Resilience in the Face of Poverty Traps

Introduction

Michael R. Carter

University of California, Davis, University of Cape Town, NBER & BASIS Assets & Market Access Innovation Lab

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The work we are presenting today, and the book just published by NBER, owes a debt of gratitude to USAID for patient support of a research agenda that has spanned:

- Foundational work to understand chronic poverty
- Empirical work on the presence of traps & their causes
- Designing & testing innovations intended to promote upward mobility & resilient graduation from poverty, ending the need for further assistance

On behalf of myself and my fellow researchers, I want to particularly thank Lena Heron, who for many years managed the BASIS AMA Lab for USAID and supported the development of this agenda

With your forbearance, and before turning to the heart of this conference, I want to share a slide that may help you appreciate the challenges Lena faced as manager of BASIS
The Origins of BASIS Poverty Traps Research

- Just as the effects of missing markets exist even in the absence of biological non-convexities, it is likewise true that the effect of these non-convexities cannot be entirely mitigated by opening more markets.

Chris Barrett (research proposal abstract)

- Huh?

This paper develops a stochastic dynamic programming model with endogenous asset price risk to explore savings and portfolio decisions in a resource-poor environment characterized by risk and subsistence constraints. Optimal portfolio strategies are found to bifurcate, despite divisible assets and fully rational agents.

Michael Carter & Fred Zimmerman (Journal of Development Economics)

- Huh?

Είμαι εἰκονομολόγος—θα σου δοσο πονοκέφαλο

- WTF!
So what does this mean (in English!)

A poverty trap evokes a tipping point or vicious circle:

- If an economic shock drives a family below a critical level, they become trapped, sinking into a condition of chronic poverty.

The same logic also suggests the existence of virtuous circles in which a positive shock, or perhaps an increase in assets, can lift a family over the tipping point to the point where they move forward, escaping poverty & the need for further assistance.

To help fix ideas for today’s conversation, let’s look at a striking example of each:

- Virtuous circles initiated by BRAC’s ultra-poor program in Bangladesh that enhanced material and psychological assets.
- Vicious circles that are created by feedbacks between the real and psychological domains in South Africa.
Oriana Bandiera presented results from BRAC’s ~12 month, woman-targeted ultra-poor program which:

- Initial consumption support
- Skills training
- Coaching
- Asset transfer

Using surveys 2, 4 and 7 years after initiation of the TUP program, finds the following impacts relative to an untreated control group:

<table>
<thead>
<tr>
<th></th>
<th>Productive Assets (Net of Transfer)</th>
<th>Household Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Year</td>
<td>55%</td>
<td>4.5%</td>
</tr>
<tr>
<td>4 Year</td>
<td>178%</td>
<td>10%</td>
</tr>
<tr>
<td>7 Year</td>
<td>435%</td>
<td>10%</td>
</tr>
</tbody>
</table>
Clear that a virtuous circle was initiated with the women making investments and improving their standards of livings in ways would not otherwise have done.

Not cheap ($1000/beneficiary), but high rates of return.

Less clear is what the mechanism is behind these impressive impacts:

- Asset transfer
- Instillation of hope or other psychological affect
- Some combination of both

Results also show a lot of heterogeneity as might expect if program works well for some, but other buffeted by shocks fall back.

Policy design issues still open (return to this later).
Poverty trap theory offers a window into the virtuous circle evidenced by these impressive impacts.

At same time, this theory suggests vicious circles are possible.

Increasing assets gives households greater opportunity but they may still be vulnerable to falling below the tipping point into chronic poverty.

Reducing risk can have the effect of shifting the tipping point for chronic poverty, reducing the intervention needed to move households into resilience.

Increasing both capacities and assets have complementary benefits that provide households a better chance of achieving resilience.

M.R. Carter
Resilience in the Face of Poverty Traps
Recent paper by Mo Alloush identifies simultaneous feedbacks between economic well-being and mental health. Finds a group of doubly vulnerable people, near the poverty and depression lines.

**Chronic Poverty Probabilities**

(a) Without Feedbacks  
(b) With Feedbacks

- An economic shock to this group can initiate a process of chronic poverty.
Against this backdrop, consider what we know about poverty traps and interventions that may help support resilient escapes from poverty:

- **Duncan Thomas** will explore the surprising ability of families to protect human capital investment in their children even in the face of economic and climatic shocks, cutting short the intergenerational transmission of poverty.
- **Karen Macours** examines evidence on how poverty reduction programs can enlist changes in aspirations that further bolster program effectiveness.
- **Chris Barrett** will focus on the challenges of addressing chronic poverty in fragile and stress-prone natural resource systems.
- **Michael Carter** will focus on the paradox of social protection and the importance of addressing vulnerability as well as low living standards if aggregate poverty is to be reduced and aid itself out of business.