention
Tack för din uppmärksamhet



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