

# 14.73: The Challenge of World Poverty

## Lecture 1

Esther Duflo and Frank Schilbach

MIT

September 7, 2022

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<p>14.73 The Challenge of World Poverty M1-2.30,W12.30-2.30 (E51-395) Recordings take place on Wednesdays</p>
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# Welcome to 14.73! Plan for today

- Introductions
- What is this class about?
- The magnitude of the problem
- Progress!
- A specific example: Abu
- Admin/Logistics

# Who are we?

- Esther Duflo ([eduflo@mit.edu](mailto:eduflo@mit.edu); email [hmccurdy@mit.edu](mailto:hmccurdy@mit.edu) for appointment)
- Frank Schilbach ([fschilb@mit.edu](mailto:fschilb@mit.edu); [link to OH](#))
- Mikey Jarrell (TA; [mikeyj@mit.edu](mailto:mikeyj@mit.edu))
- Jie Zhou (TA; [jiezhou@mit.edu](mailto:jiezhou@mit.edu))
- Louise Harrison Lepera (writing advisor; [lh13@mit.edu](mailto:lh13@mit.edu))

## What is this class about? Broad goals

- Understand poverty and how to tackle it
- Formulate coherent and interesting thoughts about poverty
- Learn to reason like an economist
- Become (even more!) excited about economics
- Improve your written and oral presentation skills

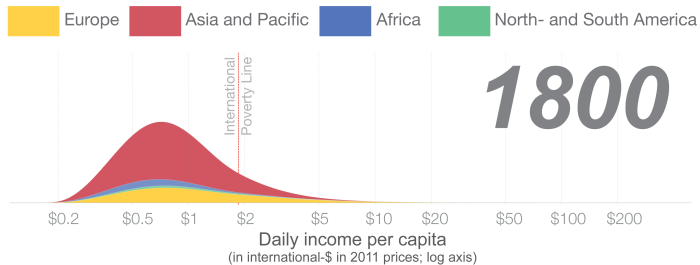
# The magnitude of the problem

- How poor are the poor?
- How do we measure how poor a country is?
- Measure 1: Gross National Income (GNI) per capita at current exchange rates (in 2021)
  - What is the GNI of the richest country?
    - Bermuda: \$116,540
    - That is a very small country... what is the second one?
    - Switzerland: \$90,360
  - What is the GNI of the poorest country?
    - Burundi: \$240
  - How about the US? \$70,430
  - The differences are enormous!  $\frac{\$70,430}{\$240} \approx 293!!!$

## Accounting for price differences

- But everything is cheaper in Burundi than in the US. What if we take into account price differences?
- Measure 2: GNI per capita at PPP (Purchasing Power Parity) exchange rates
  - What is this metric?
  - Are income differences across countries smaller or larger using PPP?
- What is the GNI (using PPP) of the US?
  - US: \$70,480
- What is the GNI (using PPP) of the poorest country?
  - Burundi: \$800
- What is the ratio between the two GNIs?
  - $\frac{70,480}{800} \approx 88!$

# Where do the world's poor live?



**Figure:** Global Income Distribution 1800, 1975, and 2015 (PPP-adjusted)



# Where do the world's poor live?

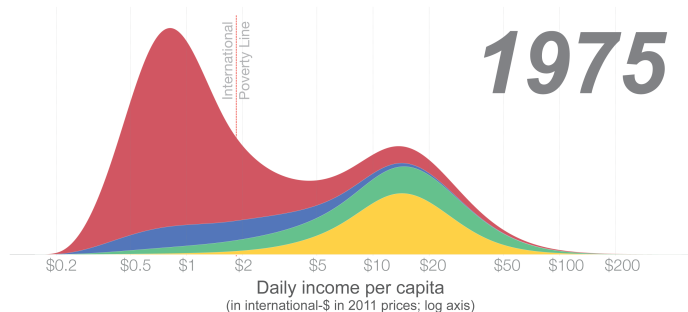
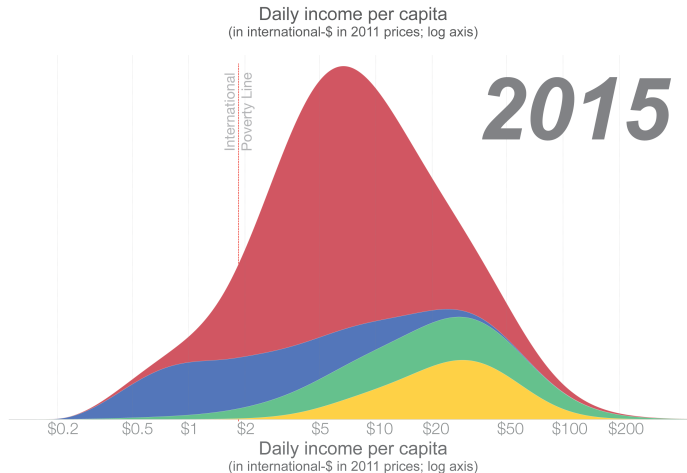


Figure: Global Income Distribution 1800, 1975, and 2015 (PPP-adjusted)

# Where do the world's poor live?

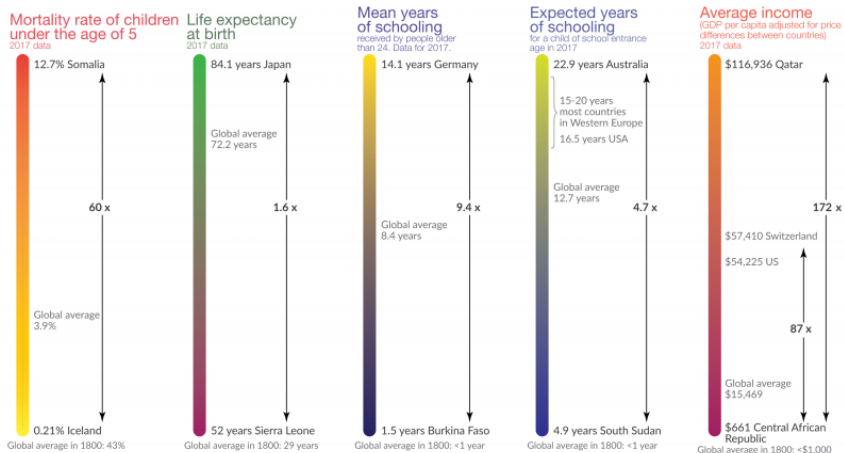


**Figure:** Global Income Distribution 1800, 1975, and 2015 (PPP-adjusted)

## Poverty is not just about income... what else is different/more difficult for the poor?

- Malnutrition
- Education and literacy
- Child mortality and life expectancy at birth
- Happiness and mental health
- Medical care
- Health
- Safety nets
- ...

# Staggering inequality in living conditions across the world



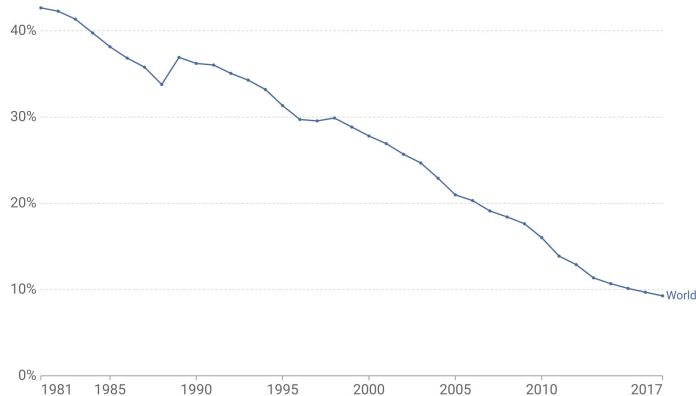
Data source: all data for 2017 is taken from various UN publications. Historical estimates for 1800 are from OECD – How was life? and Our World in Data. This is a visualization from [OurWorldinData.org](https://ourworldindata.org), where you find data and research on the world's largest problems.

Licensed under CC-BY by the author Max Roser.

# But much progress has been made! Poverty during the past decades

## Share of population in extreme poverty, 1981 to 2017

The share of individuals living below the International Poverty Line of 1.90 international-\$ per day.

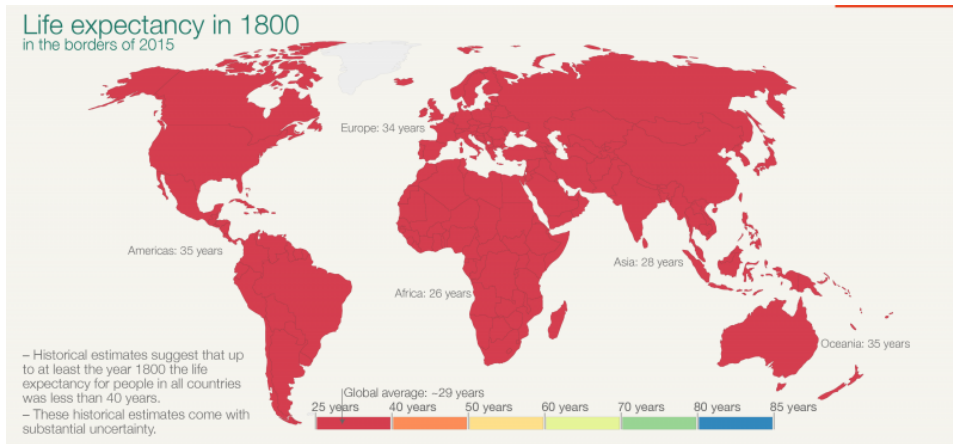


Source: World Bank PovcalNet

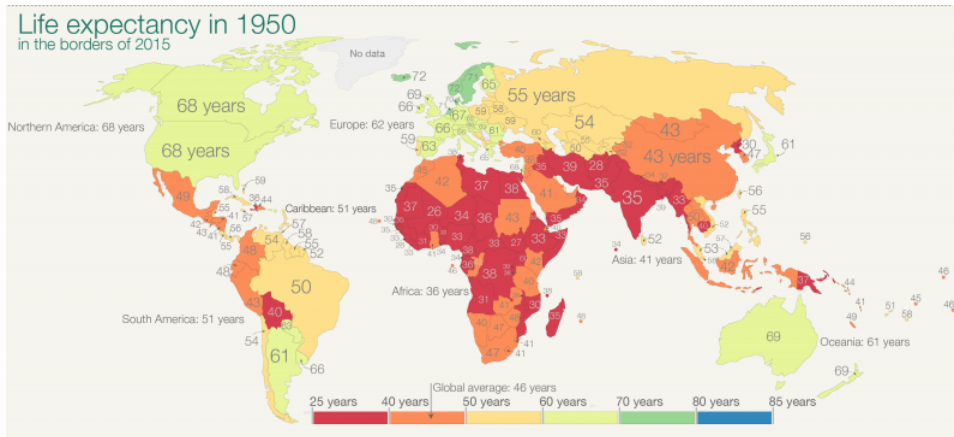
Note: Figures relate to household income or consumption per person, measured in international-\$ (in 2011 PPP prices) to account for price differences across countries and inflation over time.

OurWorldInData.org/extreme-poverty • CC BY

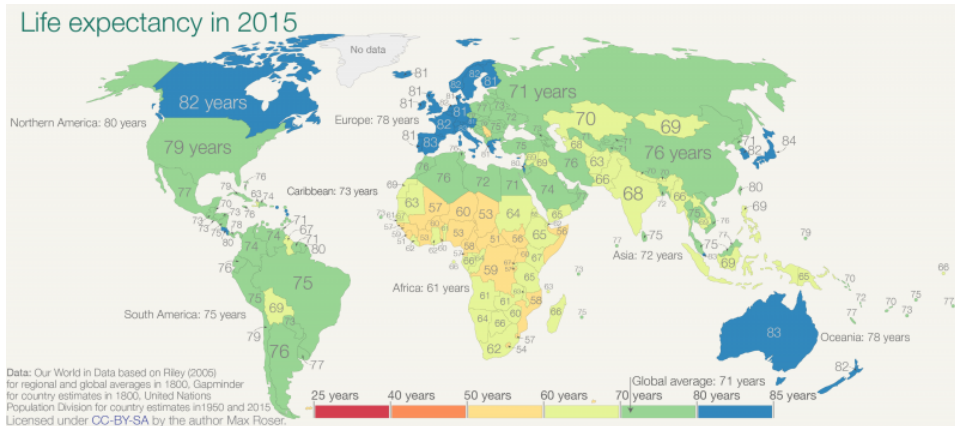
# Much progress has been made! Life expectancy 1800-2015



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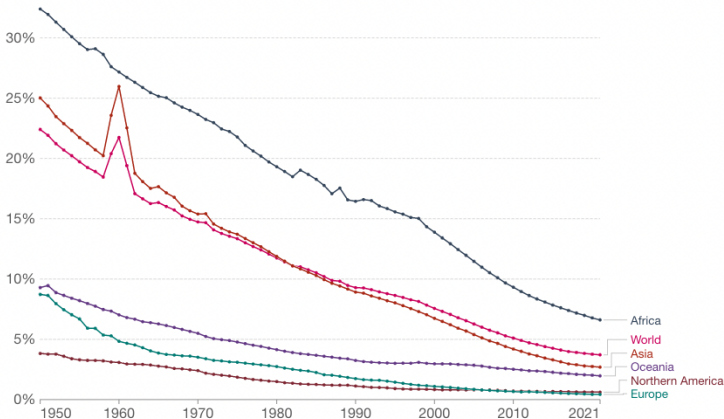




# Much progress has been made! Child mortality during the past decades

## Child mortality

Share of children, born alive, dying before they are five years old.



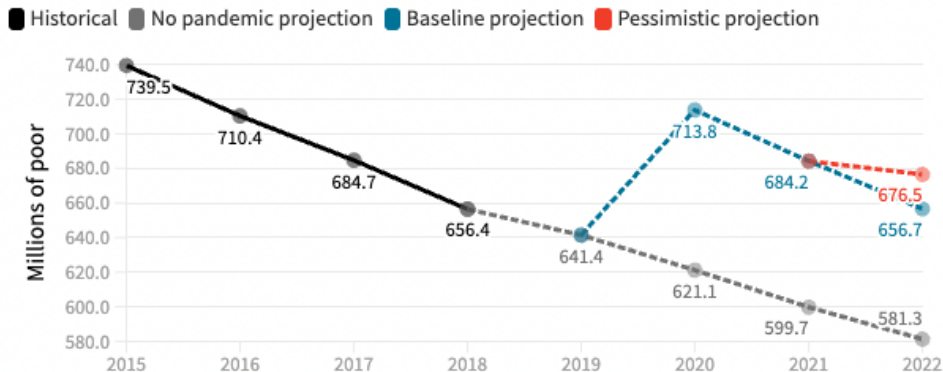
Source: United Nations - Population Division (2022)

OurWorldInData.org/child-mortality/ • CC BY

## The Covid-19 pandemic was a big setback.

- Enormous health and economic impacts of Covid-19 pandemic across the world
- As a result poverty increased.
  - The World Bank estimates (how?) that the number of people below the poverty line increased by 90 million in 2020.
  - We don't know yet how persistent this increase will be.
- Rich countries were in a much better place to protect their citizens.
  - Rich countries spent much larger shares of their GDP on fiscal stimulus measures (what is that?) than poor countries
  - Schools remained closed for a much longer time in poor countries (and the US!).
  - And vaccination status is extraordinarily unequal.

# Number of people in extreme poverty, 2015 to 2022

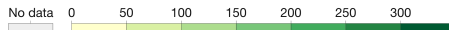
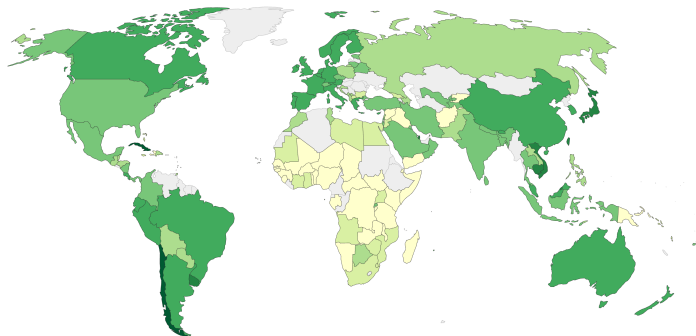


Source: [Lakner et al \(2022\) \(updated\)](#), [Poverty & Inequality Platform \(PIP\)](#), [Macro and Poverty Outlook](#).

# Unequal access to vaccinations across the world

Total COVID-19 vaccine doses administered per 100 people, Sep 5, 2022

All doses, including boosters, are counted individually.



## Visualizing these effects

- Explore these data yourself on <http://www.gapminder.org/tools/>
- Watch the amazing Hans Gosling describe some of these data [here](#).
- Other terrific visualizations: <https://ourworldindata.org/>

## What are the lives of the poor like?

- One key goal of this class is better understanding the lives of the poor.
- How would you live on \$2 a day (in Boston or elsewhere)?
  - International extreme poverty line is \$2.15 per day for everything except for housing (adjusting for price differences).
- But the poor go about their lives.
  - They are working and running their businesses (no, the poor are not all farmers!).
  - They consume (no, they do not just eat!).
  - They go to school (yes, school participation was almost 100% at the primary level before COVID-19 sent everyone home).
  - They live much longer than they used to.

## The story of Abu

- Poverty is more than statistics and numbers.
- From *A Quiet Violence*, by Betsy Hartman and James Boyce, 1983.
- A quasi-journalistic account by two economists of life in rural Bangladesh, around 1975
- These were the worst years in the history of Bangladesh. Things have gone much better since. This is a story of one peasant family.
- Please read the story yourself!!

## The first visit

- Abu is sick. He has not been able to work for the last three weeks.
- His six children are hungry.
- His oldest daughter, who is still a child, is the only earner in the family. She gets 1/4 kilo of rice for husking rice all day (separating the rice hulls from the grain).
- Abu cannot afford the 100 Takas (\$6 or so) that he needs to pay a doctor.



## The past

- Abu used to have enough land to live on.
  - He sold some of the land to buy medicine for his sick mother.
  - She died anyway.
- They had a number of children and the land they had was no longer enough to feed everyone.
- When there was no food, they borrowed from the money lender at very high rates.
- Abu worked for a landlord for one meal and 1.25 kgs rice/day.
- He could sharecrop—keep half of what he grows—but he got the money only after the harvest.
- He had to mortgage more land to his landlord.

## The (expected) future

- At the first visit they are still optimistic.
- Abu had planted a jackfruit tree four years ago.
- This is what a jackfruit tree looks like!
- In a couple of years it will yield fruits that can be sold and bring in good money.



## The second visit

- Abu has sold land to pay the doctor.
- His wife has no work.
- In the lean season, he cannot find work either, so they are starving.
- Abu cuts down the jackfruit tree and sells the wood for 25 Takas. It never got a chance to bear fruit.

## Questions?

- What questions do you have about this story?
- What problems does Abu have? (What) could he or his family do better?
- How could you help him?

## Topics of this course

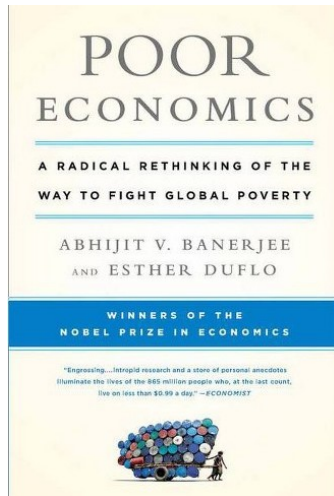
- Overarching idea/concept: **Poverty Traps**
- Nutrition
- Health
- Education
- Insurance
- Credit
- Savings
- Entrepreneurship
- The Psychology of Poverty

# Administrative details

- Read the entire syllabus
  - There is a lot of information in the syllabus.
  - The class is fairly involved – the key thing we demand is effort and enthusiasm.
  - Yes, we will be able to tell whether you read the syllabus!
- Course website: <https://canvas.mit.edu/courses/15551>
- Sign up and use the online forum [Piazza](#)!
  - Ask questions, discuss issues
  - Answer other students' questions
  - Learn from other students' answers
- Innovative course structure with mix of lectures and case studies
  - Ten modules with each one lecture (on Wednesdays) and one case (on Mondays)
  - Lectures: an introduction to key topics of modern development economics
  - Case studies: apply knowledge in small teams to solve real-world problem, present to peers

## Administrative details (cont'd)

- Course based on *Poor Economics*, award-winning book by Abhijit Banerjee and Esther Duflo
  - We use this book throughout the course!
  - Write weekly memos before each Wednesday lecture.
- Read additional case study materials before coming to Monday classes, made available on Thursdays
- Remaining classes:
  - A movie class with discussion
  - J-PAL guest lecture on affecting policy with research
- **Attendance and timeliness are crucial!**
  - Attendance is mandatory for all sessions.
  - Please be on time: Mon 1 pm; Wed 12:30 pm!



## Even more administrative details!

- Recitation is also mandatory, on Fridays at 1 pm and 2 pm in E25-117
  - First recitation this Friday!
  - This week: you can go to any recitation of your choice.
  - All future weeks: please go to the recitation that you are assigned to.
- Learn how to write: two short essays and a policy brief
- Waitlist procedures: sadly we only have limited capacity for the course.
  - If you do not want to take the class for whatever reason, please drop it *now*!
  - First-year students automatically have highest waitlist priority.
  - All other students: please email Frank (fschilb@mit.edu) by Wednesday 8 pm EST explaining (i) why you are interested in the class and (ii) what you are hoping to get out of taking it.
- Questions?