Comment on Poverty Traps and Social Protection Policy

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In their think-piece, Michael Carter and Chris Barrett provide an intuitive overview of their recent joint work on asset thresholds and poverty traps. At its core is a model in which there is a critical threshold in the space of assets, below which no escape from poverty is possible, except via some outside shock or intervention. To avoid people sliding into this trap, social protection in the form of transfers needs to be offered, with substantial social returns, over and above a simple 'humanitarian' model that targets the poorest, but that does not offer protection against (re)lapses into poverty, or support to transcend the threshold.

Their work has to be seen as a careful and valuable contribution in the context of a far too small field within economics of researchers concerned with developing positive theories of poverty: how poverty is produced and reproduced. By explicitly introducing insurance and credit market failures, as well as assets thresholds, poverty is not just a self-evident problem of 'low endowments': we need to think carefully about how poverty is shaped by the particular ways in which market failures and thresholds interact. This understanding is crucial for appropriate policy design: as their discussion shows, policies are not 'self-evident' either – just giving transfers to the poorest is not necessarily the most effective poverty-reducing policy. In an age of naïve belief in targeted cash transfers, whether conditional or unconditional, this type of analysis is timely and essential to guard us against yet another disappointment in the search for the quick fix in development and social protection problems.

I am nevertheless concerned that Carter and Barrett's contribution is somehow too narrow in focus. First, it is narrow in terms of its diagnosis of the problems of poverty traps and risk. Second, it is narrow in terms of the policy implications and solutions it proposes, even within the confines of their model. At the same time, it overstates the relevance of their specific asset threshold model and the available evidence.

I am convinced that asset thresholds are a reality in particular contexts. Despite many suggestions to the contrary, these traps are not easily detected and the empirical evidence is, in my experience, at best, shaky. I can be persuaded that the pastoralist livestock economy, the setting of their best known example, has 'natural' herd size-related multiple equilibria, that are relatively homogenous across farmers – so the estimation problems are not as critical. However, in other settings, people hold a variety of assets and engage in a variety of activities. Thresholds are most easily understood as a form of binding entry constraints – a process of exclusion. A pastoralist without access to credit may not be able to get a minimal herd size to allow a natural accumulation process to result in a 'high income' equilibrium. But most other families face a broader set of options, each with their own entry problems, and as a consequence, potentially a multitude of thresholds defined in different assets and activities: for example, a minimum level of financial assets needed to buy oxen, no scope for acquiring more land from the community because of land scarcity, missing the minimum qualification to apply for a local white collar job, lacking the connections to get onto a food-for-work programme, being of the wrong caste to use irrigation canals, living in a slum with too much petty crime to be able to set up a kiosk without facing extortion, or gender-based social norms that keep girls out of education.

A key weakness in the asset threshold framework, at least in its empirical practice, is that it is uni-dimensional: the threshold is defined in terms of the

value of assets, as if all these possible dimensions of assets can be aggregated, and even more importantly, as if the underlying poverty trap is essentially driven by the failure to get credit to climb over the threshold. Credit market failures are definitely important, but, as the examples above illustrate, both institutional and market failures – including problems with land rights, caste structure, crime and insecurity, corruption, public good provision, and social exclusion – may induce threshold effects that are not easily reduced to lack of financial capital. Each of these conditions could give rise to poverty traps, not dissimilar to the models described above, but often with radically different implications for social protection policies. Furthermore, thresholds or barriers into particular activities may be multi-dimensional themselves (e.g. gender-specific credit market failures and other complementarities) introducing important heterogeneity in their impact, affecting both the empirical analysis as well as the interpretation of any results. Arguably, this is an empirical issue, and may justify taking the asset threshold model to a variety of rural and urban settings. However, as the evidence available from most settings is at best controversial, and at worst, largely non-existent, basing broad policy thinking on it is likely to overshoot the target.

At the same time, models of poverty traps have intuitively strong appeal, and the careful link they can make between relevant market and institutional failures and the production and reproduction of poverty offers refreshing insights into thinking about poverty and social protection policies. While giving credit to the asset threshold framework, one should therefore also pay more attention to a broader (if often rather inaccessible) theoretical and empirical literature on poverty traps that has acknowledged this variety of mechanisms – reviews are provided in Bowles *et al.* (2006) or Dercon (2004).

The policy implications of asset thresholds and other poverty trap models are striking and should not be understated. As Carter and Barrett make clear, when budgets are restricted, just focusing on the poor may not work well as a policy to reduce or keep poverty low when 'random' shocks such as droughts occur, even if some people are in the low-income trap to start with. The reason is that these are equilibrium models: poverty is a low-income equilibrium with forces that keep pushing people back into it, even if they start moving away. It is easy to drift into poverty (by falling below the threshold, as if down a cliff) but hard (and more costly) to climb out of the ravine. As a result, if only limited funds are available, some money can be better spent to keep a substantial number of people from falling below the threshold to join the pool of chronic poor, rather than giving a sufficiently large sum to a small group of people in the low-income equilibrium that would allow them to jump across the threshold. This view is consistent with social protection as a safety net for the currently not-so-poor, but it has a serious rationale if we are concerned with keeping overall chronic poverty low in the long run.

Of course, for many it is not satisfactory to write off the current chronic poor, and donors and NGOs have designed many programmes, such as conditional or unconditional cash transfer programmes (the flavour of the month right now) to target these groups. Carter and Barrett's article should not make happy reading for them. In most cases, the programmes involve giving specific transfers in cash to the poorest, possibly conditional on other actions by the families, such as sending children to school. Mostly, the transfers are significant but small. In a world without poverty traps, this would make sense: we offer regular additional resources, and allow people to use them as they wish to build a better life. 'Chronic' poverty will be gradually reduced. The key problem, if asset poverty traps exist, is that regular small transfers have zero impact in terms of chronic poverty: after receiving the transfer, income is briefly increased, but people slip quickly back to the earlier equilibrium. Only if the transfers are large enough to lift the chronically poor person above the threshold can the person start moving towards a high-income equilibrium. With a limited chronic poverty reduction budget, one should therefore instead, give large transfers to a few, and not small transfers targeted, with perfect inclusion, to all the chronic poor. 'Small is not beautiful' – it is useless for the poor.

If one is concerned with reaching all of the poor, then we need very large transfers, large enough to take the poor past the thresholds. This is not redistribution or social protection as is usually politically feasible: this is a revolution. Finding revolution as the only plausible solution may well appeal to my (and no doubt, many readers') old Marxist roots, but it is not credible as policy advice. Not because revolution is not possible, but because

the model can then not predict its outcome: the impact of really large transfers, or 'revolution', is hardly plausibly analysed in a comparative static partial equilibrium framework: we need to start thinking about the 'general equilibrium effects' as well.

Are these striking policy recommendations confined to the asset poverty trap model? Not at all: similar findings can be derived from many other poverty trap models in a world in which shocks occur. Small interventions do not have any impact, and the return in terms of overall poverty from using limited budgets to keep people from falling into the trap is higher than from using the same budget on people already in the trap. There is nevertheless a key difference: many plausible poverty traps need to be resolved using coordinated actions to have any impact; even large sums spent on individuals in poverty traps may not have any impact. For example, suppose social norms and structures (e.g. gender, caste or ethnicity-based exclusion) are excluding some from entering particular activities or from living in particular areas, then no amount of money spent on one person in the trap will lift her out: it is essential to coordinate the intervention to focus on whole groups, structures or areas to have any impact, making the task obviously even tougher. As discussed in Dercon (2004), geography, remoteness or even just living together with a lot of poor people, such as in slums, may induce similar traps, with the externalities from living with other poor people creating processes that trap people forever in poverty, with limited impact via any targeted actions on specific individuals in the group or area. In these circumstances, the focus in the asset poverty trap framework on returns from spending on individuals may be misleading.

Still, one of the most important insights of the Carter and Barrett analysis is to attribute a relatively high return to social protection in the form of safety nets to prevent people sliding down the slippery slope. However, this is somewhat misleading as well, as it leads to a dual view of social protection targeted to different groups. First, is social protection as traditional social insurance, which matters for the 'middle group' of people who are not quite poor but face some risk of ruin, so that vulnerability is viewed as the risk of becoming poor. Second is social protection as either chronic poverty policy or a form of 'transformative social protection', focusing on the already poor. This is misleading because risk is not well dealt with: risk only appears as 'shocks', and as a result, negative shocks are really only relevant for those at risk of falling below the threshold. While in other work, Carter and Barrett have incorporated this to some extent, its policy implications are important as well.

If risk is present (in the sense that something bad may happen), then asset accumulation processes involve the possibility of serious drawbacks. In the model, it would mean that people may not choose to use any assets they have or receive as part of a transfer programme as productively as possible, because they may end up even worse off than before. They may hold on to the poor situation they are in now, rather than risk ending up in an even more disastrous state of destitution if the 'gamble' of accumulation fails. They may do this despite the fact that in 'normal' circumstances, productive use of the asset would lift them above the threshold. Risk would then mean that some would 'choose' to remain poor – it keeps them trapped in poverty. In such a world, risk causes chronic poverty, not via shocks, but because it stops people from trying to get out. Offering forms of protection to ensure that the poor do not slide even further is then essential as part of 'chronic' poverty policy – and not just for those above the poverty threshold, as may have been unintentionally implied by the stylised discussion of policy choices by the Carter and Barrett article. Safety nets and social insurance do not matter just for the middle classes in poor societies, and are as such, *not a luxury*.

But are we considering the policy options carefully enough? Asset thresholds matter and cause poverty traps because capital matters for escaping poverty, and credit markets exclude the poor. The view behind this is that poor people must accumulate capital via farm, off-farm business or urban informal sector activities to escape poverty. We could then make credit markets work better – as microfinance programmes encourage – or we could offer transfers as a substitute for credit and insurance markets – as social protection policies may do, as discussed above. But are we then considering the best option? Maybe what we need to do is to make asset thresholds matter less to escape poverty, by making capital accumulation less relevant for escaping poverty. Recent history has taught us that this is how large numbers of the poor have escaped their deep deprivation: by moving out of agriculture and

informal activities, where they need capital to move forward, to activities that only involve selling their labour in a context of labour-intensive economic growth.

Of course, this may be a bumpy road, with ample scope for social protection interventions, but it makes asset poverty traps irrelevant for the poor, as it offers opportunities that are not dependent on household-specific accumulation. Although I will stay shy of advocating that promoting growth is the best social protection policy, it may well be that creating opportunities in activities that are less dependent on thresholds and stimulating the unravelling of thresholds, including via growth, may well be the social protection policies that will prove to be most effective in transforming the lives of the poor.

References

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