Why do People Stay Poor? (Balboni et al., 2020)

There are two economic models that could explain why do people stay poor. Some argue that poor's circumstances trap them in poverty, rather than their lack of productivity. Economists have a hard time discerning which best fit the data because both models predict the same outcome: a portion of the world's population will lie below the poverty line.

One Sentence Summary

The authors provide evidence that Indian villages face poverty traps exploiting an experiment where families receive a cow, a large productive asset transfer for these households, in 2017. They found that households above the estimated poverty trap threshold with the cow transfer accumulated assets and stayed out of poverty for the next 11 years. In contrast, those households below the threshold after receiving a cow returned to poverty.

Main Findings

The poverty traps model tries to capture the idea that the world's poor are stuck in poverty because they are poor. For example, a poor productive farm hand infected with malaria cannot work in the field because he is weak; because of their lack of work and income, he cannot afford the malaria treatment and, thus, stuck in poverty. Economists characterize these traps as a threshold that individuals need to surpass to accumulate income, escaping poverty. In the example above, a non-poor adult has sufficient income to afford the treatment, he might have a quick recovery and return to work.

The authors study Indian famers's wealth trajectories after receiving a cow, an important increase in their productive assets, in 2007 and then surveyed them on five occasions between 2007 and 2018. With this panel data, they estimated the trap's threshold and proved that they were stuck in an asset poverty trap. But the treated households, those who received a cow, above the estimated poverty threshold could rise from poverty, moving to better occupations, increasing their level of consumption, and even buying land in roughly 4 years. In the same time span, treated households, below the estimated threshold had a higher probability to remain in poverty.

Concluding Remarks

In the book *Poor Economics*, Banerjee and Duflo (2012) argue that the model of poverty traps model can be applied to some scenarios. Balboni et al. (2020) showed that farmers in India are one of such examples, but it does not prove the global validity of the poverty traps model.

References

- Balboni, C., Bandiera, O., Burgess, R., Ghatak, M., Heil, A., 2020. Why do People Stay Poor? Working Paper.
  https://www.dropbox.com/s/b9c6nvb5kdaw9qk/povertyTraps_revision__V4_-2.pdf?dl=0
- Banerjee, A., Duflo, E., 2012. Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty.