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The Idea of Antipoverty Policy

Martin Ravallion
Edmond D. Villani Professor of Economics
Georgetown University

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The Idea of Antipoverty Policy

Martin Ravallion[1]

Department of Economics, Georgetown University
Washington DC., 20057, USA

Abstract: How did we come to think that eliminating poverty is a legitimate goal for public policy? What policies emerged in the hope of attaining that goal? The last 200 years have witnessed a dramatic change in thinking about poverty. Mainstream economic thinking in the 18th century held that poverty was necessary and even desirable for a country's economic success. Today, poverty is more often viewed as a constraint on that success. In short, poverty switched from being seen as a social good to a social bad. This change in thinking, and the accompanying progress in knowledge, has greatly influenced public action, with heightened emphasis on the role of antipoverty policy in sustainable promotion from poverty, as well as protection. Development strategies today typically strive for a virtuous cycle of growth with equity and a range of policy interventions have emerged to help assure that outcome. An expanding body of knowledge has taught us about how effective those interventions are in specific settings, although many knowledge gaps remain.

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[1] This chapter's title owes a debt to Gertrude Himmelfarb's (1984), *The Idea of Poverty: England in the Early Industrial Age.* For comments the author thanks Robert Allen, Tony Atkinson, Pranab Bardhan, Francois Bourguignon, Denis Cogneau, Jean-Yves Duclos, Sam Fleischacker, Pedro Gete, Karla Hoff, Ravi Kanbur, Charles Kenny, Sylvie Lambert, Philipp Lepenies, Peter Lindert, Michael Lipton, Will Martin, Alice Mesnard, Branko Milanovic, Johan Mistiaen, Thomas Pogge, Gilles Postel-Vinay, Berk Ozler, Henry Richardson, John Roemer, John Rust, Agnar Sandmo, Amartya Sen, Dominique van de Walle and participants at presentations at the World Bank, the Midwest International Economic Development Conference at the University of Wisconsin Madison, the Paris School of Economics, the Canadian Economics Association, the 12th Nordic Conference on Development Economics and the World Institute for Development Economics Research.

"The poor … are like the shadows in a painting: they provide the necessary contrast." (Philippe Hecquet, 1740, quoted in Roche, 1987, p.64).

"Everyone but an idiot knows that the lower classes must be kept poor or they will never be industrious." Arthur Young, 1771 (quoted in Furniss, 1920, p. 118).

"May we not outgrow the belief that poverty is necessary?" (Alfred Marshall, 1890, p.2).

"Our dream is a world free of poverty." (Motto of the World Bank since 1990).

1. Introduction

It is widely accepted today that eliminating poverty is a legitimate goal of public action, for which governments (in both rich and poor countries) typically take some responsibility. The policy responses include both direct interventions, as are often put under the heading of "social policies," and various economy-wide policies—overall policies for economic development that have bearing on the extent of poverty. (I will use the term "antipoverty policy" to embrace both sets of policies.) There are essentially three premises to the idea of such policies:

- Premise 1: Poverty is a social bad.[2]
- Premise 2: Poverty can be eliminated.
- Premise 3: Public policies can help do that.

This chapter tries to understand how these three premises came to be broadly accepted and what forms of public action emerged.

Both the differences and the similarities between today's thinking and that of the past are of interest. There are some policy debates that live on and some common themes, such as the role of incentives. However, one is also struck by the differences. Indeed, widespread (though certainly not universal) acceptance of the three premises above would appear to be relatively new. Prior to the late 18th century, the dominant school of economic thought saw poverty as a social <u>good</u>, essential for economic development. It may well have been granted that, other things being equal, a society with less poverty is to be preferred, but other things were not seen to be equal. Poverty was deemed essential to incentivize workers and keep their wages low, so as to create a strong, globally competitive, economy. Nor did the idea of what constitutes "economic development" embrace poor people as being necessarily amongst its intended

[2] Poverty can be seen as a social bad either intrinsically (a society with less poverty is preferred) or instrumentally (that a less poor society will be better at other things of value, including its overall economic performance).

beneficiaries. There was also widespread doubt about the desirability of, or even the potential for, governmental intervention against poverty. In marked contrast, poverty is widely seen today as a constraint on development rather than a pre-condition for it. And it is now widely (though not universally) agreed, across both rich and poor countries, that the government has an important role in the fight against poverty.

The chapter documents this transition in thinking about poverty and policy. Of course, the inter-relationship between thinking and action is complex, and what emerges in the policy arena depends on many things, including technology, public awareness and political economy. Nonetheless, there is a story to be told about how scholarly and popular thinking has evolved. This helps us understand prevailing views on the distributive role of the state and the specific policies adopted. The change in thinking also teaches us that the progress in knowledge both reinforces and reflects progress in development.

A natural starting point is Samuel Fleischacker's (2004) excellent *Short History of Distributive Justice*. Fleischacker defines distributive justice as a situation in which "property is distributed throughout the society so that everyone is supplied with a certain level of material means."[3] He argues that in pre-modern thought, poverty relief was largely motivated by beneficence—a matter of the donor's personal choice, not a right for poor people, and so quite distinct from justice, which emanates from the secular world of laws and taxes. Most religions see voluntary efforts to help poor people as a virtue.[4] However, such charitable relief is not distributive justice in Fleischacker's eyes. For the birth of that idea, he argues that we need to look to Europe in the late 18th century. Fleischacker describes and interprets the development of the idea in philosophical writings. However, what is largely missing from Fleischacker's history is the economics. This is important if we focus on poverty rather than justice. Nor have historians (such as Gertrude Himmelfarb 1984, Bronislaw Geremek 1994, and Steven Beaudoin 2007) give more than passing attention to the economics. And it would be fair to say that economists have paid little attention to the history of thought on poverty and inequality.[5]

[3] Aristotle is widely credited with introducing the term "distributive justice," in the 4th Century BC. However, Fleischacker (2004) convincingly argues that Aristotle had something quite different in mind to modern usage. For Aristotle, distributive justice was about assigning political rewards according to "merit."

[4] Although with differences in emphasis, both within and between religions. For example, see Sigrun Kahl's (2005) discussion of the differences between Catholicism, Lutheranism and Calvinism/Reformed Protestantism.

[5] In one of the few exceptions, Denis Cogneau (2012) discusses the evolution of thought on inequality in a development context. On the neglect of the history of thought by economists see Mark Blaug (2001).

The chapter offers an overview of how philosophical and economic thinking on poverty and antipoverty policy has evolved and the types of policies that emerged. The discussion will give less emphasis than Fleischacker on whether poor people were seen to have the legal right to assistance. States can and do ascribe legal rights, but sometimes with little more than symbolic value, given that the administrative capabilities for enforcement are weak, and especially so in poor countries. Instead, the focus here will be on whether (demonstrably or plausibly) public policy helped families permanently escape poverty, or merely offered a transient (though potentially important) short-term palliative to protect people from negative shocks. In short, the acid test for a good antipoverty policy will be whether it is aimed at both <u>promotion</u> and <u>protection</u> (applying a useful distinction made by Jean Drèze and Amartya Sen, 1989). This idea of antipoverty policy turns out to be quite recent, with origins in the late 19th century, but only emerging with confidence in the late 20th century.

The chapter begins with a simple characterization of personal wealth dynamics, which will help motivate the chapter's interpretation of past thinking about this class of policies. The bulk of the chapter falls into two parts. The first, comprising sections 3-6, traces out the history of thought from mercantilist views on the inevitability of poverty through two main stages of "poverty enlightenment," out of which poverty came to be seen as a social bad (Premise 1). The second part focuses on policies, from economy-wide policies to direct interventions. Sections 7 and 8 turn to an important aspect of Premise 2, namely the country's overall development strategy, and in particular whether poverty can be eliminated through economic growth and the role played by initial distribution. Section 9 focuses on present-day thinking on specific direct interventions (Premise 3). Section 10 draws together some implications for understanding the political-economy of the changes in thinking about antipoverty policies. Section 11 concludes.

2. Wealth dynamics and antipoverty policies

A long-standing explanation heard for poverty is that it stems from the "bad behaviors" of poor people—high fertility, laziness, or bad spending choices, such as excessive consumption of alcohol.[6] It is not that they are in any way constrained to be poor, but that they (implicitly or explicitly) chose to be poor. By this view, the role for antipoverty policy is to assure behavioral change. We will hear more of these arguments later in this chapter. However, it will be useful to

[6] See Benjamin Klebaner (1964), John Burnett (1969, Chapter 4) and Wim Van Oorschot and Loek Halman (2000).

sketch here an alternative model whereby poverty emerges from the wealth dynamics implied by the external constraints facing poor people.

By "wealth" I shall mean both human capital—the accumulated stock of past educational and health inputs, including past nutritional intakes—as well as non-human capital, such as industrial or financial capital.[7] To simplify the analysis, however, wealth is treated as a single composite asset. Initial wealth, w_t at date *t*, is distributed across individuals, some of whom have zero wealth, but may still earn some labor income, consumed fully on their survival needs in each period. A fixed share of current wealth is used for current consumption. Each person has a production function yielding output $h(k)$ from a capital stock *k*. There is a threshold capital stock needed to produce any output, i.e., $h(k) = 0$ for all $k \leq k^{\min} (> 0)$. Once the threshold is reached, output emerges in the next period, though diminishing returns start to set in immediately; in other words, the function $h(k)$ is strictly positive, strictly increasing and strictly concave for all $k > k^{\min}$. Those for whom the threshold has not been reached ($w < k^{\min}$) have no demand for capital since it will not yield any output.

There is more than one interpretation of the threshold. Partha Dasgupta (1993) provides a persuasive argument for its existence based on the biological fact of a positive basal metabolic rate (BMR), given that maintaining the human body at rest requires a (substantial) minimum food-energy intake, without which no physical work can be done. (Maintenance requirements are 60-75% of food energy intake.) Physiology entails that the set of feasible production activities for an individual is inherently non-convex. Threshold effects can also reflect non-convexities in production possibilities associated with minimum schooling needs, the nature of the production technology or from the existence of a lumpy "threshold good" in consumption.[8] In a more elaborate version of this model one would also want to allow for interaction effects amongst different dimensions of wealth, such as when poor nutritional status impedes children's learning.

There is another constraint on production possibilities stemming from credit market failures. Because lenders are imperfectly informed about borrowers, a borrowing constraint is imposed, whereby a person can only borrow up to λ times her wealth. Let k^* denote the

[7] A good typology is found in Jeffrey Sachs's (2005b, Ch.13) six types of capital that poor people lack: human capital, business capital, infrastructure, natural capital, public institutional capital, and knowledge capital.
[8] On the latter argument see David Just and Hope Michelson (2007). On other sources of poverty traps see Costas Azariadis (2006) and other papers in the collection edited by Samuel Bowles, Steven Durlauf and Karla Hoff (2006).

individual's desired capital stock. Those with wealth sufficient to produce but less than $k^* /(\lambda+1)$ have a desire to invest but are constrained in that, after investing all they can, they still find that the marginal product of capital exceeds the interest rate, given the borrowing constraint. Finally, someone who starts her productive life with sufficient wealth (greater than $k^* /(\lambda+1)$) is able to invest her unconstrained optimal amount, equating the (declining) marginal product of her capital with the prevailing interest rate *r* (the price of capital), which is taken to be fixed ($h'(k^*) = r$).[9]

The recursion diagram (the mapping from current wealth to future wealth) then takes the form depicted in Figure 1. Future wealth is zero at low levels of current wealth ($w_t < k^{\min}$). For levels of initial wealth in the interval $[k^{\min}, k^* /(\lambda+1)]$, future wealth is a strictly concave function of current wealth. At higher wealth ($w_t > k^* /(\lambda+1)$), the function becomes linear.

FIGURE 1 HERE

There are potentially three steady-state equilibria (with constant wealth over time) for each individual. Two of these, namely points A and C in Figure 1, are stable while the middle one, at point B, is unstable in that shocks will move those at B toward A or C.[10] In the long run, after repeated small shocks, the economy will settle in a state that can be thought of as having two main classes of people. One class has little or no wealth, given that its members are caught in a <u>wealth poverty trap</u>, at point A. There can be many reasons in practice why people are so trapped, including lack of any marketable skills, social exclusion, geographic isolation, debilitating disease, or environmental degradation. The second class comprises people who have settled at point C, at their respective steady-state levels of wealth (w^*). There can still be inequality within each class. There can be inequality of labor earnings amongst the poorer class, and there can be wealth inequality amongst the "point C folk," given different steady-state levels of wealth. There can be poverty even if nobody is caught in a poverty trap. The "poor" can be identified as two groups of people, namely those at point A and the poor amongst those at point C, i.e., those for whom their steady-state level of wealth turns out to be very low, even though they are not caught in a poverty trap.

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[9] In the special case in which the threshold is not binding this model is the same as that outlined in Abhijit Banerjee and Esther Duflo (2003), though with antecedents in the literature.

[10] Imagine someone at point B in Figure 1. Any small wealth gain will put her in a region of accumulation (current wealth lower than future wealth) and so the person will progress toward point C. Similarly, a small contraction will put her on a path to point A.

While the wealth poverty trap at point A is economically stable for each individual, social and political stability is another matter. The latter types of instability can arise in many ways, defying simple generalizations about its economic causes. However, it is plausible that a large mass of people at point A can threaten social stability, especially so if their labor earnings and (hence) consumptions are very low, either in steady state, or as a result of some severe shock, and in the latter case the threat to stability may well be even greater.[11]

Motivated by this stylized representation of wealth dynamics, we can think of two broad types of antipoverty policies. There can be policies that provide short-term palliatives, possibly to maintain social stability by assuring that current incomes do not fall below some crucial level, even though poor people remain poor, either because they are caught in a wealth poverty trap or they have a low steady-state level of wealth. These are purely <u>protection policies</u>. And there are <u>promotion policies</u> that allow poor people to attain the higher level of wealth needed to escape poverty. For those caught in a poverty trap, this will require a sufficiently large wealth gain to put them on a path to eventually reaching their own (higher and stable) steady state level of wealth. For those not caught in a trap, but still poor, promotion will require some combination of higher wealth and higher returns to their wealth—an upward shift in the recursion diagram in Figure 1.

The rest of this chapter will study the origins and nature of both types of policies. It will be argued that, while the idea of some public responsibility for protecting poor people from negative shocks is an old one, the idea of such a role for promotion by relieving the constraints facing poor people (either caught in poverty trap or with low returns to their wealth) is remarkably new. The latter idea came with a significant evolution in thinking about the causes of poverty. The long-standing view that the "moral weaknesses" of poor people caused their poverty implied little scope for public action to promote people from poverty, and rebuffed any calls for taxing the rich to finance such action. It was ultimately up to poor people to escape poverty by changing their behaviors. Public responsibility was largely confined to limited, and highly targeted, protection to address extreme transient poverty and some efforts at aiding the "moral reform" of poor people. While one still hears casual claims blaming poor people for their poverty today, across the globe, from the mid-19th century, though not carrying much policy

[11] In *Politics*, Aristotle (350BC, un-numbered) put the point nicely: "It is a bad thing that many from being rich should become poor; for men of ruined fortunes are sure to stir up revolutions."

weight until well into the 20th century, deeper causal understandings of poverty emerged in popular and scholarly writings. These pointed to a new promotional role for public action in fighting persistent poverty.[12] Poverty was seen to reflect in no small measure public failures, including uncorrected market failures.

3. The utility of poverty

For much of the 16th-18th centuries, when Western Europe was mired in poverty, the dominant economic theory of the time, mercantilism, saw poverty as a natural state of affairs and, indeed, instrumentally good, as a means of encouraging work effort. The mercantilist goal was to maximize a nation's export surplus—the balance of trade, which was equated with the future prosperity and power of the realm—and the means were cheap production inputs, i.e., cheap raw materials (for which Colonies proved useful) and cheap, and therefore poor, labor at home. Poverty was not just accepted, it was seen as an essential precondition for a country's economic development. Hunger would encourage work, and lack of it would do the opposite. The seemingly widely-held economic premise was that the individual supply curve for unskilled work was negatively sloped—in modern economic terms, that the income effect on demand for leisure dominated the substitution effect. As the Reverend Joseph Townsend (1786) put it: [13] "The poor know little of the motives which stimulate the higher ranks to action—pride, honor and ambition. In general, it is only hunger which can spur and goad them onto labor." (p. 23). And so: "..in proportion as you advance the wages of the poor, you diminish the quantity of their work." (p.29).

The idea of a negatively sloped labor supply curve is essentially what Edgar Furniss (1920, p. 117) later dubbed "the utility of poverty." The basis for this idea appears to have been little more than casual anecdotes; Furniss (1920, Ch.6) provides many examples from writings of the time, often with references to the attractions of the alehouse when workers got a wage increase. It was not the last time in the history of thought about poverty that casual incentive arguments resting on little or no good evidence would buttress strong policy positions.

[12] This is not to say that the change in the model of poverty caused the change in policy. To some extent, both changes shared a common causation in broader changes in the economy and society.

[13] Though little known today, Townsend's advocacy of free markets was important in the history of economic thought, with influence on subsequent thinkers (including Malthus and Darwin). For further discussion of Townsend's influence see Montagu (1971) and Lepenies (2013).

A continuing future supply of cheap labor was also seen to be crucial. Large families were encouraged and good work habits were to be instilled from an early age. Like higher current wages, too much schooling would discourage both current and future work effort. Consistently with this model, few sustainable opportunities were expected to be available to any educated children from poor families. In de Mandeville's (1732, p.288-311) mind, the only realistic future prospect for the children of laboring (and hence poor) parents was to be laboring and poor. Poor parents had little realistic hope that there children would be anything but poor; their low aspirations simply reflected and rationalized their lack of opportunity. Small amounts of schooling would have served little purpose. In this view of economic development, there is little or no prospect of reducing wealth poverty—including escaping the poverty trap in Figure 1. There was little or no perceived scope for upward mobility of working class children. They are born poor and stay poor.

Modern progressive ears may be shocked by de Mandeville's views (and like views still heard occasionally in modern times), but there may well be an element of cruel truth. His claim that a modest amount of extra schooling for working-class children is wasted is consistent with the model in Figure 1. Suppose that the poor—the working class—are concentrated at the wealth poverty trap (point A in Figure 1). A small increase in their wealth, in the form of extra human capital only sufficient to get them to the threshold (say), will not bring any lasting benefit. In due course the dynamics will push them back to point A. A large gain in schooling will be needed.

And de Mandeville's pessimism on schooling would not surprise many poor children in the developing world today. Katherine Boo's (2011) vivid description of life in a Mumbai slum includes a discussion of the choices made by Sunil, a young scavenger who spends long hours collecting whatever he can find of any value in the trash deposits around Mumbai airport. Sunil is clearly very poor. He is also clearly capable of learning, and is aware that with sufficient schooling he might escape his wretched life. But how can he finance sufficient schooling? At one point he spends a few days in a private after-hours school run by a college student who lives in the slum, and after much rote learning he masters the "twinkle-star" song.[14] Boo (2012, p.68) writes:

> "He'd sat in on [the English class taught in the slum] for a few days, mastering the English twinkle-star song, before deciding that his time was better spent working for food."

[14] "Twinkle-twinkle little star, how I wonder what you are. Up above the world so high, like a diamond in the sky."

By interpretation, the modest amount of schooling that Sunil could afford would be insufficient for him to escape poverty. He is better off addressing his current hunger.

Early social protection policies: Recall that the poverty trap in Figure 1 has people stuck at zero wealth but they still earn enough to survive (as Sunil does through scavenging). Higher wages or prices for their outputs increase their welfare, and uninsured shocks to their health (say) have the opposite effect. There is space here for social protection policies providing state-contingent income support. Such policies can exist and be seen as reasonably effective without changing the fact that poor people are stuck in the wealth poverty trap.

It has long been argued that governments have a role in social protection from shocks that threaten extreme poverty is an old one. For example, around 300 BC, the famous Indian academic and advisor to royalty, Chanakya (also known as Kautilya), recommended that when famine looms a good king should "..institute the building of forts or water-works with the grant of food, or share [his] provisions [with the people], or entrust the country [to another king]" (quoted in Drèze, 1990a, p. 75). If one thinks of antipoverty policy primarily in terms of protection from adverse events then the idea is very old indeed.

Even though mainstream economic thinking has for a long time encouraged a limited role for the state in social protection, more contentious has been the idea of promotion. In the pre-mercantilist feudal and slave economies, the employer had a responsibility for insuring workers, even very poor workers, who may well have faced exploitation, but were at least protected to some degree. (This was not necessarily altruistic in any sense; a slave owner had a purely selfish interest in keeping his property alive.) The new elites in the early development of capitalism were keen to see the state take over these roles, but consistently with their economic ideas. The status quo distribution of wealth was seen by its defenders as the outcome of natural processes, which included the competitive market mechanism, and it was not to be tampered with through policy. Persistent poverty was in the natural order of things until modern times. By contrast, transient poverty was seen as a threat to the social order. There was at least an implicit recognition of the limitations of free markets in providing insurance against risk.

The 16th and 17th centuries did see the emergence of fledgling social policies in Europe in response to rising "pauperism." There were increasing numbers of dislocated and unemployed workers and beggars in city streets. While the cause was widely seen to be the moral weaknesses of poor people, deeper explanations could be found in changes in the organization of production (including in agriculture with the break-up of feudalism) combined with greater mobility (also with implications for family support of the aged). While unemployment was not commonly identified as a cause of poverty, work was widely seen as the solution. Publicly financed workhouses were introduced around 1600 (probably the first being in Amsterdam). Welfare recipients were incarcerated and obliged to work for their upkeep. From the outset, the idea was that the workhouses would be "self-targeting," in that only the poorest would be willing to be so confined, thus providing a cost-effective means of poverty relief (Pat Thane, 2000, p.115). But the policy was also grounded in the prevailing view that poverty was caused by bad behaviors, which could be controlled and (hopefully) corrected by the workhouses. The workhouses were seen as a cost-effective policy for moral reform.

There was a strong element of protection in the workhouse idea; anyone thrown into poverty by some shock could turn to the workhouse. Was it also a promotional policy? There is not much discussion in the literature about the promotional value to poor people of the work done beyond the perceived moral value of actually doing work. Advocates might well argue that this was promotion through behavioral change. But it was clearly not promotion by relieving the constraints facing poor people.

England's Poor Laws: A major policy response to poverty emerged in Elizabethan England in the form of the Poor Laws.[15] This was a system of publicly provided insurance against income poverty due to specific sources, notably old age, widowhood, disability, illness, or unemployment. Essentially the central government instructed local parishes to deal with their poverty problem. As a system of protection, the Poor Laws were quite comprehensive and came to be reasonably generous in some places.[16] Arguably the pinnacle of the Poor Laws was the Speenhamland System of 1795 introduced by the justices of Berkshire. This aimed to assure a guaranteed minimum income through a sliding scale of wage supplements indexed to the price of bread (Ashley Montagu, 1971; Himmelfarb, 1984a).

The antipoverty programs elsewhere in Europe around this time relied heavily on charitable giving and so faced free-rider problems; levels of church and private spending on transfers to poor people were low—well under 1% of national income in most countries (Peter Lindert, 2013). In contrast, the disbursements under the Poor Laws in England and Wales were

[15] On the history of the English Poor Laws and their influence see Mencher (1967), Boyer (2002) and Hindle (2004).
[16] Peter Solar (1995) cites evidence that aggregate disbursements reached 2% of England's national income by the late 18th century.

largely financed by local property taxation. There was evidently some displacement of private charity, though the latter continued to exist (Steve Hindle, 2004; Lindert, 2013). But there can be little doubt that the Poor Laws entailed a net gain in social protection. By the late 17th century almost all parishes of England and Wales were covered and, under the "Old Poor Laws" up to the 19th century, all persons were eligible for relief. (New Poor Laws came out of reforms in the 1830s, which I return to.) The parishes had the responsibility for implementation, subject to monitoring by central authorities. Being based in the parishes was convenient but possibly never ideal, as they provided limited scope for pooling risks, and there was undoubtedly considerable horizontal inequity (whereby equally poor people in different parishes fared very differently).[17] Nor could these policies ever be expected to have much impact on the steady-state wealth distribution. However, it is clear that the Old Poor Laws did provide a degree of protection from risk, and it has been argued that they helped break the historical link between harvest failures and mortality (Morgan Kelly and Cormac Ó Gráda, 2010; Richard Smith, 2011).

The Poor Laws appear to have helped assure a relatively docile and sustained working class, and with little threat to the steady-state distribution of wealth. Solar (1995) argues that the Old Poor Laws were crucial to England's long-term social stability, including in periods (such as the late 18th century) of concern about the possibility of the dramatic instability in France spilling across the English Channel. Broad political support was assured by the fact that anyone could get relief if needed. For example, widowhood was a threat to many of those who would not normally expect to turn to the parish for relief.[18] As novels of the time often pointed out, even the well-to-do upper middle class family could be vulnerable to poverty (a favorite theme of Charles Dickens).

Fleischacker's (2004, p.51) discussion of England's Poor Laws argues that they were motivated by the "...virtue of charity rather than the virtue of justice," and as such they did not constitute the beginnings of the modern role for public policy in assuring distributive justice. One can conjecture that the motivation for the Poor Laws was at least as much to do with maintaining social stability as charity or justice. However, whatever may have been the motives of policy makers, the Poor Laws constituted a legally enforceable state policy for limited relief

[17] Hindle (2004) notes the large geographic differences in pensions, depending on the economic circumstances of the parishes.
[18] Widows were listed as eligible for relief from the earliest Poor Laws, and they are mentioned often in the literature; for example, Hindle's (2004) discussion of parish archival information related to the Poor Laws mentions widows 75 times.

from the specified events, financed by redistributive taxes. And parish residents (though not outsiders) had a legal recourse under the Poor Laws, which is why they could help assure social stability over some 300 years (Solar, 1995). Against Fleischacker's interpretation, it seems that the Poor Laws came very close to being a pre-modern example of policies to help assure distributive justice.

However, an aspect of the Poor Laws that should not be ignored is that they were clearly intended for protection rather than promotion. This was an early form of social insurance intended for a world in which the poor and the middle-class faced many uninsured risks associated with uncertain employment, health crises, harvest failures and simply bad luck (Hindle, 2004). Such risks may well spill over into production, with adverse long-term consequences. It has been argued that the Poor Laws did have benefits for longer-term promotion from poverty by enhanced insurance against risk (Solar, 1995; Smith, 2011). By assuring greater social stability, this too would have brought longer term gains. However, it is clear that this was promotion attained <u>via</u> protection. Protection was clearly seen as the main aim of the Poor Laws. Critics of the Poor Laws such as Townsend (1786) were concerned that they had created dependency, when their only legitimate role was as a short-term palliative.[19]

Instead of focusing on whether the motivation was charity or justice, the more important reason why the Elizabethan Poor Laws, or Chanakya's famine relief policy, did not constitute a comprehensive antipoverty policy is that these policies were unlikely to change the steady-state distribution of the levels of wealth. In terms of the model in section 2, what these policies were doing was preventing the consumption levels of those either stuck in the wealth poverty trap or settled at some low steady state level of wealth from falling too much. They provided them a degree of protection, but did little to help them permanently escape poverty. By the economic logic of the mercantilists, hunger was a good thing, as it motivated poor people to work, with social protection playing a limited and well-defined role. After all, just like the slave owner, one must keep the workers alive.

By the late 18th century, a significant change in thinking was underway.

[19] Also see the discussion in Lepenies (2013).

4. The First Poverty Enlightenment

The incidence of poverty had clearly been increasing for some time in Britain and much of Europe in the latter part of the 18th century, due mainly to falling real wages (Rufus Tucker, 1975; Allen, 2001). In Europe and North America, there was mounting concern about prospects for social instability and even rebellion amongst the working class. There was also frustration amongst the middle class about the constraints they faced on their upward mobility. And there were clearly some gaping weaknesses in the prevailing mainstream intellectual defenses of the status quo. Inherited inequalities of opportunity and manipulated non-competitive market processes (sometimes facilitated by government) started to be seen as playing an important role in determining the distribution of wealth, casting doubt on claims that the status quo distribution was some purely natural order emerging from free markets.

The masses started to question longstanding excuses for the deprivations they faced. Of course, there had been sporadic pro-poor protest movements before. For example, there was the (short-lived) "Levellers" movement for suffrage and religious tolerance in mid-17th century England, during the Civil War period (Christopher Hill, 1972). But the late 18th century saw both new thinking and more widespread demands for change across Britain, Europe and America. Popular politics flourished in the cafes and alehouses of London, Paris and elsewhere in Europe in the late 18th century.[20] The historian Crane Brinton (1934, p.281) identifies the "essential characteristic" of the change in ideas in the last decade of the 18th century in Europe as the transition from the view that "…life on this earth is a fleeting transition to eternity, that such life is inevitably one of misery" to "…an assertion of the possibility of the harmonious satisfaction here on earth of what are assumed to be normal human appetites." There was a new mass awareness of the scope for economic and political institutions to serve the material needs of all people. Political representation, notably suffrage, was widely seen to be the key. There was a new questioning of established social ranks, famously so in France in the latter part of the 18th century. *The Marriage of Figaro* by Pierre Beaumarchais (1778) had Parisian audiences taking side with the servants in laughing at the aristocracy, and deeply questioning their privileges.[21]

[20] The Proceedings of the Old Bailey (2012) contains descriptions for London; an example was the "London Corresponding Society," founded in 1792, and dedicated to expanding working class political representation.
[21] For example, in the fifth act, the servant Figaro asked of the Count who employed him: "What have you done to deserve such advantages? Put yourself to the trouble of being born—nothing more. For the rest—a very ordinary

The three words that best capture the spirit of the period are "liberté, égalité, fraternité"—the motto of the French Revolution (and adopted as France's national motto in the late 19th century). While the first few decades after the French Revolution hardly lived up to these lofty words, and the suffrage that emerged was largely confined to men with property, there can be little doubt that the underlying ideas had lasting impact. "Liberty" was understood in a way consistent with modern usage (as in, say, John Rawls, 1971), in that the individual was deemed to have whatever freedoms were consistent with like freedoms for others. "Equality" was not, however, understood as equality of outcomes but was defined in terms of legal rights of opportunity—that the law must be the same for everyone and so allow all citizens equal opportunity for public positions and jobs, with the assignment determined by ability. There was little immediate sign of a perceived role for the state in redistribution of rewards, although some calls for this did start to emerge in the 1790s with the left-wing Jacobin Club and (in particular) François-Noël ("Gracchus") Babeuf.[22] However, if there was hope for poor people in the mainstream ideas of "liberté, égalité, fraternité," then it was more in "fraternity" than "equality;" as Brinton (1934, p.283) explains:

> "Fraternity had meant to the hopeful eighteenth century the outpouring of its favorite virtue, benevolence, upon all human beings, and especially on the downtrodden and the distant—on peasants, Chinamen and South Sea Islanders."

Similar views were being heard in America where advocates of a strong state role in fighting poverty saw this as an essential element of what it meant to be "a great friendly society" (Alexander Everett, 1827, quoted by Klebaner, 1964, p.394).

New philosophical and economic thinking from the mid-18th century had opened the way to this Poverty Enlightenment in the last few decades of that century. Significant cracks had started to appear in mainstream views on the role of the state in influencing distribution. A key step in philosophical thinking was the rejection of the view that prevailing inequalities were inevitable. The social contract approach that emerged in the 17th century (often attributed to Thomas Hobbes) asked a fundamental question: how should we decide what constitutes good

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man!" While the play was written in 1778 it was censored by King Louis XVI and did not play until 1784. It is widely seen as a precursor to the French Revolution.

[22] Fleischacker (2004) gives credit for anticipating the modern concept of distributive justice to Gracchus Babeuf, though also giving credit to the German philosopher Johann Fichte, a follower of Kant. (A seemingly odd pair: Babeuf is considered a founder of Communism, and was executed in 1797 for his rebellious left-wing ideas, while the anti-Semitic Fichte is considered a key influence on the National Socialist movement in Germany.) However, de Montesquieu (1748) appears to have beaten both to the honor.

government? In modern terms, this is a question of evaluation, and the relevant counterfactual was a "natural state" in the absence of government. Like all counterfactuals, the natural state was unknown and open to debate.[23] Hobbes argued that it would be a state of conflict, of "all against all." The question was taken up again in the late 18th century by Rousseau, who opened up an important new strand of thinking about the distributive role of the state. In his *Discourse on the Origin of Inequality* Rousseau argued that, while self-interest was a motivation in the natural state, so too was empathy for the situation of others.[24] Human institutions, however, can develop to either support or thwart our natural empathy. Rousseau thus saw poverty and inequality as stemming in no small measure (though not solely) from bad institutions—social arrangements that created "..different privileges, which some men enjoy to the prejudice of others, such as that of being more rich, more honored, more powerful or even in a position to exact obedience." Here Rousseau made a key step in recognizing the role played by institutions, including governments, in influencing distribution.[25] Poverty was not then inevitable.

Prominent philosophical writings called for respect for poor people as fellow citizens. Immanuel Kant (1785, p.62) put forward the idea that every rational human being must be treated "as an end withal, never as means." This was indeed a radical idea, which gave poor people the same moral worth as rich people. Of course there was some measure of respect for poor people even in (say) de Mandeville's earlier writings, but it was a respect for their labor, consistent with the role assigned to them by their birth. They were merely the means to an end. In Kant, by contrast, there was respect for all rational agents, whatever their economic circumstances. This was an essential step for both political equality and comprehensive antipoverty policy, although both were still a long way off.

A long-standing view—often attributed to Cicero in Ancient Rome—distinguished justice from beneficence, with only the former entailing a role for the state (Fleischacker, 2004, Ch.1). Local religious organizations had long been charged with the beneficence role. One crack was opened up by Kant. Theologies have long applauded charity as virtuous. Kant questioned

[23] Jean-Jacques Rousseau (1754, 11) put the point nicely: "The philosophers, who have inquired into the foundations of society, have all felt the necessity of going back to a state of nature; but not one of them has got there."
[24] Rousseau was writing prior to Darwin. Scientific research on animal behavior has revealed strong social and empathic behaviors (Frans de Waal, 2009), suggesting deeper origins for human sociability. It has also been argued that (recently discovered) mirror neurons are the neural foundation of such behavior; see, for example, Christian Keysers (2011).
[25] Rousseau allowed for the existence of what he termed "natural inequality," which would exist in the counterfactual "natural state." Natural inequality reflected innate differences (health, strength, mental ability).

this, arguing that there was an inherently unequal relationship between giver and receiver in charity for poor people and so questioned whether it was "virtuous" to give alms that flatter the giver's pride:

> "Kant sees moral corruption in the private relationships by which well-off people bestow of their bounty to the needy and looks to the state to provide for a more respectful relationship between rich and poor." (Fleischacker, 2004, p.71)

Such challenges to established thinking about beneficence paved the way for much public debate in Europe and America on the role of the state in fighting poverty and in distribution more broadly, and an eventual shift of responsibilities from religious organizations to the state.

Economic thinking was also advancing. Adam Smith (1776) lambasted the mercantilist view that a country's economic welfare was to be judged by the balance of trade. This had long been questionable (not least for ignoring corrective adjustments through price changes).[26] By arguing for a broader conception of welfare based on the population's command over commodities (including basic consumption goods, not just luxury goods, and also including leisure), Smith opened the way to seeing progress against poverty as a goal for development, rather than a threat to it.[27] Similarly, he argued that higher real wages for workers was a good thing, also in contrast to prevailing mercantilist views (Smith, 1776, Book 1, Ch.8).

Smith saw the virtue of self-interest—though he did not see it as the sole motive for human behavior (Smith, 1759, Ch.1, I.I.1)—but only in so far as it advanced social welfare, which depended crucially on the institutional context. And gone was the "utility of poverty" with its negatively sloped individual supply function.[28] Despite the popular characterizations of Smith's non-interventionist views in the 20th century (Emma Rothschild, 2001), he argued in favor of promotional antipoverty policies, such as limited public subsidies to help cover tuition fees for the basic schooling of the "common people" (Smith, 1776, Book V, Ch. I, Article 2d). However, on this and other social issues, Smith was evidently far more progressive than most of his peers. (Note that Smith was writing at roughly the same time as Joseph Townsend, say.)

The changes in popular and scholarly thinking around this time came with implications for ongoing policy debates relevant to income distribution. One such debate was on whether

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[26] See Blaug's (1962, Ch.2) discussion of Smith and the mercantilist doctrines.
[27] See the discussion in Jerry Muller (1993, p.58). Also see Himmelfarb's (1984a,b) discussion of Smith's views relative to others around the same time.
[28] "Where wages are high, accordingly, we shall always find the workmen more active, diligent, and expeditious, than where they are low" (Smith, 1776, p.72)

income taxes should be progressive and whose incomes should be taxed.[29] The milieu gave impetus to arguments for redistributive taxation. Smith had strongly favored exempting subsistence wages, as did others subsequently, including those who favored proportional taxes above the exemption—implying a progressive tax system overall.

Another policy debate concerned the distribution of the gains from natural resources, notably agricultural land. In a pamphlet (addressed to government of the new French Republic, but with broader relevance), Thomas Paine (1797) argued that agricultural land was "natural property," to which every person had a legitimate claim. There was, nonetheless, an efficiency case for its private ownership. So instead of being nationalized, agrarian land should be subject to taxation—a "ground rent," the revenue from which should be allocated equally to all adults in society, as all have a claim to that property. (He also made provision for an additional old-age pension.) And this was (explicitly) not to be seen as charity but as a right. Paine's proposal was a comprehensive antipoverty policy; indeed, it appears to have been the first "basic income scheme"—an idea we return to in Section 9, but which has not yet seen national implementation in any country.

An important prelude to the eventual emergence of promotional policies came with new thinking on the importance of schooling; "Illiteracy had become a stigma instead of an ordinary accompaniment of humble life" (Brinton, 1934, p.279). Condorcet, the late 18th century French philosopher and mathematician, advocated free universal basic education (though warning against the state instructing on moral or political matters, as he greatly valued diversity in views); Condorcet also advocated equal rights for women and all races (Gareth Stedman Jones, 2004). However, these were still radical ideas, well ahead of implementation. The classical economists who came to dominate thinking about policy in the 19th century also saw education as having the potential to make economic growth more poverty-reducing, notably by attenuating population growth through "moral improvement." But they did not see mass education as having a role in promoting that growth, and saw little scope for mass public education (Blaug, 1962, p. 216).

An important contribution of the First Poverty Enlightenment was in establishing the moral case for the idea of public effort toward eliminating poverty. That moral case developed out of a new respect for hard-working poor people, as people, on the part of the elites—what Frans de Waal (2009, p.116) calls "emotional identification." Important new progressive ideas

[29] Richard Musgrave (1985) reviews the history of this and other debates in public finance.

emerged in the writings of Smith, Rousseau, Kant, Fichte, Condorcet, Babeuf and others. However, we were still a long way from the three premises identified in the introduction. While the First Poverty Enlightenment brought new thinking relevant to antipoverty policies it did not mark any dramatic change in the lives of the poor, and they were still being blamed for their poverty, which persisted into the 19th and 20th centuries.[30] Except for relief under the Poor Laws in England and Wales, neither private assistance nor public support for poor people showed any marked rise in Europe, from their relatively low levels (Lindert, 2013). The main economic beneficiaries of the First Poverty Enlightenment were probably in the middle class, who could now aspire to sources of wealth and power they had been excluded from.

5. The long germination of the idea of a world free of poverty

While mercantilist ideas lost influence with the emergence of classical economics, mainstream thinking in the 19th century still held out little prospect for a world free of poverty. A new growth path had emerged, starting in England toward the end of the 18th century, stemming from the technical innovations of the industrial revolution. However, at the time, it was not widely believed amongst either supporters of capitalism or its critics that workers would share much in this new growth process. (As we will see in section 7, their pessimism on this point was excessive.) Well beyond the start of the industrial revolution, poverty seemed as plentiful as ever. Social novels (such as Dickens's, 1838, *Oliver Twist*) and qualitative observational studies (such as Friedrich Engels, 1845) described the poor health environments and harsh working conditions of English industrial cities in the mid-19th century. Descriptions of working-class diets in England around this time suggest levels of living that would almost certainly be considered "poor" in any developing country today (Ravallion, 2015).[31]

The economics of the time appeared to offer little reason to be hopeful about progress against persistent poverty. The classical theories of wage determination allowed the possibility of a short-term rise in real wage rates through an upward shift in the aggregate demand for labor associated with technical progress. However, the induced growth in the size of the working class

[30] See, for example, Klebaner's (1964) descriptions of views of poverty in 19th century America.

[31] For example, John Burnett (1969, p. 273) writes that: "The diet of agricultural laborers in mid-century, as of the poorest urban workers throughout the century, consisted essentially of bread—usually white rather than brown because this was more palatable without butter—potatoes, small quantities of tea, cheese and sugar, and meat perhaps once or twice a week."

due to higher earnings—due either to higher fertility or lower child mortality—would soon bring the wage rate back down to the subsistence level. Thomas Robert Malthus is famous for this argument, but a version is also found in Smith (1976, Book 1, Ch. 8). The induced population growth that was central to such Malthusian dynamics was seen to reflect the "moral weaknesses" of poor people. As Agnar Sandmo (2013) notes, the idea that population growth would assure that real wages would stay constant despite technical progress was widely held even to the end of the 19th century; see, for example, the writings of Knut Wicksell (1901). The economics was hardly conclusive; lags in the population response and repeated shifts in aggregate demand for labor with technical progress could still yield a secular rise in real wages. The choice-theoretic foundations of the assumed income effect on family size were never clear, but a seemingly common view was that, for poor parents, children were a form of saving for the future. The child wage rate was the return to that saving (net of maintenance costs). A higher wage rate would then be expected to increase the demand for children, thus increasing future labor supply. The classical schema was seen to point to seemingly powerful demographic correctives that would tend to inhibit progress against poverty in a growing economy.

Nor did the most influential classical economists after Smith offer much support for direct public interventions to fight poverty. Indeed, Malthus and David Ricardo were positively hostile to the idea of antipoverty policy, with incentive arguments figuring prominently. Such policies would discourage work effort and savings and (it was claimed) create poverty rather than remove it. Again, the behaviors of poor people were faulted by the elites.[32]

Here too it is hardly evident that the economics was decisive one way or the other. Indeed, Malthus (1806) acknowledged that better health and education for working class families could break the brutal population corrective to rising real wages. But, the main interpretation given to the economics of the time was hostile to such policies. In no small measure, this was the intellectual rationalization of a political backlash against the First Poverty Enlightenment, notably amongst the elites in England resisting the new liberal ideas that were spilling over the Channel from France.

The debate on the Poor Laws: By the early 19th century a major public debate began about the Poor Laws (though there had been debates on poverty relief back to at least the late

[32] Benjamin Klebaner (1964) points to official claims that 75-90% of pauperism in the US in the 19th century was due to intemperance. Also see John Burnett (1969, pp. 274-276) on similar arguments in England.

17th century). A strong political push for reform came from the landlords, who were financing relief under the Old Poor Laws and dominated the English parliament around this time, and were (it seems) no longer worried about impending revolution (Lindert, 2004, Ch.4). The backlash against the poor laws often invoked incentive arguments, and England's classical economists were widely cited by critics of the Poor Laws, including in America (Klebaner, 1964).

This was a significant debate in the history of thought on poverty. For some time, powerful critics had been concerned about the overall cost of the policy. Labor migration in response to industrialization had meant that local landlords were left financing a rising support bill for children and the elderly (Solar, 1995). Nor was work found by all, and unemployment was causing many in Europe and America to turn to the state for help. But these were not the explanations for the rising relief bill that gained favor. Observers such as Alexis de Tocqueville (1835) (in a memoir reporting on a visit to England with the aiming of understanding why there were so many paupers despite the country's affluence) argued that the Poor Laws were a disincentive to work, such that they helped create the poverty problem they aimed to solve. Prominent classical economists, including Malthus (1806, Chapters 5 and 6) and Ricardo (1817), argued for either abandoning the Poor Laws or at least reforming them to assure better targeting.[33] In an influential earlier pamphlet, *A Dissertation on the Poor Laws*, Townsend (1786, p.17) wrote that: "These laws, so beautiful in theory, promote the evils they mean to remedy, and aggravate the distress they were intended to relieve." Assumptions about incentives were the core of Townsend's argument. Public relief from chronic hunger would discourage work, and the fiscal burden on the landholding class would discourage the growth of manufacturing and innovation in agriculture (Townsend, 1786, Section V). Ricardo (1817, p.61) predicted (plainly with huge exaggeration) that the cost of the Poor Laws would rise out of control, that "whilst the present laws are in force, 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." Malthus argued that the Poor Laws encourage early marriage and high fertility (though counter arguments could also have been made that assured old-age support would reduce fertility). Moral hazard appears to have been a concern, whereby assistance to those who took high risks, and lost out, would encourage excessively risky behavior. The Poor Laws came to be seen by many as a cause of poverty rather than its cure. Similar debates were

[33] See the discussion of the views of Malthus and Ricardo on this topic in Sandmo (2013).

also going on about America's poor laws, with calls for reforms to cut their rising cost (Klebaner, 1964).

However, the evidence base was clearly weak for the claims that behavioral responses to the laws were an important cause of the poverty they tried to address. The evidence appears to have been largely based on easily manipulated anecdotes and characterizations, with plainly weak claims of attribution; for example, was the claimed high incidence of intemperance a cause or effect of poverty? Nor was there much recognition that non-intervention could be socially costly too—that problems of heterogeneous risk and asymmetric information could entail that the private insurance was unavailable,[34] and that uninsured risk could spill over into production and investment decisions of poor people in ways that can impede longer-term prospects of escaping poverty. For example, against the concerns that relief would reduce labor supply, Solar (1995) argues that the Old Poor Laws had the opposite effect, by providing the security against the risk of unemployment for smallholders considering whether to become laborers instead. The type of model outlined in section 2 (Figure 1) motivates social protection even for people at their "high" steady-state equilibrium (point C in Figure 1). For imagine someone at that equilibrium receiving a sufficiently large negative shock to push them just past the unstable equilibrium. There will be no chance of recovery, and destitution will be the inevitable result. Lack of insurance could well have been a more important reason for poverty than too much insurance.

While incentive effects and dependency were a legitimate concern, the economic arguments against England's Old Poor Laws may well have been exaggerated to serve political ends (and it was not the first or last time this happened). The "evidence" was weak and the arguments were somewhat one-sided, with many potential economic benefits ignored.

Significant reforms to the Poor Laws were implemented in 1834 (including repeal of Speenhamland). Spending was slashed, from a peak of about 2.5% of national income around 1830 to 1% in 1840 (Lindert, 2013, Figure 1). Wider use was made of workhouses. These had long existed and by the late 18th century, 1-2% of the population of London was seeking relief in some 80 workhouses.[35] Their role expanded under the reform effort to assure better targeting and

[34] This economic argument for social insurance was not well developed in the literature until much later, notably by Michael Rothschild and Joseph Stiglitz (1976).
[35] See the entry on workhouses in London Lives 1690-1800. Also see in Hindle's (2004, p.176) discussion of the use of encouragements to work under the Old Poor Laws, whereby the Church vestry often became a "job-creation service" (p. 176). Workhouses existed elsewhere in Europe including Holland where they were introduced in Amsterdam around 1600 (Beaudoin, 2007, p.48).

the new 19th century workhouses appear to have been even more unpleasant and punitive places than in the past (described well in London Lives). Earnings in the workhouse were never to exceed local wages (Beaudoin, 2007, p.80). The policy became better targeted, but it lost the broad public support of the Old Poor Laws, and (indeed) became the subject of intense social criticism. By confining beneficiaries to workhouses, the reformed policy was seen by critics to treat poor people as criminals. The conditions under which inmates were kept became a specific focus of criticism, famously so in the early chapters of Dickens's (1838) *Oliver Twist*. And the criticisms (which started almost immediately) of the New Poor Laws were not just confined to social critics, but reached deeply into the leading circles of the Conservative Party, including Benjamin Disraeli (Himmelfarb, 1984a,b).

Utilitarianism: Social contract theory, with its emphasis on rights and freedoms, lost ground in the 19th century to a rival school of thought, utilitarianism. This also emerged in the late 18th century and over the next 200 years came to have great influence on normative economics—indeed, it became the "official theory of traditional welfare economics" (Sen, 2000, p. 63). Jeremy Bentham, the founding father of utilitarianism, was motivated by practical policy reform, and this led him to reject ideas like "natural rights." (Frederick Artz, 1934, p.83, quotes him as describing the *Declaration of the Rights of Man and of the Citizen* as "a hodge-podge of confusion and absurdity.") Instead, utilitarianism advocated that social choices should maximize the sum of utilities across all individuals, where "utility" was equated with "happiness." Assuming diminishing marginal utility of income this objective generated a case against income inequality, since the marginal losses to rich donors of any mean-preserving transfer would be outweighed by marginal gains to poor recipients. This did not, however, open the floodgates of redistributive interventions. Assuming diminishing marginal utility of income and a common utility function only implied that equality of incomes was optimal if total income was invariant to its distribution. The case was unclear if income redistribution lowered overall output, as Bentham expected to be the case. Even aside from incentive effects, merely introducing inter-personal heterogeneity (such that the utility valuation of a given income level varies) upsets the claim that an equal allocation of income maximizes social welfare though this point did not seem to get the same attention as the growth-equity trade-off.

Bentham and followers had seen government as a necessary evil, and put any actual or contemplated policy effort to the utilitarian test. Some of the literature has (derisively) characterized this as a period of "laissez-faire," although to an economist's eyes it was a welcome discipline in sound policy making, to assure maximum social welfare. The real issue was what one meant by "social welfare." The influential rights-based thinkers on policy prior to the utilitarians, such as Condorcet, would no doubt have also advocated higher social welfare, but rejected any attempt to equate welfare with "happiness" or "utility" (Rothschild, 2001).

By the mid-19th century it was becoming accepted in prominent progressive circles that the state did have a role in "..redressing the inequalities and wrongs of nature" (John Stuart Mill, 1848, p.805). Even so, it is clear that poverty was still widely accepted as a normal state of affairs. Poor people were still being blamed for their poverty (notably by their reproduction) and there was little role for the state. Even protection was increasingly "targeted" to extreme cases. The best that could be hoped for was that workers would somehow come to see the wisdom of curtailing their desired family sizes. Even amongst the most progressive utilitarian voices of the time (such as Mill), the closest one came to promotional policies would be to point to a role for education of the working class in reducing population growth, but with a strictly limited role for the state.

Schooling debates: Children from poor families typically started their working lives at an early age; while the evidence is patchy, it was common prior to the mid-19th century for working-class children in England to start looking for work from seven years of age (Hugh Cunningham, 1990). The survival of the family often demanded that every able-bodied person worked. Any skills required would only be those that could be passed on by the family. Idle poor children were abhorrent to the rich; work was the only solution. Child labor was not only condoned but widely seen as desirable; unemployment of poor children was the bigger social problem (Cunningham, 1990). The idea of mass public schooling appears to have had little support. Indeed, echoing de Mandeville's views, a common view was that mass schooling was wasteful, and even dangerous. By the middle of the 19th century some 40% of children aged 5-9 in England and Wales were still not in school.[36]

Nor was the state deemed to have an important role in the schooling that was provided. Prior to the 19th century, and well into that century in some countries (including England), almost all schooling received by children from poor families was by religious groups. The system of

[36] This is based on the 1851 census (as reported in Cunningham, 1990, Table 1) 39% of boys and 44% of girls in this age group were not classified as "scholars" (the alternatives being employment or "at home"). The subsequent spread of literacy was also highly uneven geographically (Stevens, 1998).

voluntary schooling in England and elsewhere in Europe was clearly highly stratified and unequal. Schooling by religious groups had a mixed record. In England, the church resisted any public role in provision, yet also left much unmet demand (Lindert, 2004, Ch. 5). The debate on mass schooling opportunities continued in England until quite late in the 19th century, and the country lagged much of Europe and North America in schooling attainments, despite its wealth.

Poor families did not always see Church schools as being in their interests. Informal private schools were often more promising for those who could afford them. James Van Horn Melton (1988, p.11) describes the "backstreet schools" in Austria and Prussia that offered more efficient instruction "subordinating religious instruction to the goal of imparting literacy to their pupils" and it appears that these were often favored by poor parents keen on their children's efficient learning and eventual employability; with reference to Prussia, Van Horn Melton (p.11) writes that: "… backstreet schools offered poorer families a more cost-effective means of acquiring literacy." This echoes observations of the "backstreet schools" found throughout India today, reflecting evident failures of the state-run schooling system (Probe Team, 1999).

A change in popular views about schooling for poor families started to be evident in much of Europe and North America in the mid-19th century. Mercantilism had lost its influence, and the Classical Economics that replaced it was not opposed to promotional policies such as public schooling—policies that were capable of a pro-poor change in the distribution of wealth. The working conditions of children in the factories of the time provided fuel for social novels and for the increasingly vocal critics of capitalism, most notably Karl Marx and Engels. Prominent calls started to be heard for improving the working conditions of children and for schooling as the better way to address their unemployment. Schooling for poor children came to be seen as key to their self-improvement and mobility. Mass schooling was also seen to have external benefits, such as through reduced crime.

National legislation for compulsory schooling had only emerged in a few countries (including Austria and Prussia) toward the end of the 18th century, but was becoming widespread in Europe and North America by the late 19th century.[37] This followed a protracted public debate in Britain, Europe and North America during the 19th century (Myron Weiner, 1991, Ch. 6). While there are some who argued against almost any intrusion by the state into private decision

[37] There were some progressive local initiatives for mass schooling, such as Massachusetts in the late 17th century (Weiner, 1991, Ch.6).

making,[38] this does not appear to have been the main argument of opponents. Mill's (1859) influential volume *On Liberty* argued that the state had a role in compelling parents to school their children, although Mill did not favor government monopoly in the provision of that schooling. Opponents had long argued that schooling the poor would lead them to unrealistic aspirations (Maris Vinovskis, 1992). As one would expect, the industries that were heavily dependent on child labor lobbied against compulsory schooling although over the course of the 19th century industrial capitalists became more supportive of mass schooling, to assure the more skilled workforce needed for new technologies (Bowles and Gintis, 1976, with reference to the U.S.). However, this was not simply a matter of schooling catering to the needs of new technologies under capitalism; the debates about schooling were broader socially and it is not clear that industrial capitalists had that much (Vinovskis, 1992). Poor parents and local communities were also increasingly vocal in their demands for mass public schooling. It seems that by the latter half of the 19th century the earlier unrealistic aspirations of poor parents for a better life for their children had started to become more realistic. There were also administrative constraints on enforcement to overcome; it was not until birth registration systems had been developed around the mid-19th century that truancy laws could be properly enforced (Weiner, 1991, p.121).

Socialism: Carl Landauer (1959) identifies the widespread acceptance of poverty in the 19th century as one of the factors that led to the emergence of socialism. The leading school of socialist thought, Marxism, saw the root cause of poverty, and most other ills, to be capitalism itself. There was little scope for effective antipoverty policies <u>within</u> a capitalist economy; only Communism could reliably eliminate poverty. Nor was much value attached to past philosophical and economic thought on poverty. For example, Marx was as disparaging as Bentham about talk of "rights."[39]

Even so, it is notable that at least a couple of the demands outlined in the *Communist Manifesto* of Marx and Engels (1848) can be recognized today as quite mainstream antipoverty policies, including progressive income taxation and free education in public schools. Fleischacker (2004) identifies one key influence of Marx's thinking on subsequent non-Marxist

[38] In the US one occasionally hears arguments that compulsory schooling is unconstitutional, the reference being to the anti-Slavery amendment introduced near the end of the Civil War on the grounds that (it is claimed) compulsory schooling is "involuntary servitude." See here, for an example.
[39] Fleischacker (2004, p.9)7 quotes Marx as calling appeals to "rights" as "ideological nonsense."

thinkers, including Rawls, namely his insistence that human nature was largely a product of social context. Instead of seeing poverty as the outcome of individual attributes (being lazy is a favorite in some quarters), one should look to social influences on behavior. Of course, this idea also had pre-Marxian antecedents, notably in Rousseau.

Social research: Much new research on social problems was emerging in the 19th century, and poverty was increasingly seen as a social problem. Social research was used to promote better informed public debate on antipoverty policy. Important contributions included Sir Frederick Eden's (1797) three volume tomb on poverty in England and Wales in the late 18th century, Henry Mayhew's (2008) newspaper reports on London's poor in the 1840s, Frederic Le Play's budget studies of working class families in Europe in the mid-19th century (Michael Brooke, 1998), Mathew Carey's use of data on budgets and wages of poor people to "startle the complacent into giving alms" in Philadelphia in the 1830s (Klebaner, 1964, p.384) and the work of the German statistician Ernst Engel (1857) studying the relationship between household food expenditures and income, in which he found what came to be known as Engel's Law, namely that the poorer a family is the higher the share of its budget devoted to food.

Landmarks in the development of modern scientific research on poverty were the (largely independent) studies by Charles Booth (1903) and Seebohm Rowntree (1902), documenting the living conditions of England's poor (in London and York respectively) in the late 19th century. These were pioneering measurements using seemingly careful household surveys that revealed to non-poor people how poor people lived. Their work attracted much attention.[40] The English public was shocked that one million Londoners—about one third of the population—lived below Booth's frugal poverty line of 21 shillings per week for a family. This news came after a period of rising real wages, which added to the shock. Nor could it be said that this was too generous a poverty line. By my calculations it was equivalent to 1.5 pounds of good wheat per person per day—a frugal line, not very different to (say) India's poverty line in the 1990s.[41]

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[40] Booth is often credited with inventing the poverty line. There were also antecedents to the idea of the poverty line in Booth and Rowntree, including the "standard of comfort" proposed by Davies 100 years earlier (Allen, 2013).

[41] Marshall (1907) estimates that 21 shillings was equivalent to three-quarters of a bushel of good wheat. At 13.5% moisture by weight a bushel of wheat weights 60lb according to the Wikipedia entry on "bushel." I assume a household of 4.5 people, which is the lower bound of the range 4.5-5 given by Booth (1993, Chapter 4) for the average size of working men's families at the time. Booth's line is thus equivalent to slightly less than 700gms of wheat per person per day. Of course, this is just the wheat equivalent. A reasonable dietary breakdown would be 400gms per person for wheat and the remainder for meat, vegetables and (very minimal) non-food needs. This then is similar to India's national poverty line in 1993, which World Bank (1997) calculates to be equivalent to a daily food bundle per person of 400gms of coarse rice and wheat, 200gms of vegetables, pulses and fruit, plus modest

Booth's research responded to a demand for clarity and data amongst legislators. His empirical research into old-age poverty and its geographic variation influenced Britain's introduction of a public pension in 1908 (Thane, 2000, Ch. 9) and national insurance in 1911 (Himmelfarb, 1984a,b). The research of Booth and Rowntree also stimulated debates about poverty. For example, 15 years after Booth's books appeared, Alfred Marshall was argumentatively claiming that there was even more poverty in Germany than Booth's figures suggested was the case in England; this was in response to Marshall's (1907, p.12) perception that "one of the few things which every German knows for certain about England is that there are a million people in London living in extreme poverty on the verge of hunger."

The close observational studies of poverty by Booth and Rowntree were influential in social science research. Robert Hunter (1904) followed their lead in studying poverty in the US. Village studies in India by Mann and collaborators were influenced by Booth and Rowntree (Daniel Thorner, 1967). A long and distinguished tradition of quantitative-economic studies of selected villages followed, including surveys by Askok Rudra and Pranab Bardhan (Bardhan, 1984a), Christopher Bliss and Nicholas Stern (1982), Thomas Walker and James Ryan (1990) and Pater Lanjouw and Stern (1998). Booth's approach influenced the development of quantitative sociology in both Britain and the US.[42] Peter Townsend's (1979) empirical study of poverty in England some 80 years later clearly owed much to Booth and Rowntree. So too did the Chicago School of Sociology that began studying urban poverty in the US during the 1930s.

The late 19th century saw new questioning of the longstanding idea that poverty was inevitable in any capitalist economy and the emergence of prominent arguments for promotional antipoverty policies in such an economy. While the late 18th century gave birth to the modern idea of distributive justice it was not until the late 19th century that we saw the emergence of the idea of a world free of poverty. By then it had become widely accepted amongst the "cultivated circles" that a trend rise in the real wage rate was a sign of overall progress (Daniels, 1898, p.203). The historian Robert Webb (1974, p.384) argues that in late 19th century England it came to be recognized that poverty "could and must be eliminated."[43] Near the turn of the century, Marshall's (1890, p.2) *Principles of Economics* was posing the question quoted at the beginning

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amounts of milk, eggs, edible oil, spices and tea. After buying such a food bundle, one would be left with about \$0.30 per day (at 1993 purchasing power parity) for non-food items.

[42] On Booth's influence see the Wikipedia entry on Charles Booth and the Archive maintained by the London School of Economics.

[43] Beaudoin (2007, p.100) gives the idea a more recent origin in the 20th century, after WW2.

of this chapter, bemoaning that the children of the poor received too little schooling (p. 467), and sketching policies for fighting poverty (esp., pp. 594-9) that were not just intended as short term moralistic palliatives but were driven by a recognition that persistent poverty was itself a constraint on wealth generation. Marshall (1890, p.468) wrote of the "cumulative evil:"

> "The worse fed are the children of one generation, the less they will earn when they grow up and the less will be their power of providing adequately for the material wants of their children; and so onto following generation."

Thus:

> "The inequalities of wealth, and especially the very low earnings of the poorest classes ..(are)…dwarfing activities as well as curtailing the satisfaction of wants" (p. 599)

Marshall's reference here to "dwarfing activities" anticipates a view that is prominent in development thought today whereby certain inequalities are seen as instrumentally important as inhibitors of overall economic progress, notwithstanding their intrinsic relevance in "curtailing the satisfaction of wants." While Marshall was careful to avoid naïve utopianism (see, especially, the comments in Marshall, 1907), his writings reflect a far more optimistic perspective on social policy as a means of expanding opportunities for all to share in the potential of a competitive market economy. Here we had a forthright and prominent advocacy of promotional policies such that "..children once born into it [poverty] should be helped to rise out of it" (p. 598).

Importantly, this new optimism was stating to be shared by poor parents, which raised their demand for schooling of their children. By the late 19th century it seems that most poor parents in Europe and North America were anticipating that their children would see better economic opportunities than they had. Helped by significant medical and public-health advances that were improving child survival chances and raising life expectancy, investing in their children's schooling was seen as a far less risky than it had been early in that century (and before then) when the children of poor working class children had little real hope of being anything else than working class, and not much chance of being less poor workers than their parents. The demand for mass schooling thus rose along with the supply. Parents were still investing in their children to help secure their own future welfare (formal social security systems were not yet available), but they were investing more in the quality of those children. Fertility rates were falling.

After the First World War, there was a mounting enthusiasm for policy intervention in the West, and there appears to have been broad agreement that greatly reducing, if not eliminating, poverty was a legitimate role for government (Mencher, 1967). In the writings of prominent economists, such as Arthur Pigou (1920, Part IV, Chapter 1), it had become accepted that losses to the "national dividend" could be justified by gains to poor people. The incidence of absolute poverty had come to be recognized as an important yardstick for measuring social progress. For example, the eminent statistician Arthur Bowley (1915, p.213) wrote that:

> "There is perhaps, no better test of the progress of a nation than that which shows what proportion are in poverty and for watching the progress the exact standard selected as critical is not of great importance, if it is kept rigidly unchanged from time to time."

From around the turn of the 20th century statistics was being applied to various social issues, including in measuring poverty and inequality. A key methodological issue was whether one could rely on sample surveys (instead of doing a census) and how the sampling was to be done (the choice being between purposive and random sampling). Statisticians such as Bowley, Ronald Fisher and Jerzy Neyman had advanced the theory of statistical inference based on random sampling, although it took a few decades before this became common practice for social and economic surveys.[44] Poverty measurement was a leading application and, in due course, sampling methods were to revolutionize the collection of systematic survey data on poverty and inequality by national statistics offices across the world.

By the inter-war period it seems that poverty was no longer being seen in mainstream circles as primarily caused by the bad behavior of poor people, but reflected deeper economic and social problems. If nothing else, the observation of mass involuntary unemployment during the Great Depression made that clear. And the observations were carried with force to a broad audience through various media.[45] The period saw massive relief efforts (such as the New Deal in the US). But they were largely transient efforts for protection rather than promotion (Hugh Heclo, 1986).

6. The Second Poverty Enlightenment

The period from about 1950 saw a new trajectory of more rapidly declining incidence of absolute poverty in the world, as judged by the standards of what poverty means in the poorest

[44] The two-stage sampling method introduced by Hansen and Hurvitz, (1943) was to prove especially useful for countries at all stages of development. On the history of survey sampling methods up to the present see Bethlehem (2009).

[45] The photos and text of Agee and Evans (1941) describing the living conditions of Southern tenant farmers in the US in the mid-1930s was an example.

countries.[46] From about the same time a significant shift in thinking was underway, with bearing on antipoverty policy. This was the Second Poverty Enlightenment, dating from about 1960. Across the globe—including in the newly free countries of the developing world—there was new optimism amongst policy makers about the scope for fighting poverty. Evidence for the change in public attention to poverty can be found in the striking rise in the incidence of use of the word "poverty" in the writings of the time after 1960. This is evident if one enters the word "poverty" in the *Google Books Ngram Viewer* (the *Viewer* hereafter) (Michel et al., 2010). The *Viewer*'s counts are normalized by the total number of words that year, giving the "incidence" of that word. The upturn in incidence started around 1960. By 2000 the incidence of references to "poverty" reached its highest value in 300 years. And the rise in incidence continued after 2000 and up to the latest year (2008) for which the data are available at the time of writing; indeed, with moderate smoothing of the time series, 2008 is the year since 1600 when poverty has had the most attention in the literature.[47] Attention to poverty appears to be higher now than any time since 1800 while the incidence of extreme absolute poverty is at its lowest point since then (Ravallion, 2015).

Similarly to the First Poverty Enlightenment, the Second was a time of radical questioning and instability, although, unlike the First, it did not come in the wake of rising absolute poverty. There were demands for new freedoms across the world. There was social ferment and civil unrest in the rich world, and newfound political independence combined with much political and economic upheaval in the poor world.[48] And, similarly to the First, there was new scholarly thought with great bearing on antipoverty policy.

[46] This is shown in Ravallion (2015), drawing on the estimates made by Francois Bourguignon and Christiaan Morrisson (2002) and Chen and Ravallion (2013).

[47] The relevant plot up to 2008 and as far back as possible can be found here. There are two spikes in 1634 and 1659. Naturally the volume of words in the *Viewer*'s data base is low in these earlier years, often with only a few books per year. Each of these spikes largely reflects one or two volumes that used the word "poverty" a lot. This is clearly deceptive. With any smoothing parameter greater than three, the peak year becomes the last year in the series, 2008. Also note that the count is case sensitive. The use of capitalized words mid-sentence was more common in English writing of the 17th and 18th centuries so it is important to include capitalized words when going back that far. But this matters little after 1800 or so.

[48] While the 1960s was a famous period in the West, with vocal new movements for peace and racial and gender equity, much was also happening in the developing world. In the 1960s alone, 32 countries in Africa gained independence, though often with contested borders. China's "Cultural Revolution" started in 1966, and wreaked havoc for 10 years. South Asia (Bangladesh and India) and parts of Africa were fighting famines in the 1960s and 1970s, and there was much political instability; even relatively stable India had its share of political upheaval including the "Emergency" in the mid-1970s.

In philosophy and economics, the 1960s and 1970s saw renewed questioning of the utilitarian paradigm as a basis for public action against poverty and inequality, and in other domains of public policy. Critics of utilitarianism questioned whether policies that entailed welfare losses to the poorest could ever be justified by sufficiently large gains to the richest. A case was made for the ethical prioritization of helping the poorest first, as in Rawls's (1967, 1971) formulation of the principles of justice, which we return to below. The 1970s saw efforts to generalize the utilitarian schema by embodying an aversion to inequality of utilities, such as in the Mirrlees (1971) formulation for optimal income taxation. In this set-up, the marginal social welfare attached to higher utility fell with the level of utility. In principle, marginal social welfare could then be driven down to virtually zero at a sufficiently high level of utility. Once one made the extra step of allowing the possibility that marginal social welfare could go to zero above some point, prioritizing poverty reduction could be interpreted as the negative of social welfare maximization.[49] Whether or not one took that extra step, there was clearly common ground in these different emerging schools of thought about the social welfare objectives of public policy.

For many economists the more contentious step (and it is still contentious) was attaching intrinsic value to "rights" and "freedoms." Dissatisfaction was evident during the Second Poverty Enlightenment with the lack of attention in economics to popular concerns about individual rights and freedoms. Of course, the freedom to trade freely was often given high value in economics but this was an instrumental value—the virtue of competitive exchange was a derived one from long-standing Benthamite or Paretean formulations of policy objectives. The scope for ethically contestable policies was evident if one did not put certain rights above all else.[50] Motivated by such concerns, mainstream thinking about poverty in both scholarly and policy circles was being given to non-utilitarian formulations that put freedom as the central issue, most notably in the writings of Sen (1980, 1985, 1999). The idea that poverty is fundamentally a lack of individual freedom to live the life one wants—a severe deprivation of

[49] This interpretation is discussed further in Ravallion (1994a), which shows that on introducing inequality aversion into the measure of poverty (as discussed further in Chapter 3) and allowing for measurement errors in the data on individual economic welfare, the resulting formulation of the objectives of policy in terms of minimizing poverty can essentially be made as close as one likes to the negative of a generalized utilitarian social welfare function.

[50] An example is the various coercive efforts made to encourage poor parents in developing countries to have fewer children; see the examples described by Hartmann (1987).

basic capabilities in Sen's terms—and that such freedom has an over-riding ethical merit, can be traced back to the Second Poverty Enlightenment.

Many policy issues, including debates on antipoverty policies, call for some form of interpersonal comparison of utility. Yet, in the wake of an influential book by Lionel Robbins (1935), the period up to around 1950 saw economists striving to purge welfare economics of interpersonal comparisons—leaving little scope for normative economic analysis of poverty or income distribution more generally.[51] One turning point in thinking on this issue came with Kenneth Arrow's (1951) famous theorem.[52] In due course, Arrow's theorem and the work on social choice theory that it stimulated led to a re-affirmation of the need for some form of interpersonal comparability in discussing issues such as antipoverty policy.[53] Ethical considerations soon returned in full force to policy analysis by economists, although it also came to be understood that not all such analyses required fully comparable cardinal utilities (Sen, 1970b). The futility of attempting to infer comparable utilities solely on the basis of demand behavior also came to be accepted (especially following Robert Pollak and Terence Wales, 1979). The 1970s and '80s saw new efforts to put poverty and inequality measurement on firmer theoretical foundations.[54] There was an explosion of interest in the measurement of poverty and inequality, both in theory and in practice, starting from around 1970 (Ravallion, 2011).

Other seemingly sacred elements of economics started to be questioned, including whether people were rational, although some of the claims of "irrationality" that emerged from behavioral economics appeared to stem more from limited characterizations of utility functions and/or limited allowances for mistakes (Gilles Saint-Paul, 2011). Even the idea that social welfare had to be strictly increasing in all utilities (the Pareto principle) was being questioned as either a sufficient or a morally compelling basis for policy making (as in, for example, Shiv Nath, 1969). The Pareto principle was even found to be inconsistent with seemingly mild requirements for personal liberty (Sen, 1970a).

[51] For an authoritative overview of this and other issues in the history of thought on income distribution see Sandmo (2013).

[52] Developing arguments first made by Condorcet in 1785, Arrow (1951) established that, under seemingly defensible axioms, a unique social ordering over three or more options that is derived solely from a set of unrestricted individual orderings must be imposed externally.

[53] See the discussion in John Roemer (1996). Notice, however, that allowing interpersonal comparisons is only one of the possible resolutions of Arrow's dictatorship result (Sen, 1970).

[54] Important contributions came from Harold Watts (1968), Anthony Atkinson (1970, 1987), Serge-Christophe Kolm (1976), Sen (1973, 1976) and James Foster, Joel Greer and Erik Thorbecke (1984).

The 1970s also saw a deeper questioning of the efficiency of competitive market allocations. The term "market failure" (introduced by Francis Bator, 1958) had become widely used, and labor and credit markets imperfections in particular came to be seen as key to understanding poverty. The idea that labor markets were competitive, such that wage rates adjusted to remove any unemployment, had been in doubt since the Great Depression. In understanding poverty in rich countries in the 1960s, the idea of dual labor markets became prominent, following in particular Peter Doeringer and Michael Piore (1971). One segment of the labor market has high wages and good benefits while the second has low wages and little in the way of benefits. Jeremy Bulow and Larry Summers (1986) showed how this could be an equilibrium given the existence of high costs of monitoring work effort in certain activities, which become the high-wage segment in which profit-maximizing firms pay wages above market-clearing levels (following Carl Shapiro and Stiglitz, 1984). Other activities with low monitoring costs form the competitive segment, which is where the working poor are found.

In another strand of the literature of this period, George Akerlof (1970) showed how credit (and other) market failures can arise from asymmetric information, such as when lenders are less well-informed about a project than borrowers, thus constraining the flow of credit. This helped explain the efficiency role of institutions and governments in facilitating better information signals and broader contract choices. For example, the idea of asymmetric information gave a new perspective on why share-cropping existed (Stiglitz, 1974). Since the work-effort of tenants is unobservable by landowners, an optimal contract strikes a balance between risk sharing and incentives for work. Thus risk is shared between the two parties.

The new economics of information held important implications for understanding poverty. In a perfect credit market even poor parents will be able to borrow for schooling—to be paid back from children's later earnings. However, if poor parents are more credit constrained than others then we will see an economic gradient in schooling, whereby the children of poor parents are less schooled.[55] This is indeed what we see, almost everywhere. There will be too much child labor and too little schooling in poor families. Thus poverty will persist across generations. Risk market failures can have similar implications. Parents will under-invest in their kid's schooling when they cannot insure against the risk of a low economic return from that schooling.

[55] This was postulated in an important economic model of how poverty could persist in Glenn Loury (1981).

In due course, this new strand of economic thinking would point to important ways in which inequalities in the initial distribution of wealth could persist and impede overall economic progress; section 8 returns to this issue. The economics also pointed to scope for promotional antipoverty policies—policies that essentially aimed to compensate for the credit and risk-market failures, such as by compulsory schooling laws and public support for schooling, especially for children from poor families. Section 9 will return to such policies.

Rawls's principles of justice: If there is a single philosophical landmark of the Second Poverty Enlightenment it must be Rawls's (1971) *Theory of Justice*. Borrowing from early formulations of social contract theory (back to Hobbes), Rawls proposed that the principles of justice should be the social contract agreed amongst equals in a veil of ignorance about where they would find themselves in the real world. (The veil of ignorance was a thought devise to assure that morally irrelevant—inherited or acquired—advantages in the real world did not color judgments about distributive justice.) Rawls argued that two principles would emerge. First, each person should have equal right to the most extensive set of liberties compatible with the same rights for all; this borrowed the idea of liberty that had emerged in the late 18th century, famously so in the French Revolution. Second, subject to the constraint of liberty, social choices should only permit inequality if it was efficient to do so—that a difference is only allowed if both parties are better off as a result; this is what Rawls called the "difference principle."

The second idea was more radical in its egalitarianism than the French Revolution's motto. However, it was not the kind of radical egalitarianism that said that equality always trumped efficiency. Indeed, society A, with a great deal of inequality, would be preferred by this moral principle to society B with no inequality, if the poorest were better off in society A. Thus the principle amounts to maximizing the advantages of the worst off group and hence became known as "maximin." This was explicitly not a proposal to maximize the lowest income, as it is sometimes interpreted, but rather to maximize the welfare of the worst off group in society. The "worst off" people were to be identified by what Rawls called their command over "primary goods." These are all those things needed to assure that one is free to live the life one wants. This is a broader than what are often called "basic needs" as it includes social inclusion needs and basic liberties—in short, rights as well as resources.

As Rawls recognized, one will need an index for determining the least advantaged. Possibly because of his evident desire to break all ties with utilitarianism, Rawls avoided using the term “utility function” (or “welfare function”), but this is evidently what he has in mind in his discussions of the “index problem” (esp., Rawls, 1971, esp. pp.90-95)—namely a function that expresses the accepted trade-offs. And Rawls agreed that it is also compelling that those trade-offs be consistent with individual preferences over primary goods (Rawls, 1971, p.94). However, he argues that we need not be concerned with the preferences of the non-poor under the assumption that their primary good vectors are bound to dominate those of the poor.[56] (This is an empirical question, but a plausible assumption in the absence of data.) Thus the utility function of the worst off person should be decisive in aggregations across primary goods.[57]

The Second Poverty Enlightenment had intellectual roots in the First. Rawls saw his difference principle as an interpretation of “fraternity” (as in the French Revolution’s motto): “the idea of not wanting to have greater advantages unless this is to the benefit of others who are less well off.” This was a natural step (though it took a long time) from the aspirations for fraternity in the First Poverty Enlightenment. Utilitarianism was seen to be in conflict with fraternity, since it could justify losses to the individual in the name of total utility. There would always be some gain to the richest person that could justify a loss to the poorest. The individual is subordinated to the common good, as measured by the sum of utilities. This Rawls rejected.

Rawls saw his theory as a re-interpretation of Kant. Poor people should have the right to veto any scheme that brings gains to the well-off at their expense. In direct contradiction to the dominant view 200 years earlier, poverty for some was judged to be unacceptable as the means to others’ prosperity. Utilitarianism (by contrast) could not guarantee a satisfactory minimum.[58] And only if a satisfactory minimum was assured would the social contract be “stable” in that “the institutions that satisfy it will generate their own support” (Rawls, 1967).

The reasoning here was that as long as the worst off group was happy with the social arrangement then the rest (all doing better than the worst off) would have nothing to complain about (Joshua Cohen, 1989). Of course, this reasoning is questionable in the real world, since those not in the poorest stratum could be expected to have a different counterfactual in mind when assessing any policy to that of being the worst off. But recall that the social contract was

[56] More generally, the partial ordering of vectors of primary goods required by Rawls’s maximin principle need not require a mathematically precise aggregation function; a sufficient partial orderings may be possible by only specifying certain generic properties of that function; for further details see Atkinson and Bourguignon (1982).
[57] “The only index problem that concerns us is that for the least advantaged group.” (Rawls, 1971, p. 93)
[58] Although, a Dasgupta (1993, Ch. 2) points out, classical utilitarianism can be modified to incorporate constraints such that no utility is allowed to fall below some stipulated minimum. But this was never done to my knowledge.

being formed in the absence of information about real world positions. Rawls argued that maximin was more likely to emerge from rational choice behind the veil of ignorance.

Rawls's theory of justice has stimulated much debate. Harsanyi (1975) questioned whether maximin was a more plausible choice for a social contract than maximizing average utility even behind the veil of ignorance unless there was extreme risk aversion. Roemer (1996, Chapter 5) also questioned whether maximin would emerge as the solution. These critiques rested on the assumption that agents behind the veil would maximize expected utility, which depends solely on their own consumption (and leisure). This requires that subjective probabilities can be assigned to all states behind the veil, which Rawls (1971) questioned.[59] Introducing social preferences could also upset these critiques.

Other critiques of Rawls's theory emerged. Soon after the publication of *Theory of Justice*, Robert Nozick (1974) published a libertarian critique. Nozick gave primacy to historical property rights above all else, although it was never clear on ethical grounds why property rights were never to be questioned.[60]

Sen (1980) took issue with Rawls's concept of primary goods, arguing that this idea does not adequately reflect the freedoms that people have to pursue their goals, recognizing the heterogeneity in the ability of people to transform primary goods into freedoms. This critique led to Sen's (1985) conceptualization of welfare in terms of primary "functionings"—"what people are able to be and do (rather than in terms of the means they possess)" (Sen, 2000, p.74).

As Thomas Pogge (1989) argues, one can defend the key aspects of Rawls's principles of justice without accepting his rationale in terms of a social contract. Roemer (2013) argues for a version of maximin but from a different starting point, namely the desire to equalize opportunities in society. This was premised on the view that poverty reflected exogenous circumstances facing individuals, as well as personal efforts. Severe empirical challenges remain in cleanly separating efforts from circumstances, but the conceptual distinction is very important to thinking about antipoverty policy (as has long been recognized in policy debates reviewed below). In striving to equalize opportunities we would not want to bring everyone down to a common but low level of opportunity. Instead, Roemer advocates that policy choices stemming from an "equal opportunity ethic" should maximize the welfare assigned to the worst off group,

[59] Though see the response in Harsanyi (1975).
[60] Pogge (1989) reviews this and other critiques of Rawls's principles of justice and provides a re-interpretation and (vigorous) defence of Rawls's original arguments.

defined by a vector of exogeneous “circumstances”—those things that cannot be traced back to the choices made by the individual.[61]

Rawls opened the way to new non-utilitarian thinking on the conceptual foundations of antipoverty policy. This marked a return to the themes that emerged in the First Poverty Enlightenment, although these found more complete and rigorous formulations in the wake of the Second Poverty Enlightenment. Rather than being blamed solely on the bad behaviors of poor people, poverty came to be seen as stemming in large part from circumstances beyond their control, given circumstances of birth and market and governmental failures. This perspective gave promotional policies a deeper conceptual foundation. It was still granted that there was an important role for individual responsibility—that poverty did sometimes stem from bad choices. But this had ceased to be the dominant model. Careful opportunity-based formulations emerged in the writings of both philosophers (such as Gerald Cohen, 1989, and Richard Arneson, 1989) and economists (including Roemer, 1998, and Marc Fleurbaey, 2008).

So far the discussion has focused on the new philosophical and economic thinking of the Second Poverty Enlightenment. No less important to policy making were the new data, the new empirical research on those data, and the more popular writings and social movements around this time. We now turn to these.

The rediscovery of poverty in America: The industrialized world saw a boom in social spending in the second half of the 20th century (Lindert, 2004).The new public attention to antipoverty policies is evident in the marked increase in references to “antipoverty,” “poverty alleviation,” and “redistribution” in the *Viewer* (Ravallion, 2011). References to “redistribution” peaked around 1980. “Redistribution of wealth” was often mentioned in the Great Depression, but declined in use during the Second World War (WW2) and after until about 1960 when a new upsurge of interest emerged.

The change in popular thinking was especially evident in the US. In the wake of the civil rights movement (starting around 1955), the rediscovery of poverty in the midst of affluence was stimulated by important social commentaries, including John Kenneth Galbraith’s (1958) *The Affluent Society* and Michael Harrington’s (1962) *The Other America*, both best sellers at the

[61] This assumes that a unique vector exists, dominated by all others. Given that choices (“efforts”) vary, Roemer proposes to maximize the average welfare level of the worst off group, averaged across levels of effort.

time.[62] The success of Harrington's book was clearly a surprise; the first print-run was 2,500 copies, but by the mid-1990s it had sold 1.3 million copies.

Knowledge made this new awareness of poverty possible. The First Poverty Enlightenment lacked the theories and data that we take for granted today in measuring poverty, reckoning its costs and informing public action. Nor was there much sign yet of the theories and movements that could represent the interests of poor people. That had changed by the 1950s. Authors like Harrington and Galbraith could formulate accessible knowledge-based arguments, including measurements from sample surveys. Many people were shocked in the early 1960s when the official calculations indicated that almost one-in-five Americans lived in poverty.

While the type of quantification initiated by Booth and Rowntree 70 years earlier had been crucial, credibly reported qualitative observations in the media and popular books were hugely influential, including on policy making at the highest levels. Many people were influenced by Harrington's efforts to "describe the faces behind the statistics" (p.17). This was research aimed squarely at promoting change through knowledge. In an introduction to a 1993 reprint of *The Other America*, Irving Howe (1993, p.xii) describes its central premise: "…that if only people *knew* the reality they would respond with indignation, that if people became aware of "the invisible poor" they would act to eliminate this national scandal."

Galbraith and Harrington described a new "minority poverty" in America. A long period of poverty reduction had meant that the poor were now a minority, albeit a sizeable one. While overall economic growth had allowed many of the "old poor" to move into the new middle class, others were left behind or thrown into poverty from which they could not escape. Widely held views about upward mobility and equality of opportunity in America also came into question based on empirical studies showing how much parental income and schooling affects the life chances of children (Otis Duncan et al., 1972; Bowles and Herbert Gintis, 1976).

There were differences between Galbraith and Harrington in their understanding of this new poverty in America. Galbraith identified two reasons why so many of the old poor were unable to participate in the new opportunities. The first was physical or mental disability—what Galbraith called "case poverty"—while the second was that some were trapped in geographic pockets of poverty (his "insular poverty"). While not rejecting these categories, Harrington argued that this was incomplete in that many of the minority poor had been negatively impacted

[62] References to both books in the *Viewer* skyrocketed from the 1960s; the graph can be found here.

by the same economic expansion that had benefited so many others. Significant economic change had created their poverty, and they were unable to recover. Here Harrington is making an important point—that even pro-poor overall progress comes with losers as well as winners. And his description sounds a lot like the model of wealth dynamics in section 2, whereby large negative shocks create persistent poverty, and recovery to get back on track is no small thing.

The political response in the US included new social programs, notably under the *Economic Opportunity Act* of 1964, popularly known as the Johnson administration's *War on Poverty* (James Sundquist, 1968). From early on, this policy effort was framed in non-utilitarian and non-welfarist terms, especially emphasizing opportunities. The new programs included *Head Start*, which continues today (and is discussed further in section 9). Knowledge support to the *War on Poverty* was provided by (amongst other efforts) a new national institute created in 1966, *The Institute for Research on Poverty* at the University of Wisconsin Madison. This was charged with studying the causes of poverty in the US and evaluating antipoverty programs.[63]

The *War on Poverty* was not, it seems, prompted by a mass shift in American public opinion; indeed, Hugh Heclo (1986) refers to US polls indicating that the public was evenly divided on whether welfare spending should increase. It seems that the political response was motivated by evidence and ideas, not attracting voters. While causality is unclear, it is notable that the US poverty rate fell over 1960-80 (Bruce Meyer and James Sullivan, 2012).[64]

Similarly to the First Poverty Enlightenment, a backlash emerged in due course. An influential counter-attack came from Charles Murray's (1984) *Losing Ground*. As was the case with the backlash from Malthus and others around the turn of the 19th century, concerns about adverse incentive effects on behavior returned to loom large, such as claims that welfare benefits to single mothers encouraged families to break up. However, as in the debates on the Old Poor Laws, rather little credible supportive evidence was presented, and evidence to the contrary could be cited (David Ellwood and Summers, 1986). Yet reforms followed in the US in the 1990s; 30 years after declaring a "War on Poverty," critics of the reforms argued that America had declared a "War on Welfare."[65]

[63] A good history of the Institute can be found on their website.
[64] This is true for both incomes and consumptions; income poverty rates crept back up after 1980, though consumption-based measures continued to fall. On the choice between these measures see Daniel Slesnick (2001).
[65] The latter term was used by Katz (1987); also see Albelda et al. (1996).

While (again) the attribution to social policies alone can be questioned, it is notable that the decline in US income poverty rates up to about 1980 stalled, and even reversed after that. Also notable is that this came with a marked shift in the demographic profile of US poverty, favoring the elderly. Indeed, the incidence of poverty continued to fall amongst the elderly in the US after 1980, albeit at a slower rate. Lindert (2013) attributes this difference to a bias in US social spending in favor of the elderly over the young, in common with other rich countries.

In attempting to explain America's poverty amidst affluence, the ideas of a "culture of poverty" and an "underclass" that emerged in the 1960s were much debated. Echoing the debates of prior times reviewed above, critics saw these ideas as blaming poor people for their poverty and ignoring more deep rooted "structural" inequalities (Herbert Gans, 1995; Alice O'Connor, 2002). In some versions of the "underclass" idea, such as in Julius Wilson's (1987) *The Truly Disadvantaged*, a "culture of poverty" was seen to stem from structural inequalities and so part of their explanation; echoing Harrington, Wilson emphasized macroeconomic factors, including structural changes in the economy, urban structural changes and aggregate unemployment rates.

While the debate continues on whether there is space for policy intervention aimed at changing culture,[66] looking back over 200 years it is clear that there has been a significant shift in thinking about poverty, from primarily blaming poor people to identifying deeper factors beyond their control, yet amenable to public action. This new view did not deny personal responsibility, or the scope for mistakes or seemingly irrational behaviors.[67] In due course, evidence also emerged that the stresses of poverty diminished cognitive ability (Anandi Mani et al., 2012), again clouding cause and effect. But the key point to emerge was that "bad choices" was a dangerously incomplete explanation of poverty. As David Shipler (2005, p.6) put it with reference to America's working poor: "Each person's life is the mixed product of bad choices and bad fortunes, of roads not taken and roads cut off by the accident of birth or circumstances."

Relative and subjective poverty: Prior to the Second Poverty Enlightenment poverty was mainly seen in absolute terms.[68] This changed radically in much of the rich world from around

[66] See, for example, Steinberg's (2011) comments on Small et al. (2010).
[67] Behavioral explanations of poverty have drawn some support from experiments suggesting that people do not always behave rationally, although the experiments are often open to other interpretations, notably about the nature of the optimizing behavior (Gilles Saint-Paul, 2011).
[68] By "absolute poverty" I mean a poverty line that is fixed in real terms over time.

1960.[69] The Second Poverty Enlightenment saw a new concept of "relative poverty" in both America and Western Europe, where the idea attained widespread official acceptance. By this view, the definition of poverty was contingent on the average standard of living in the society one was talking about, and so could be expected to evolve with the average.[70] Fuchs (1967) appears to have been the first to propose the sharpest version of this idea: that the poverty line should simply be set at 50% of the current median income. For a reason that will soon be clear, I will call these "strongly relative measures."

While all the debates in the US reviewed earlier in this section were echoed across the Atlantic, this new idea of strongly relative poverty had more influence in Western Europe than in America, and it carried little or no weight in the developing world. In due course, the most widely used definition of poverty in Western Europe followed Fuchs's suggestion, with national poverty lines often set at a constant proportion of the current mean (or median). Eurostat (2005) has produced such relative poverty measures across European countries and over time, as has the influential Luxembourg Income Study (LIS), which started in the mid-1980s and uses a poverty line set at 40-60% of the median in its summary statistics at country level. An immediate implication of these measures is that when all income levels rise by the same proportion the measure of poverty remains unchanged.

There were antecedents to the idea of relative poverty in the First Poverty Enlightenment. As Himmelfarb (1984a,b) and others have observed, Adam Smith held a conception of poverty that was socially-specific. In a famous passage in the *Wealth of Nations* (1776, Book 5, Chapter 2, Article 4) Smith pointed to the social role of a linen shirt in eighteenth century Europe.[71] Smith, it seems, wanted the poverty line to be relevant to its context.

To some degree that is what we see across countries. The average line rises from $1.25 a day for the poorest countries to $30 a day in the richest (Ravallion, 2012a). At around $13 per person per day, the official poverty line in the US is far higher than the lines found in poor

[69] Abraham Doron (1990, p.30) describes this change in the 1960s: "The reformers of the period, and certainly the radicals among them, rejected the absolute approach, which contents itself with guaranteeing a minimum of subsistence….The needs of men are not stable and absolute but relative and related to the circumstances of the society in a particular period of time."
[70] The period also saw efforts to anchor poverty measures to governmental assistance thresholds; an early example was Brian Abel-Smith and Peter Townsend (1966) describing poverty in Britain. For further discussion of this and other approaches see Atkinson (1991).
[71] In more recent times, a number of studies have also pointed to the social roles played by festivals, celebrations and communal feasts; see, for example, Rao (2001), Banerjee and Duflo (2007) and Branko Milanovic (2008).

countries (though below average for rich countries). However, strongly relative lines go further in that they are changing over time in direct proportion to the mean or median, i.e., with an elasticity of unity. It is not clear that Smith had in mind such a definition of poverty. One might argue that the line should be relative between countries but absolute for a given country. The official line in the US is still an absolute line over time (with fixed real value),[72] as are almost all lines in developing countries (Ravallion, 2012a). Logically, however, a line that is fixed in real terms cannot remain relevant to prevailing living standards indefinitely in growing economies. Indeed, as Fuchs (1967) points out, the US poverty line in the 1930s was probably substantially lower in real terms than the 1960s.[73] Some gradient over time is clearly called for.

While the idea of relative poverty goes back to the First Poverty Enlightenment (though largely dormant between the two Enlightenments), explicitly relative measures were a product of the Second Poverty Enlightenment. However, there has been much debate and it continues today. Some observers have been concerned about unequal treatment of people at similar levels of real income. The advocates of relative lines for rich countries would not presumably have been comfortable in applying the same idea in comparing poverty measures between the majority population and minorities within one country; indeed, the Second Poverty Enlightenment started to see a breakdown of past discriminatory practices in this respect. There were clearly (though rarely explicit) moral bounds to relativism. However, the case for relative lines rested on the view that poverty must be seen as absolute in the space of welfare, whether defined in terms of utility or capabilities; as Sen (1983, p.163) put it: "…an absolute approach in the space of capabilities translates into a relative approach in the space of commodities."

The more difficult issue was why the poverty line should be strongly relative, i.e., proportional to the mean or median. If we consider more closely the two (seemingly) most common arguments made in favor of relativism, neither is compelling in this respect. The first argument concerns social inclusion. A linen shirt in 18th century Europe is an example of what can be termed a "social inclusion need." The existence of such needs has been the primary justification given for the Western European relative poverty lines. However, the cost of that shirt will be roughly the same for the poorest person as the richest. More generally, the cost of

[72] This has been set at three times the cost of an adequate diet, following Molly Orshansky (1963). Supplementary measures have been introduced in recent years (David Johnson and Timothy Smeeding, 2012).
[73] Fuchs bases this claim on a necessarily rough calculation, asserting that if the 1960s standard in the US was applied to the 1930s then two-thirds of the US population would have been deemed poor as compared to President Roosevelt's estimate that "one third of the nation" was so in the 1930s.

social inclusion cannot be expected to go to zero in the limit, as mean income goes to zero, as implied by strongly relative lines. That would almost certainly understate the costs of social inclusion in poor countries.

The second argument made for the strongly relative measures was that they allowed for relative deprivation—that people care about their income relative to the mean or median of their country of residence.[74] However, this too is not so convincing on closer scrutiny. As long as we think that poverty is absolute in the space of welfare (or capabilities) one can only derive these strongly relative poverty measures if welfare only depends on relative income (own income relative to the median) (Ravallion, 2012a). In other words, one needs to assume that welfare does not depend on own-income at given relative income. This must surely be considered a very strong assumption.

None of this denies the welfare-relevance of social inclusion needs or relative deprivation. Arguably the case is now stronger than ever for incorporating relativist concerns in poverty measurement. Rather the issue is how best to do that. To allow for a (positive) minimum cost of social inclusion one requires what Ravallion and Chen (2011) dub "weakly relative measures."[75] These have the feature that the poverty line will not rise proportionately to the mean, but with an elasticity less than unity for all finite mean incomes.[76] Consistently with the national lines, Ravallion and Chen (2013) propose global poverty measures using a schedule of weakly relative lines that contain the absolute lines (typical of poor countries) and relative lines (typical of rich ones) as the limiting cases.

Another strand of the new literature on poverty measurement emphasized the scope for calibrating welfare and poverty measures to subjective questions in surveys. These could take the form of a ladder (from "poor" to "rich" say),[77] or a more general question on satisfaction-with life or happiness. Alternatively, the survey questions asked what income level corresponded to specific subjective welfare levels, following Bernard Van Praag (1968). A special case was the "minimum income question" which derived the monetary poverty line as the fixed point in the

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[74] The sociologist Walter Runciman (1966) was an influential advocate of this view.
[75] A weakly relative line was proposed earlier by Foster (1998). This was given by the weighted geometric mean of an absolute and a strongly relative line. While this is also weakly relative, it has a constant elasticity, whereas the elasticity rises from zero to unity in the Ravallion and Chen (2011) proposal—consistently with the data on national lines.
[76] It can be argued that a globally relevant schedule of poverty lines should also have this property, and global measures following this approach are available in Ravallion and Chen (2013).
[77] These came to be known as Cantril ladders following Hadley Cantril (1965).

regression function relating personal subjective minima to actual incomes. In other words, the line was drawn such that people with an income below it tended to think there income was inadequate for meeting their needs, while those above the line tended to think their own income was adequate. Alternatively, the poverty line could be identified as the fixed point of adequacy across multiple dimensions of welfare, following Menno Pradhan and Ravallion (2000).[78]

The rich world's rediscovery of global poverty: A further surge of attention to poverty in the popular and scholarly literature in the late 20th century stemmed from the Western public's increasing awareness of the existence of severe and widespread poverty in the developing world. Poverty and inequality in developing countries started to attract substantial mainstream scholarly attention in the West from the late 1960s.[79] GDP per capita was no longer seen as the sole metric for judging success; for example, in his foreword to an overview by the World Bank of 25 years of development the Bank's first Chief Economist, Hollis Chenery (1977, p.v) wrote that: "..economic growth is a necessary but not sufficient condition for social progress and that more direct attention should be given to the welfare of the poorest groups."

For most of the developing world, poverty was "majority poverty"—in marked contrast to Galbraith's characterization of "minority poverty." Travel and visual media made it visible to those in the West, though it was already so to almost everyone in the developing world. And poverty data were playing an important role in the post-Independence policy debates in some poor countries, including India, notably through its National Sample Surveys starting in 1950.[80] As was the case with the poverty research by Booth and Rowntree in late 19th century England, around 1990 many people were shocked to learn that there were about one billion people in the world living on less than \$1 per day, at purchasing power parity (PPP) (World Bank, 1990; Ravallion et al., 1991)—an explicitly frugal line anchored to the national poverty lines found amongst the world's poorest countries.[81] Since 1990 there has been a massive expansion in survey data collection and availability, and refinements to the methodology; the original

[78] For a critical survey of the various approaches found in this literature see Ravallion (2012c).
[79] Important contributions included V.M. Dandekar and N. Rath (1971), Irma Adelman and Cynthia Morris (1973), Hollis Chenery et al. (1974), Michael Lipton (1976), World Bank (1980), Gary Fields (1980), Nanak Kakwani (1980), Sen (1981a), Sudhir Anand (1983), Bardhan (1984) and Ravi Kanbur (1987).
[80] India was an early leader globally in the application of random sampling in economic and social statistics, notably through the Indian Statistical Institute, founded by the eminent statistician Prasanta Mahalanobis, which led in due course to India's National Sample Surveys, which are still used for measuring poverty in India.
[81] The \$1 a day line was chosen as a typical poverty line for low-income countries. It was never exactly \$1 a day, and the latest line (based on a much larger and more representative sample of national lines) is \$1.25 a day at 2005 PPP (Ravallion et al., 2009).

estimates by Ravallion et al. (1991) used data for 22 countries, with one survey per country, while the latest estimates in Chen and Ravallion (2010) and are based on survey data for 125 countries with more than six surveys per country. The efforts of country statistics offices—often with support from international agencies such as the UNDP, the World Bank and the International Comparison Program—to collect household survey data and price data have provided the empirical foundation for domestic and international efforts to fight poverty since the 1980s. Public access to such data was crucial, and gradually improved, with help from efforts such as the World Bank's Living Standards Measurement Study (LSMS), , which facilitates the collection of household-level survey data in developing countries, and the Luxembourg Income Study, which facilitates access to harmonized micro data, though mostly for rich countries.

The World Bank's (1990) *World Development Report: Poverty* was influential in development policy circles, and soon after a "world free of poverty" became the Bank's overarching goal. A large body of empirical research on poverty followed in the 1990s, helped by a number of texts that provided useful expositions for practitioners of relevant theory and methods.[82] The UNDP's *Human Development Reports* began in 1990, and have consistently argued for public action to promote basic health and education in developing countries. The importance to human development of combining income-poverty reduction with better access to basic services came to be appreciated (Anand and Ravallion, 1993). Sri Lanka's longstanding emphasis on basic health and education services had been shown to bring a large dividend in longevity and other human development indicators relative to countries at a similar level of average income (Sen, 1981b). The emphasis most East Asian countries have long given to broadly shared investments in human development also came to be recognized in the 1990s as a crucial element to their economic success, even though the role played by some other elements of the East Asian policy package remained contentious (World Bank, 1993; Albert Fishlow and Catherine Gwin, 1994; Dani Rodrik, 1994). It is clear that by the late 20th century there had been a complete reversal in policy thinking about poverty, from the view 200 years earlier that human capital development for poor families was a waste of public resources to the view that it is an essential pre-condition for growth and development.

[82] Examples include Ravallion (1994b), Elisabeth Sadoulet and Alain de Janvry (1995), Angus Deaton (1997) and Margaret Grosh and Paul Glewwe (2000).

The period also saw a broadening of the range of policies under consideration, especially in the developing world. There was a new political will for antipoverty policy in many of the newly independent, post-Colonial, states, although with mixed success. Policies for promoting economic growth came to be seen and judged by their efficacy in promoting (amongst other goals) poverty reduction (World Bank, 1990). (The next section will return to this point.) By the 1990s, it seems that nothing in the policy arena was off-limits in discussing impacts on poverty. This brought a new danger too, since without some degree of separability, to allow instruments to be tied to goals, there was a risk of policy paralysis. But economic analysis, and a measure of good sense, could often be trusted to guide effective policy action, recognizing the trade-offs. And the shift in focus from protection to promotion is also evident in the types of policies being tried within the sub-class of direct interventions, as we will see in section 9.

By the turn of the 21st century, a new optimism on the scope for global poverty reduction had emerged. The Millennium Development Goals (MDGs) were ratified in 2000 at the Millennium Assembly, a meeting of world leaders at the United Nations. The first MDG was to halve the developing world's 1990 "$1 a day" poverty rate by 2015. Jeffrey Sachs (2005b, p.1) wrote a New York Times Bestseller, *The End of Poverty*, outlining his personal vision of how "Our generation can choose to end that extreme poverty by the year 2025." Some of this optimism was well founded in subsequent events. Using the $1.25-a-day poverty line in 2005 prices, the first MDG was attained in 2010, a full five years ahead of the goal (Chen and Ravallion 2013). Even so, that important achievement leaves over one billion people living in extreme poverty, as judged by the standards of the poorest countries. But continuing the success against extreme poverty seen since 2000 will lift one billion people out of extreme poverty by 2030 (Ravallion, 2013). Progress in reducing global relative poverty will be slower; today over 2.5 billion people remain poor by standards typical of the country they live in (Ravallion and Chen, 2013). However, national poverty elimination targets have emerged in many countries, both rich and poor. In 2010 the European Union adopted its Europe 2020 poverty reduction target to reduce by 25% the numbers of Europeans living below national poverty lines.

Some of the debates of 200 years ago survive today. For example, at the time of writing the US Congress was implementing substantial cuts to the Supplementary Nutrition Assistance Program ("Food Stamps"). During the relevant House of Representatives Committee Meeting, a Congressman was quoted as saying that "While it was a Christian duty to care for the poor and hungry, it was not the government's duty" (Fifield, 2013). One heard such claims often 200 years ago. The difference today is that the vast majority of people clearly do not agree.

While there is continuing debate on the causes of poverty and on policy prescriptions, modern writings are invariably premised on a belief that poverty is something that can be greatly reduced with the right economic and social policies and, indeed, eliminated. By this view, poverty is in no small measure a global public responsibility, and governments and the economy are to be judged (in part at least) by the progress that is made against poverty.

7. The idea of a progressive market economy

Until the late 20th century, the prevailing view was one of skepticism that poor people would benefit much from economic growth in a capitalist economy. Well into the 1980s it was common to hear in both popular and scholarly writings that economic growth was expected to largely by-pass poor people in both rich and poor countries. Where did this skepticism come from and was it justified?

By one view, poverty is likely to persist in a growing economy because poverty is relative (section 6). Strictly, poverty could still be eliminated when using a strongly relative poverty line set at a constant proportion of the mean, with sufficient redistribution in favor of poor people. Growth in the mean will not do so without a change in relative distribution. However, the past explicit acceptance of poverty among economists and non-economists alike does not appear to be the product of such a relativist view. In fact this is a modern idea, which appears to have emerged much later, in the 1970s (section 6). Using absolute or weakly-relative poverty measures, sufficient inequality-neutral growth will eliminate poverty.[83]

But growth was not expected to be inequality-neutral. Most classical and Marxist economic thinkers saw little hope that even a growing capitalist economy would deliver rapid poverty reduction, or even any poverty reduction. While Smith was optimistic about the potential for a progressive, poverty-reducing, market economy, the prominent classical economists who followed, including Malthus and Ricardo, were more pessimistic on the prospects for higher real wages and (hence) less poverty, suggesting that they anticipated rising inequality from a growing

[83] For any linear schedule of relative poverty lines as a function of the mean, and all standard measures of poverty, saying that there is a positive lower bound to the cost of social inclusion is essentially equivalent to saying that inequality-neutral growth in the mean will reduce the measure of poverty (Ravallion and Chen, 2011).

capitalist economy. As discussed in section 5, demographic responses to rising wages were expected to play a key role in attenuating the poverty impact of growth. The socialist movement that emerged toward the middle of the 19th century shared the same pessimistic view on the prospects for poverty reduction, but took it to be a damning criticism of capitalism. And the thirst for profits to finance capital accumulation, combined with the large "reserve army" of unemployed, was seen as the constraint on rising real wage rates, rather than population growth.

Distributional dynamics has long been a central theme of development economics. Poverty was a concern for the post-Colonial governments of the newly independent countries, but the earliest policy-oriented discussions were pessimistic on the prospects of economic growth bringing much benefit to poor people. It was widely believed that growth in low-income countries was bound to be inequitable, and that view is still heard today.

A foundation for this view was provided by Simon Kuznets (1955), and came to be known as the "Inverted U Hypothesis," whereby inequality first increases with growth in a poor country but falls after some critical income level is reached.[84] While there are other theoretical models in the literature that can generate such a relationship, in the Kuznets formulation the economy was assumed to comprise a low-mean, low-inequality rural sector and a high-mean, high-inequality urban sector, and growth occurred through the migration of workers from the former to the latter. This was assumed to entail that a representative "slice" of the rural distribution is transformed into a representative slice of the urban distribution, preserving distributions within each sector. An inverted U can then be derived linking certain indices of inequality and the population share of the urban sector (Robinson, 1976; Anand and Kanbur, 1993).

Some policy-makers appear to have incorrectly inferred that this model also implied that economic growth in poor countries would bring little benefit to poor people. (This sometimes reflected a long-standing confusion between the ideas of "poverty" and "inequality" in development policy discussion.) It is easy to show that for all additive poverty measures, if poverty is initially higher in the rural sector then aggregate poverty must fall under the Kuznets process of migration described above. Not for the last time, thinking about how the overall

[84] Also see Adelman and Morris (1973), Sherman Robinson (1976), Montek Ahluwalia (1976), Ahluwalia et al. (1979) and Anand and Kanbur (1993).

development strategy might allow more rapid poverty reduction was led astray by misunderstandings of a theoretical model.

The economic history of today's rich countries has often been seen as a source of lessons for the developing world. Contrary to the expectations of both the 19th century supporters and critics of capitalism, Britain's industrial revolution that started around 1760 was almost certainly poverty reducing through rising real wage rates. But there was a long lag. Just how long depends on the position one takes in a debate on price indices. Gregory Clark's (2005) series of builders' real wage rates in England suggests that higher wages from about 1800, while Allen (2007, 2009) argues that the increase started closer to 1830. Either way the pessimists appear to have been right for at least a few decades after the technical innovations.[85] Real wages in Britain did start to rise in the 19th century despite continuing population growth. Falling food prices in Europe due to refrigeration and lower freight transport costs helped later in that century (Jeffrey Williamson, 1998). And there is evidence that the gains in real wages for the working class from the mid-19th century came hand-in-hand with improved nutritional status.[86]

The lag in the real wage rate response to the industrial revolution is suggestive of the model of Arthur Lewis (1954) in which a surplus of labor in the rural economy keeps wages at a low level until that surplus is absorbed by the economy's modern (urban) sector, as this expands due to technical progress. Allen (2009) offers an alternative explanation whereby the extra demand for capital due to technical progress could only be met by savings from non-labor income, under the assumption that workers were too poor to save. Then profits had to rise to finance the investments needed, and only when sufficient capital had accumulated did real wages rise. In short, high poverty had to persist for some time, despite growth, because poor people simply could not generate the savings required to support that growth. However, even a small amount of saving by each of a large number of workers could have helped finance capital accumulation provided that those savings could be mobilized. Financial underdevelopment may then be seen as a factor in the lag.

The empirical foundations for the expectation that inequality would inevitably rise in growing developing countries were not particularly secure at the time the Kuznets Hypothesis

[85] Also see Jeffrey Williamson (1985) and Kevin O'Rourke and Williamson (1997).

[86] See the Robert Fogel et al. (1983) series on mean height of working class boys in London, which tracks quite closely Tucker's (1975) series on real wages of London artisans. However, Francesco Cinnirella (2008) puts the turning point (after which mean height rose) much later, around the mid-19th century.

was influential. There was not much data to draw on. A debate in the early 1970s on the distribution of the gains from economic growth in Brazil left an appetite for better survey data for measuring poverty and inequality.[87] As better evidence from household surveys accumulated, it turns out that very few low-income countries have developed over time in a manner consistent with the Kuznets Hypothesis, as shown by Michael Bruno et al. (1998) and Fields (2001). We have learnt that growth in developing countries tends to be distribution-neutral on average, meaning that changes in inequality are roughly orthogonal to growth rates in the mean (Ravallion, 1995, 2001; Dollar and Kraay, 2002; Ferreira and Ravallion, 2009). Distribution-neutral growth implies that the changes in any standard measure of either absolute or weakly-relative poverty will be negatively correlated with growth rates in the mean.

There is also evidence of inequality convergence, whereby inequality tends to increase in low inequality countries, and decrease in high inequality countries (Roland Bénabou, 1996; Ravallion, 2003). This is consistent with neoclassical growth theory, which shows that a fully competitive market economy contains strong forces for reducing inequality, as demonstrated by Stiglitz (1969) and Bénabou (1996). As Ravallion (2003) argues, the evidence we see of inequality convergence can also be explained by how economic policy convergence in the world during the 1990s interacted with pre-reform differences in the extent of inequality. To see why, suppose that reforming developing countries fall into two categories: those in which pre-reform controls on the economy were used to benefit the rich, keeping inequality artificially high (arguably the case in much of Latin America up to the 1980s), and those in which the controls had the opposite effect, keeping inequality low (as in Eastern Europe and Central Asia prior to the 1990s). Then liberalizing economic policy reforms may well entail sizable redistribution between the poor and the rich, but in opposite directions in the two groups of countries.

The periods of global trade openness fostered some progress toward convergence in living standards across countries. While much attention has been given to the current globalization period, Williamson (1998) argues that the prior period of globalization, 1870-1914, fostered economic expansion and convergence within the "Atlantic economy." This was almost certainly poverty reducing globally.

[87] Contributions in this debate included Fishlow (1972), Fields (1977) and Ahluwalia et al. (1980).

Post-Independence policies in most developing countries strived for economic growth, facilitated by government planning in relatively closed economies, although capabilities for effective implementation were often weak. India's Second and Third Plans, and many other planning documents, aimed for growth via accelerated capital accumulation and industrialization. These plans were influenced by classical economics and the Harrod-Domar equations, although, here too, policy-makers misinterpreted the implications of the model.[88] The prioritization given to the capital-goods sector in India's Second Plan was directly influenced by a two-sector growth model in Mahalanobis (1953), although there were dissenters at the time (including C.N. Vakil and Brahmanand, 1956) and subsequent research in growth economics did not find any robust implication to justify this prioritization. As Lipton (1977) points out, the planners also ignored Adam Smith's warning that food supply would constrain urban growth in a closed economy. And poor people were financing the industrialization push, which typically depended on extracting a surplus from agriculture, which provided most of their incomes.[89] The plans were overly-optimistic for rapid industrialization, and for its potential to raise the demand for labor, and so reduce poverty. And the industrialization push displaced other policies; for example, rural infrastructure (electrification and roads) took a back seat.

China's enormous progress against absolute poverty, alongside rising inequality, since around 1980 might superficially be seen as testimony to the idea that the country has been in the rising segment of the Kuznets inverted U. However, here too, the model just does not fit the facts. For one thing, inequality is lower in urban China than rural China, unlike the case assumed by Kuznets (1955), although this is not necessary for an inverted U; see Robinson (1975). For another, neither analytic decompositions of the changes in poverty nor regression-based decompositions suggest that the Kuznets process of growth through modern-sector enlargement was the main driver of growth and poverty reduction in China (Ravallion and Chen, 2007). One must look elsewhere, notably to the initial agrarian reforms—including the massive land-reform when the land of the collectives was assigned to individual farmers—and market-liberalization more broadly for an explanation of China's rapid poverty reduction in the 1980s.[90] Manufacturing growth came to play an important role later, though that success was premised in

[88] See the insightful discussion of the history of thought on economic growth in Debraj Ray (1998, Ch.3)
[89] Even now three-quarters of the developing world's poor live in rural areas (Ravallion et al., 2007).
[90] Similarly, in Taiwan and South Korea the initial conditions for more pro-poor growth were laid by radical redistributive land reform, which led to productive and dynamic owner-farmed smallholdings.

part on favorable initial conditions, notably the legacy of investments in human development, including in rural areas. Unlike many developing countries, there was a large literate rural population to draw on as the workforce for China's labor-intensive modern-sector enlargement.

In thinking about policies for fighting poverty the role played by the rural sector has been much debated. The sequence in China was roughly right: initial attention in the reform period from 1978 was given to the rural sector, and agrarian reforms to restore farmer incentives (in land allocation and prices) were crucial to assuring a sustainably pro-poor development path, as had been the case elsewhere in East Asia.[91] Rather few other countries got the sequence right, and here China's experience contains an important lesson for Africa today (Ravallion, 2009).

There were efforts to re-prioritize development policy in the 1970s and '80s. World Bank President Robert McNamara's (1973) "Nairobi speech" signaled such an effort from the international development institutions. In development thinking, "urban bias" was increasingly recognized as bad for growth as well as for poverty reduction, though reflecting political structures in much of the developing world (Lipton, 1968, 1977). However, the temptation to industrialize rapidly—"run before you have walked"—was strong. Combined with huge inequities in access to finance and human development the subsequent growth paths were disappointing, both in growth and (especially) poverty reduction.

The debt crises of the 1980s brought a wave of structural adjustment programs supported by the International Financial Institutions, aiming to restore macroeconomic balances and promote economic growth. Given that the World Bank had produced *Redistribution with Growth* 10 years earlier (Chenery et al., 1974), it is surprising that its own adjustment programs in the early and mid-1980s gave little serious attention to the impacts on poor people, though this neglect was consistent with the broader 1980s backlash in the Anglo-Saxon world against the distributional focus of the 1960s and '70s. The Bank and Fund programs were much criticized for their neglect of distributional impacts, and the criticisms stuck. A progressive recovery in thinking within the IFIs was underway by the late 1980s, and add-on programs to "compensate the losers from adjustment" were soon common. Today it is widely recognized that poverty and inequality mitigation has to be designed into economy-wide reform programs from the outset.

[91] Given that the rest of the economy was growing rapidly, China could delay reforms to its State-Owned Enterprises (SOES). Indeed, it was not until the late 1990s (20 years after the agrarian reforms began) that China started reforming its SOEs. Some observers have suggested that this should have happened sooner.

By the turn of the 20th century enough evidence had accumulated to be confident that higher growth rates tended to yield more rapid rates of absolute poverty reduction.[92] A more poverty-reducing process of global economic growth emerged after 2000, and not just because of China's growth. The trend rate of decline in the "$1.25 a day" poverty rate for the developing world outside China rose from a miserably low 0.4 percentage points per year over 1980-2000 to a very respectable 1.0 percentage points per year after that (Ravallion, 2013).

The poverty impact of a given rate of growth depends in part on the initial distribution.[93] Intuitively, when inequality is high, poor people will tend to have a lower share of the gains from growth. Ravallion (1997a, 2007) confirmed this using household survey data over time.[94] William Easterly (2009) conjectured that the initial poverty rate is likely to be the better predictor of the elasticity than initial inequality, though no evidence was provided. Ravallion (2012) provided that evidence, and it is compelling in showing that it is not high initial inequality that impedes the pace of poverty reduction at a given rate of growth, but high poverty.

Saying that growth typically reduces poverty does not, of course, mean that any growth-promoting policy will do so or that everyone will benefit. That depends on the distribution—horizontally as well as vertically—of the gains and losses from that policy. There may be vertical inequalities—between people at different levels of mean income—generated in the process that mitigate the gains to poor people from growth. And there can be horizontal inequities, whereby people at the same initial levels of income fare very differently, and some poor people may well lose from a policy that is poverty reducing in the aggregate. (Recall that Harrington, 1962, had emphasized this point in describing the new "minority poverty" in the "other America.")

This point has been clearest in the literature on external trade and poverty. A number of studies have found support for the view that trade openness—typically measured by trade volume as a share of GDP—promotes economic growth.[95] It is unclear that trade volume can be

[92] See Ravallion (1995, 2001, 2007), Fields (2001), Dollar and Kraay (2002), Kraay (2006) and World Bank (1990, 2000). Also see the review of the arguments and evidence on this point in Ferreira and Ravallion (2009).
[93] See Ravallion (1997a, 2007, 2012); World Bank (2000, 2006); Bourguignon (2003) and Humberto Lopez and Luis Servén (2006).
[94] Ravallion (1997a) did not find that the elasticity of poverty to growth varied systematically with the mean, although if incomes are log-normally distributed then such a variation is implied theoretically (Bourguignon, 2003; Lopez and Servén, 2006).
[95] In a meta-study of all the cross-country growth regressions with an average of seven regressors (chosen from 67 candidates drawn from the literature on cross-country growth regressions) Xaviar Sala-I-Martin, Gernot Doppelhofer and Ronald Miller (2004) report that trade volume is a significant factor in two-thirds of the regressions, though it is not amongst their sub set of 18 robust predictors of economic growth.

treated as exogenous in these cross-country regressions; higher trade volume may be a response to growth rather than a cause. The policy implications are also unclear since trade volume is not a policy variable; see the discussion in Rodrik (1994) and Francisco Rodriguez and Rodrik (2001). But, putting this issue to one side, what about the distributional effects? A number of studies have combined survey-based measures of income inequality at country-level with data on trade and other control variables to assess the distributional impacts of trade openness, as reviewed in Alan Winters et al. (2004). The evidence is mixed. An influential study by Dollar and Kraay (2004) finds little or no effect of trade volume on inequality. Other studies have reported adverse effects. Mattias Lundberg and Lyn Squire (2003) find evidence that higher trade volume tends to increase inequality. On balance, Ravallion (2006) reports little or no correlation between greater trade openness and the pace of poverty reduction in developing countries.

However, there can be gainers and losers at all levels of living even when a standard measure of inequality or poverty is unchanged. There are many sources of heterogeneity, yielding horizontal impacts of reform. Geographic disparities in access to human and physical infrastructure affect prospects for participating in the opportunities created by greater openness to external trade. Differences in household demographic composition influence consumption behavior and hence the welfare impact of the shifts in relative prices associated with trade openness. Ravallion (2006) reports on two case studies of this heterogeneity in the welfare impacts of liberalizing trade reform, for China and Morocco. The results indicate a sizable, and at least partly explicable, variance in impacts across households with different characteristics—differences that influenced their net trading positions in the relevant markets.

Where does all this leave us? The anti-trade policies (on quotas, tariffs and exchange-rates) of the post-Independence development policy regimes were unlikely to bring much benefit to poor people, the bulk of whom produced tradable goods from primarily non-tradable inputs. While this remains a plausible generalization, there is likely to be considerable heterogeneity across countries in such effects, and one might be skeptical of basing policy advice for any specific country on generalizations from either standard Stolper-Samuelson arguments or cross-country regressions (Ravallion, 2006). For example, some studies have found evidence that higher trade volume is inequality increasing in poor countries but that the reverse holds at higher mean income (Ravallion, 2001; Milanovic, 2005). The macro perspective, focusing on impacts on an aggregate measure of poverty or inequality, hides potentially important horizontal impacts, with implications for other areas of policy, notably social protection efforts that may well be needed to complement the growth-promoting reforms. (Section 9 returns to discuss these policies further.)

Trade policies have also played a role in social protection, though this too has been much debated. Governments of food-exporting but famine-affected areas have often implemented food export bans in the hope of protecting vulnerable citizens. Classical economists were influential in arguing against such policies in favor of free trade. For example, Wallace Aykroyd (1974) describes how the Governor of Bombay in the early nineteenth century quoted Smith's *The Wealth of Nations* in defending his policy stance against any form of trade intervention during the famines that afflicted the region. Various "Famine Commissions" set up by the British Raj argued against the trade interventions that were being called upon to help protect vulnerable populations. Similarly, Cecil Woodham-Smith (1962) describes the influence that Smith and other classical economists had on British policy responses to the severe famines in Ireland in the mid-nineteenth century. In modern times, free trade has been advocated as a means of stabilizing domestic food consumption in the presence of output shocks (World Bank, 1986). Others have been less supportive. Sen (1981a) and Ravallion (1987) pointed to the possibility that real income declines in the famine affected areas can generate food export while people starved.[96] Regulated trade through taxes or even export bans may then be a defensible policy response in helping vulnerable groups relative to feasible alternatives (Ravallion, 1997b).

Critics of trade intervention for the purpose of protection from external price shocks (such as in the period 2007-11) have pointed out that such a policy can exacerbate the problem of price volatility (William Martin and Kym Anderson, 2012). However, in the absence of better options for aggregate inter-temporal smoothing, the optimal non-trade protection policy would entail transfers between net food producers and net consumers, to co-insure. And this too would exacerbate the volatility, as shown by Quy-Toan Do et al. (2013). So one cannot simply argue that the external trade intervention is an inferior form of social protection; any such protection would have a similar feature. Trade interventions will probably entail some price distortions, which must be evaluated against the distortions generated by alternative schemes. There are situations in which trade insulation dominates feasible options for protection (Do et al., 2013).

[96] The analysis of the time series data for famines in British India in in Ravallion (1987) indicated that the aggregate income effects were not strong enough to undermine the consumption-stabilizing effects of unrestricted trade.

The key point here is to avoid sweeping generalizations about policies. To take another example (possibly even more contentious than trade policy) consider active industrial policies—the effort to encourage selected promising sectors or firms using tariffs, subsidies or tax breaks.[97] Advocates point to the successes of some East Asian countries with these policies, though sometimes downplaying the failures of other countries with similar policies. Instead of debating for or against such policies in the abstract, the focus should be on understanding under what conditions these, or other interventions, work.

Possibly any country will have a good chance of success with a reasonably wide range of policies in a context of macroeconomic stability and a capable public administration that can pragmatically choose sensible interventions and minimizing the damage from mistaken ones. But will that be enough? The next section turns to another set of potentially important initial conditions related to the distribution of wealth and income.

8. The final blow to the idea of the utility of poverty?

A strand of thought back to the mercantilists has essentially argued that, whatever moral position one takes about poverty, a more unequal initial distribution of income allows a higher long-run mean income for any given initial mean. Since higher inequality at a given initial mean almost certainly entails higher poverty (by any standard measure) this amounts to an instrumental excuse for higher poverty now. In other words, by this view, one need not worry about poverty today since it will come with higher growth and (hence) less poverty in the future.

The precise form of this argument evolved over time, although incentives always played a role. Mercantilists worried about adverse effects of higher wages on work effort and export competitiveness. Later arguments switched to the idea that aggregate savings constrained growth. By this view, in a fully employed (closed) economy, capital accumulation was constrained by aggregate domestic savings, and saving is something rich people naturally do more of than poor people. Thus—the argument went—efforts to redistribute income in favor of the poor risked retarding growth and (hence) had ambiguous implications for poverty reduction.

[97] A good review of this class of policies and the debate surrounding them can be found in Ann Harrison and Andres Rodríguez-Clare (2010). Supportive discussions can be found in Rodrik (2004) and Justin Lin (2012); a more critical perspective can be found in Howard Pack and Kamal Saggi (2006).

The neoclassical theory of economic growth, as represented by the Solow (1956) model, was interpreted by some observers as implying that there was an automatic self-correcting process whereby a high initial level of poverty would eventually be reduced by economic growth. By this argument, countries starting out with a low mean income (and hence high absolute poverty rate) would tend to have a higher marginal product of capital (given that they had so much less capital per worker and that there are diminishing returns), which would entail a higher rate of economic growth when compared to a growing high income countries with a similar rate of investment. And so the initially poorer country would eventually catch up. Strictly this was a process of dynamic transition, not a model for explaining differences in the steady-state level of income. However, with suitable controls for the latter, a body of empirical work confirmed the prediction of conditional convergence, following an influential early contribution by Robert Barro and Sala-i-Martin (1992).

Since the Solow model is an aggregate model, with no heterogeneity, it was in fact a slight of hand to ever use it to argue that poverty would be self-correcting. There was no inequality in this model.[98] And, even in his aggregate model, Solow was well aware of the potential for a "poverty trap' (though he did not use that term). Indeed, the original (1956) paper outlined one possible trap, arising from assumed nonlinearlities in how population growth rates depend on mean income, with population growth falling at low incomes but rising with higher incomes, then tapering off at higher incomes. A country in a stable equilibrium but at low income would then need a large gain in capital per worker to escape the trap, and move to a sustainably positive growth path.

The 20th century saw another set of ideas, challenging the "utility of poverty." Recall that there was an early hint of this challenge in Marshall (1890), but there was little immediate take-up. It appears to have been long understood that rich people saved a greater share of income than poor people, who were often assumed to save nothing (as in the models of Michael Kalecki, 1942, and Nicholas Kaldor, 1955). It would then have been only a small step to the conclusion that a higher poverty rate at a given mean income would yield lower aggregate savings and (hence) a lower growth rate in any economy for which aggregate savings constrained growth.

[98] There was much debate around this time concerning the assumption of an aggregate neoclassical production function, such as in the Solow model, which ignored the heterogeneity of capital. Defenders of that assumption argued that it was an analytically useful simplifying assumption, albeit an assumption that became a workhorse of modern macroeconomics. There is an insightful discussion of this debate in Bliss (1975, Ch.8).

But that conclusion was never drawn to my knowledge. It was, however, understood at least back to the 1930s that the same property of the savings function implied a growth-equity trade off, whereby higher inequality would generate higher savings and (hence) higher growth. John Maynard Keynes (1936, Ch. 24) questioned the existence of such a tradeoff. His interpretation of the causes of unemployment predicted that it was lack of consumption that prevented full-employment, and so a higher share of national income in the command of poor people would promote growth, until full-employment was reached.

In the 1990s, a new set of ideas emerged that seriously questioned the instrumental case for poverty and inequality even in a fully-employed economy. By this view, poor and/or unequal societies stifled investment, invention, and reform.[99] These ideas opened up a new window on the potential role of antipoverty policies in economic development.

One argument as to why poverty would self-perpetuate in the absence of effective policies related to the idea that poverty would foster a high rate of population growth which would entail lower growth. The last step in this argument is an implication of the Solow model discussed above. In that model, a higher rate of growth of the labor force dilutes the capital stock. A higher rate of population growth thus acts in a similar way to a higher rate of depreciation in lowering the steady state level of capital per worker and (hence) mean income.[100] But what about the second step? The modern version of this argument emphasizes the role played by inequality. An undeniably important dimension of inequality in the world is that people living in poorer families tend to be less healthy and to die sooner. This and other factors—including a dependence on children for old-age support and inequalities in maternal education—play a key role in generating another socioeconomic gradient: fertility rates tend to be higher in poor families. On balance, the natural rate of population growth tends also to be higher for the poor. Thus we can expect lower rates of progress against poverty in countries with higher population growth rates, and there is some supportive evidence for this view.[101]

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[99] See Loury (1981), Banerjee and Newman (1993), Roberto Perotti (1996), Hoff (1996), Philippe Aghion et al. (1999), Bardhan et al. (2000), Maitreesh Ghatak and Neville Nien-Huei Jiang (2002), Banerjee and Duflo (2003), Azariadis (2006) and World Bank (2006, Chapter 5). Sarah Voitchovsky (2009) provides a survey of the arguments and evidence on how the initial level of inequality influences the subsequent growth rate.

[100] Evidence of an adverse effect of population growth on GDP per capita growth can be found in Kelley and Schmidt (1995, 2001) and Williamson (2001).

[101] Evidence can be found in Eastwood and Lipton (1999, 2001) who regressed changes over time in poverty measures for a cross-section of countries on the fertility rate (with various controls) and found an adverse demographic effect on poverty. Using time-series data for India, Datt and Ravallion (1998) find evidence that higher rates of population growth were poverty increasing.

An influential strand of the late 20th century literature pointed to the implications of borrowing constraints associated with asymmetric information and the inability to write binding enforceable contracts. Credit market failure leaves unexploited opportunities for investment in physical and human capital and there are assumed to be a diminishing marginal product of capital. (This idea can be extended to also embrace technical innovation, assuming that everyone gets new ideas, but that the poor are more constrained in responding.) Then higher current inequality implies lower future mean wealth at a given value of current mean wealth.[102]

The model outlined at the beginning of this chapter illustrates this point well in the special case in which the distribution of wealth (given production technologies) is such that the threshold is not binding ($w_t > k^{\min}$ for everyone). Mean future wealth in a growing economy is then a weakly quasi-concave function of the distribution of current wealth. By standard properties of such functions, a mean-preserving increase in wealth inequality will entail lower mean wealth in the future, i.e., a lower growth rate (Banerjee and Duflo, 2003). This is no longer true in general when the threshold is binding. Then there will exist increases in inequality embracing the lower end of the wealth distribution (below $k^{\min}$) that can increase the growth rate of wealth. Thus the type of model illustrated by Figure 1 has ambiguous implications for how much an exogenous reduction in inequality will promote overall growth. That depends crucially on precisely <u>where</u> in the distribution the reduction in inequality occurs.

Borrowing constraints are not the only way that inequality can matter to growth. Other models have also been proposed, implying that high inequality leads democratic governments to implement distortionary redistributive policies, as in the model of Alberto Alesina and Rodrik (1994). Another class of models is based on the idea that high inequality restricts efficiency-enhancing cooperation, such that key public goods are underprovided, or desirable economic and political reforms are blocked.[103] Raghuram Rajan (2009) provides an interesting analysis of how the two main types of economic reforms that are widely seen as key to poverty reduction, namely making markets more competitive and expanding access to education, can be blocked in a democracy in which three classes—the rich oligopolists who benefit from market distortions, an educated middle class and the uneducated poor supplying unskilled labor—strive to preserve

[102] Models with such features include Loury (1981), Oded Galor and Joseph Zeira (1993), Bénabou (1996), Aghion and Bolton (1997) and Abhijit Banerjee and Esther Duflo (2003).
[103] Arguments along these lines include Bardhan et al. (2000); Banerjee and Iyer (2005); Acemoglu and Robinson (2006); Rajan (2009a,b) and Stiglitz (2012).

their rents in the status quo. The model helps us understand the observations of Weiner (1991) and others about India's relative lack of progress in attaining mass literacy.

A new interpretation of the long-run impacts of Colonialism has identified adverse effects of initial inequality on policies and institutions; Stanley Engerman and Kenneth Sokoloff (2006) provide an excellent overview. The essence of this argument is that the geographic patterns of Colonialism (notably between North and South America) implanted greater initial inequality and population heterogeneity into in some colonies than others. The main Colonial origin of inequality is seen to have been the creation of European enclaves in the colonies that were greatly advantaged over the natives. The more unequal colonies had a harder time developing promotional antipoverty policies (such as mass schooling) that were favorable to both long-term growth and poverty reduction.

But is it inequality that matters, or something else, such as poverty, the size of the middle class or the extent of polarization? Inequality is obviously not the same thing as poverty; inequality can be reduced without a lower poverty measure by redistributing income amongst the non-poor, and poverty can be reduced without lower inequality. (Similarly, efforts to help the middle-class may do little to relieve current poverty.) In fact there is another implication of credit market failures has received less attention until recently. While the literature has emphasized that higher inequality in such an economy implies lower growth, so too does higher current wealth poverty for a given mean wealth.[104] Again, the point can be illustrated using the basic model outlined in section 2. Plainly, a larger density of people near the zero wealth equilibrium will entail lower subsequent growth. What if the threshold is not binding? It is assumed that the poverty line does not exceed $k^*/(\lambda+1)$ and let H_t^* denote the poverty rate (headcount index) at this maximum poverty line. Now consider the growth effect of a mean-preserving increase in the poverty rate. I assume that H_t^* increases and that no individual with wealth less than $k^*/(\lambda+1)$ becomes better off. If this holds then we can say that poverty is unambiguously higher. Then the credit constraint implies that unambiguously higher poverty incidence—defined by any poverty line up to the minimum level of initial wealth needed to not be liquidity constrained—yields lower growth at a given level of mean current wealth. Since this point does not appear to have been made in the literature, the Appendix demonstrates the point more formally.

[104] Ravallion (2001) argued intuitively that poverty retards growth when there are credit market failures.

This implies an aggregate efficiency cost of a high incidence of poverty. But note that the theoretical prediction concerns the level of poverty at a given initial value of mean wealth. Without controlling for the initial mean, the sign of the effect of higher poverty on growth is ambiguous (Appendix). Two opposing effects can be identified. The first is the conditional convergence property described above, whereby countries with a lower initial mean (and hence higher initial poverty) tend to have higher subsequent growth in a neoclassical growth model. Against this, there is an adverse distributional effect of higher poverty. Which effect dominates is an empirical question, which we will return to.

Credit-market imperfections are not the only argument suggesting that poverty is a relevant parameter of the initial distribution. Lopez and Servén (2009) introduce a subsistence consumption requirement into the utility function in the model of Aghion et al. (1999) and show that higher poverty incidence (failure to meet the subsistence requirement) implies lower growth. Another example can be found in the theories that have postulated impatience for consumption (high time preference rates possibly associated with low life expectancy) and hence low savings and investment rates by poor people (see, for example, Azariadis, 2006). Here too, while the theoretical literature has focused on initial inequality, it can also be argued that a higher initial incidence of poverty means a higher proportion of impatient consumers and hence lower growth.

The potential inefficiency of poverty is starkly obvious when one considers how work productivity is likely to be affected by past nutritional intakes, as these determine the stock of human capital.[105] As noted in section 2, only when nutritional intake is high enough will it be possible to do any work, but diminishing returns to work will set in later; see the model in Dasgupta and Ray (1986). Impacts of poverty on the nutritional status of young children in poor families are also of special concern. A sizable body of research suggests that poor nutrition (both food-energy intakes and micronutrients) in the early years of life retards child growth, cognitive and learning ability, schooling attainments, work productivity and likely earnings in adulthood.[106] The health environment also matters. Chronic under-nutrition in children can stem from either low nutritional intake or low nutritional absorption due to constant fecal-oral

[105] John Strauss and Duncan Thomas (1998) review evidence on this relationship. A useful overview of the biomedical arguments and evidence can be found in Dasgupta (2011).
[106] For useful overviews of the evidence see Harold Alderman et al., (2006), David Benton (2010) and Currie (2011).

contamination,[107] such as due to the lack of clean drinking water. This can mean that direct nutritional supplementation does little or nothing to improve children's nutritional status (such as measured by stunting) until the health environment improves.[108] This type of argument can be broadened to include other aspects of child development that have lasting impacts on learning ability and earnings as an adult (Flavio Cunha and James Heckman, 2007). And the handicap of poverty can emerge in the pre-natal period. Maternal, pre-natal, conditions are now also thought to matter to child development and (hence) economic outcomes later in life (Currie, 2011; Dasgupta, 2011). By implication, having a larger share of the population who were born in and grow up in poverty (including living in poor health environments) will have a lasting negative impact on an economy's aggregate output. Poverty will perpetuate.

In another strand of thinking on how poverty can perpetuate, Mani et al. (2013) present evidence from both experimental and observational studies suggesting that poverty reduces cognitive ability. The evidence is consistent with the view that, given that human cognitive capacity is physically limited, the concerns generated by poverty crowd out thinking about other things relevant to personal economic advancement.

There are also theoretical arguments involving market and institutional development, although this is not a topic that has received as much attention in this literature. While past theories have often taken credit-market failures to be exogenous, poverty may well be a deeper causative factor in financial development (as well as an outcome of the lack of financial development). For example, given a fixed cost of lending (both for each loan and for setting up the lending institution), liquidity constraints can emerge as the norm in very poor societies.

A strand of the theoretical literature has also pointed to the possibilities for multiple equilibria associated with a non-convexity in the production possibility set, as in Figure 1. As noted already, in poor countries, the nutritional requirements for work can readily generate such nonlinearity in the dynamics, as argued by Dasgupta (1997). Such a model predicts that a large exogenous income gain may be needed to attain a permanently higher income and that seemingly similar aggregate shocks can have dissimilar outcomes; growth models with such features are also discussed in Day (1992) and Azariades (1996, 2006) amongst others. Sachs (2005a,b) has

[107] This is known as environmental enteropathy (see, for example, Korpe and Petri, 2012).
[108] Bill Kinsey (2013) identifies this as one possible reason why the incidence of chronic under-nutrition has not fallen in his panel data for Zimbabwe.

invoked such models to argue that a large expansion of development aid would be needed to assure a permanently higher average income in currently poor countries.

Some of the empirical literature on economic growth has found that higher initial inequality impedes growth.[109] And the effect is quantitatively large, as well as statistically significant. Consider the two most recent published studies at the time of writing. Herzer and Vollmer (2012) find that a one percentage point increase in the Gini index results in a decrease in long-run mean income of 0.013%; when normalized by standard deviations, this is about half the growth impact of the investment share. Berg et al. (2012) also find that more unequal countries tend to have less sustained spells of growth, and this effect is also quite large; a one percentage point higher Gini index is associated with a decline in the length of the growth spell of 11-15%.

Not all the evidence has been supportive.[110] The main reason why some studies have been less supportive appears to be that they have allowed for additive country-level fixed effects in growth rates. This specification addresses the problem of time-invariant latent heterogeneity in growth rates. However, it may well have little power for detecting the true relationships given that the changes over time in growth rates will almost certainly have a low signal-to-noise ratio. Simulation studies have found that the coefficients on growth determinants are heavily biased toward zero in fixed-effects growth regressions (William Hauk and Roman Wacziarg, 2009).

There are a number of remaining issues in this literature. The bulk of the literature has used consumption or income inequality measures. Theoretical arguments based on borrowing constraints point to the importance of asset inequality, not income inequality per se. There is evidence of adverse effects of asset inequality in growth.[111]

The aspect of initial distribution that has received almost all the attention in the empirical literature is inequality, as typically measured by the Gini index of (relative) inequality. The popularity of the Gini index appears to owe more to its availability in secondary data compilations on income and consumption inequality measures than to any intrinsic relevance to the economic arguments.[112] However, as Lopez and Servén (2009) observe, the significance of

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[109] See Alesina and Rodrik (1994), Rodrik (1994), Persson and Tabellini (1994), Nancy Birdsall et al., (1995), Clarke (1995), Perotti (1996), Klaus Deininger and Squire (1998), Stephen Knowles (2005), Voitchovsky (2005), Dierk Hertzer and Sebastian Vollmer (2012), and Andrew Berg et al. (2012).

[110] See Hongyi Li and Heng-fu Zou (1998), Barro (2000) and Kristin Forbes (2000).

[111] See Rodrik (1994), Birdsall and Juan Londono (1997) and Deininger and Pedro Olinto (2000), all using cross-country data, and Ravallion (1998) using regional data for China.

[112] The compilation of Gini indices from secondary sources (and not using consistent assumptions) in Deininger and Squire (1996) led to almost all the tests in the literature since that paper was published.

the Gini index in past studies may reflect an omitted variable bias, given that one expects that inequality will be highly correlated with poverty at a given mean.

There are also issues about the relevant control variables when studying the effect of initial distribution on growth. The specification choices in past work testing for effects of initial distribution have lacked clear justification in terms of the theories predicting such effects. Consider three popular predictors of growth, namely human development, the investment share, and financial development. On the first, basic schooling and health attainments (often significant in growth regressions) are arguably one of the channels linking initial distribution to growth. Indeed, that is the link in the original papers of Loury (1981) and Galor and Zeria (1993).[113] Turning to the second, one of the most robust predictors of growth rates is the share of investment in GDP (Ross Levine and David Renelt, 1992); yet arguably one of the main channels through which distribution affects growth is via aggregate investment and this is one of the channels identified in the theoretical literature. Finally, consider private credit (as a share of GDP), which has been used as a measure of "financial sector development" in explaining growth and poverty reduction (Thorsten Beck et al., 2000, 2007). The theories discussed above based on borrowing constraints suggest that the aggregate flow of credit in the economy depends on the initial distribution.

While the theories and evidence reviewed above point to inequality and/or poverty as the relevant parameters of the initial distribution, yet another strand of the literature has pointed to various reasons why the size of a country's middle class can matter to the fortunes of those not (yet) so lucky to be middle class. It has been argued that a larger middle class promotes economic growth, such as by fostering entrepreneurship, shifting the composition of consumer demand, and making it more politically feasible to attain policy reforms and institutional changes conducive to growth.[114] This has been an issue in India, where it was argued back to the 1970s that "inequality" constrained the growth of the manufacturing sector by limiting the size of the domestic market for consumer goods; see, for example, the discussion in Bardhan (1984b, Chapter 4). Here too it can be argued that it was not inequality per se that was the culprit but the

[113] More recently, Catalina Gutiérrez and Ryuichi Tanaka (2009) show how high initial inequality in a developing country can yield a political-economy equilibrium in which there is little or no public investment in basic schooling; the poorest families send their kids to work, and the richest turn to private schooling.

[114] Analyses of the role of the middle class in promoting entrepreneurship and growth include Daron Acemoglu and Fabrizio Zilibotti (1997) and Matthias Doepke and Zilibotti (2005). Middle-class demand for higher quality goods plays a role in the model of Murphy et al. (1989). Birdsall et al. (2000) conjecture that support from the middle class is crucial to reform.

relatively small middle class, or (more or less equivalently) the extent of absolute poverty that generated the domestic demand constraint in a relatively closed economy. The argument has been heard less in the more open economies to today. However, the Indian middle class has been seen to in promoting reform (Sridharan, 2004). Using cross-country regressions, Easterly (2001) finds that a larger income share controlled by the middle three quintiles is a significant predictor of rates of economic growth.

So we have three main contenders for the distributional parameter most relevant to growth: inequality, poverty and the size of the middle class. The fact that very few encompassing tests are found in the literature, and that these different measures of distribution are not independent, leaves one in doubt about what aspect of distribution really matters. As already noted, when the initial value of mean income is included in a growth regression alongside initial inequality, but initial poverty is an excluded but relevant variable, the inequality measure may pick up the effect of poverty rather than inequality *per se*. Similarly, the main way the middle class expands in a developing country is almost certainly through poverty reduction, so it is unclear whether it is a high incidence of poverty or a small middle class that impedes growth. Similarly, a relative concept of the "middle class," such as the income share of middle quintiles, will probably be highly correlated with a relative inequality measure, clouding the interpretation.

Possibly the strongest evidence to date to support the view that it is poverty not inequality *per se* that impedes growth in developing countries comes from an observation made by Ravallion (2012b), namely that we see convergence in average living standards amongst developing countries and greater progress against poverty in faster growing economies yet we do not see poverty convergence; the poorest countries are not enjoying higher proportionate rates of poverty reduction. Ravallion resolves this paradox by arguing that a high initial incidence of poverty, at a given initial mean, impedes subsequent growth (consistently with a number of the theories outlined above). This is shown to be consistent with data for almost 100 developing countries, which reveal an adverse effect on consumption growth of high initial poverty incidence at a given initial mean. Ravallion finds that high poverty at a given initial mean matters more than inequality, or measures of the middle class or polarization. Also, starting with a high incidence of poverty limits progress against poverty at any given growth rate. For many poor countries, the growth advantage of starting out with a low mean is lost due to their high poverty rates. That does not, however, imply that any antipoverty policy will promote growth. That will depend on many factors, as discussed in the next section.

The arguments summarized above as to why poverty can bring lasting efficiency costs do not require the existence of a poverty trap. However, when a poverty trap is present the cost of poverty can rise greatly. So it is important to ask whether such traps have economic significance. On *a priori* grounds, it is highly plausible that threshold effects exist. Biology alone makes this plausible; unless one can support the nutritional needs of the body at rest it will be impossible to do any work. Whether this is of economic significance in practice (even in poor economies) is another matter. As Deaton (2006) points out (in reviewing Fogel, 2004) human caloric requirements can be covered with seemingly modest spending on food staples.[115] However, this is not conclusive. Environmental enteropathy can generate quite low nutrition absorption rates given the persistent fecal-oral contamination in the environments that many people live. In effect, the implicit price of an absorbed calorie capable of fuelling work effort is higher, possibly far higher, than the nominal price. Furthermore, we have also learnt that work productivity depends on the personal history of nutrition and health, as argued by Dasgupta (2011). Someone who is stunted due to a long history of undernutrition—low intakes and/or low absorption—can be in current nutritional balance (able to afford current food-energy requirements) but have such low productivity that a poverty trap emerges. It may not be a strict threshold, as in Figure 1, but a smoother, S-shaped function.

Other sources of threshold effects are also plausible on *a priori* grounds, such as the fact that a minimum level of schooling is essential before schooling can be a viable route out of poverty (recalling the story of Sunil in Boo, 2011). One can also interpret the aforementioned arguments on how poverty reduces cognitive functions as stemming from biological threshold effects—that a minimum level of time not worrying about the financial and other stresses created by poverty is needed to escape poverty (Mani et al., 2013).

In testing for threshold effects, a strand of the literature has looked for lumpiness in non-human capital requirements. The results have been mixed. Alice Mesnard and Ravallion (2006) find evidence of nonlinear wealth effects on new business startups in Tunisia, but do not find signs of thresholds effects. Nor do David McKenzie and Christopher Woodruff (2006) find any

[115] Subramanian and Deaton (1996) calculate that nutritional requirements can be met with a small fraction of the daily wage rate, using data for India. Similar reasoning leads Anand Swamy (1997) to question the nutrition-based efficiency wage hypothesis.

sign of non-convexities in production at low levels amongst Mexican microenterprises. In one of the few studies using wealth data, Barrett et al. (2006) do find evidence of the nonconvexity in asset data for rural Kenya and Madagascar.[116]

It can also be difficult to detect theoretically plausible threshold effects on dynamics in standard micro-data sets (Richard Day, 1992). For one thing, depending on the frequency of the observations over time in the data, the existence of the unstable "middle" equilibrium (point B in Figure 1) can generate attrition—the destitute simply drop out of the data (including by becoming homeless) (Michael Lokshin and Ravallion, 2004). For another, there will be high social returns risk-sharing arrangements to prevent most people falling into the trap. The trap is still there, but may only be evident in extreme situations when those social relationships break down, as Ravallion (1997b) argues is the case in famines.

A testable implication of the models based on credit-market failures is that individual wealth should be an increasing concave function of its own past value. In principle, this can be tested on suitable micro panel data, though most data sets have only had consumption or income, not wealth. Lokshin and Ravallion (2004) provide supportive evidence on concavity in panel data on incomes for Hungary and Russia while Jyotsna Jalan and Ravallion (2004) do so using panel data for China. These studies do not find the threshold properties in the empirical income dynamics that would be needed for a poverty trap. Using similar methods, but arguably a better identification strategy, Stefan Dercon and Ingo Outes (2013) do find evidence of a low, unstable, equilibrium in the income dynamics for a long panel of households in rural India.

Micro-empirical support for the claim that there are efficiency costs of poor nutrition and health care for children in poor families has come from a number of studies. In a recent example, an impact evaluation by Karen Macours et al. (2008) of a conditional cash transfer (CCT) scheme in Nicaragua found that randomly assigned transfers to poor families improved the cognitive outcomes of children through higher intakes of nutrition-rich foods and better health care. This echoes a number of findings on the benefits to disadvantaged children of efforts to compensate for family poverty.[117]

The upshot of all this is that present day thinking is both more optimistic about the prospects of eliminating poverty through an expanding economy, and more cognizant of the

[116] Also see the discussion in Michael Carter and Christopher Barrett (2006).

[117] For reviews of this literature see Janet Currie (2001, 2012)

conditionalities in the gains to poor people from economic growth. Under the right conditions, growth can be a powerful force against poverty. Those conditions pertain in large part to aspects of both the initial distribution and how it evolves. As we will see in the following section, the focus of much antipoverty policy has shifted over time toward efforts to assure that the conditions are in place that will allow poor people to contribute to an expanding overall economy, and so escape poverty, permanently.

9. Direct interventions in modern times

If all incomes are observable and there are no behavioral responses then guaranteeing a minimum income is straightforward—one simply makes transfers sufficient to bring everyone up to that minimum. Administrative capabilities, constraints on information and incentive effects have meant that the practice of social policy is far more complicated. A range of interventions has emerged. This section begins with some generic issues—information, incentives and policy design—before reviewing the main types of direct interventions found today.[118]

Generic issues: The stage of development influences the types of policies needed. Poor places tend as a rule to have weaker administrative capabilities, which tends to mean less reliable information for deciding who should receive help. More universal (probably state-contingent) and/or self-targeted policies can then have greater appeal in developing countries (including when the rich countries of today were developing), notably when there is a large informal sector. By contrast, the income tax system and means-tested transfer payments that require formalization tend to dominate in rich countries.

The existence of a large informal sector is associated with both information and incentive constraints on social policy in developing countries. The information constraints are obvious, given that informality essentially means that one has little systematic data on actual or potential beneficiaries. The incentive constraint comes from the fact that the informal sector is a feasible option for anyone in the formal sector (though the converse is less true). Thus a social policy that can apply only to a formal-sector worker will have an added efficiency cost (through the scope for substitution) that would not be the case in a purely formal, developed, economy.[119]

[118] This section summarizes material from a much fuller discussion of anti-poverty policy in Ravallion (2015).
[119] Similarly, informal sector firms can evade taxation by resorting to cash (Roger Gordon and Wei Li, 2009).

Incentive effects have figured in the debates about all forms of targeted direct interventions across all settings. A perfectly targeted set of transfers to poor families in the imaginary world of complete information—meaning that the transfers exactly fill the poverty gaps and so bring everyone up to the desired minimum income—would impose 100% marginal tax rates on recipients. This is very unlikely to be optimal from the point of view of poverty reduction given labor supply responses. 140 years after the famous debates over the reforms to England's Poor Laws, a rigorous formulation of the problem of redistributive policy with incentive effects was finally available in the form of the James Mirrless's (1971) optimal tax model. The Mirrless objective function was utilitarian, but his approach could also be adapted to an explicit poverty-reduction objective. The simulations by Kanbur, Michael Keen and Matti Tuomala (1994) suggested that marginal tax rates around 60-70% would be called for in an optimal antipoverty policy using transfers, allowing for incentive effects.[120]

At the opposite extreme to perfect targeting one can imagine a <u>basic income scheme</u>, which provides a fixed cash transfer to every person, whether poor or not.[121] This has been advocated by (amongst others) Paine (1797), Juliet Rhys-Williams (1943), James Meade (1972), Daniel Raventós (2007) and Bardhan (2011). The idea has spanned both rich and poor countries, and the political spectrum from Left to Right. There are no substitution effects of the transfers since there is no action that anyone can take to change their transfer receipts, but there will be income effects (including higher demand for leisure, though how much so is unclear). There is no stigma associated with participation, given that there is no purposive targeting to poor people. A complete assessment of the implications for efficiency (and equity) must take account of the methods of financing the scheme. The administrative cost would probably be low, though certainly not zero given that some form of personal registration system would probably be needed to avoid "double dipping" and to assure that larger households receive proportionately more. Proposals in developed countries have typically allowed for financing through a progressive income tax (such as in Meade, 1972), in which case the idea becomes formally similar to the Negative Income Tax (Milton Friedman, 1962), though the mode of administration may differ. Atkinson and Holly Sutherland (1989) demonstrate that a basic income scheme can be devised as a feasible budget-neutral way of integrating social benefits and income taxation in

[120] Also see Kanbur and Tuomala (2011) on alternative characterizations of the policy objective.
[121] This has been called many things including a "poll transfer," "guaranteed income," "citizenship income" and an "unmodified social dividend."

Britain. In poor countries a basic income scheme could be costly, depending on the benefit level and method of financing, although there may well be ample scope for financing by cutting current subsidies favoring the non-poor, as Bardhan (2011) argues is the case for India. This type of scheme would appear to dominate many policies found in practice today; for example, it would clearly yield a better incidence than subsidies on the consumption of normal goods, which is a type of policy still found in a number of countries. However, as yet there have been very few examples of universal uniform cash transfer schemes in practice. (An example in Bolivia is discussed below.)

The bulk of the direct interventions found in practice fall somewhere between the above extremes of "perfect targeting" and a basic income with no targeting. In countries where income means testing is a feasible option (mostly rich countries) the benefit level can be progressively phased out as income rises above some level, below which some guaranteed support is provided. The rate of benefit withdrawal depends on the strength on the expected labor supply response. With the better data and analytic tools available today, it can be hoped that future policy debates will be better informed about actual behavioral responses. However, from what we know already about labor supply responses, it is evident that poor people gain significantly from transfers in a country such as the U.S. (Saez, 2006).

The recent emphasis on targeting in many countries (both rich and poor) has typically defined as avoiding "leakage" of benefits to the non-poor, implicitly downplaying concerns about coverage of the poor (as pointed out by Cornia and Stewart, 1995). Readily measurable proxies for poverty are widely used for such targeting in settings in which income means-testing of benefits is not an option. Efficiency considerations point to the need for using indicators that are not easily manipulated by actual or potential beneficiaries, although this is rarely very clear in practice. Geographic proxies have been common, as has gender of the recipient, family size and housing conditions.[122] These targeting methods can be thought of as a "proxy means test" (PMT) in which transfers are allocated on the basis of a score for each household that can be interpreted as predicted income or consumption, based on readily observed indicators. Depending on how it is designed, this type of scheme can have better incentive effects than perfect means testing, and have a higher impact on poverty for a given outlay than a poll transfer.

[122] Grosh et al. (2008) provides a useful overview of the targeting methods found in practice in developing countries, with details on many examples.

The main alternative method of targeting found in practice uses communities themselves to decide who is in greatest need. This exploits local information that is not normally available for the PMT but it does so at the risk of capture by local elites.[123] However, policy advisors and policy makers sometimes appear to have treated "better targeting" as the objective of the policy design problem, forgetting that it is really only an instrument, and not necessarily the best instrument given the aforementioned costs and the political economy response to targeting, whereby finely targeted programs can undermine the political support for social policies.[124]

State-contingent transfers financed by taxation: Recall that the essential idea of England's Old Poor Laws was state-contingent transfers financed by taxation. There was little effort at explicit targeting of relief (prior to the 1834 reforms, which we return to) although there was some degree of self-targeting given that relatively well-off families would be reticent to turn to the Parish for assistance after some shock.

The idea of un-targeted state-contingent transfers (as in the Old Poor Laws) re-emerged in 20th century Britain in the form of the *Beveridge Report* (William Beveridge, 1942), which outlined detailed proposals for social insurance, whereby all those of working age would be obliged to pay a national insurance contribution to finance state contingent transfers to the unemployed, the sick, the elderly or widowed. However, unlike the Old Poor Laws, this was to be a national scheme, rather than implemented locally. Two other elements completed the social protection policy. First, family allowances were proposed, to cover the costs of dependent children (after the first). Second, an income top-up was proposed for those falling below absolute standards taking account of all income sources.[125] While the aim of these proposals was squarely to eliminate poverty, Beveridge was opposed to means-testing—universal provision at a flat-rate was seen to avoid the costs of targeting and to encourage social cohesion.[126] The past, deliberately stigmatizing, approach typified by the workhouses was to be abandoned. Beveridge's plan formed the basis for the policies of the new Labour government elected in

[123] Discussions of community-based targeting can be found in Alderman (2002), Galasso and Ravallion (2005), Mansuri and Rao (2012) and Alatas et al. (2012). The latter paper compares this form of targeting with PMT for a cash transfer program in Indonesia. The study finds that PMT does somewhat better at reaching the poor but community-based targeting better accords with local perceptions of poverty and is better accepted by local residents.

[124] For further discussion see van de Walle (1998), Philippe De Donder and Jean Hindriks (1998) and Jonah Gelbach and Lant Pritchett (2000).

[125] This came to be known as the "Supplementary Benefit" and became more important in practice than Beveridge envisaged; see the discussion in Meade (1972).

[126] There is an interesting discussion of Beveridge's arguments in Thane (2000, esp., Ch.19).

1945; the Conservative resistance to the (popular) Beveridge plan helped assure a Labour victory (Thane, 2000, p.369).

America's Social Security System had also grown out of prior relief efforts (notably in the Depression) and came to provide fairly comprehensive state-contingent transfers, financed by taxation, soon after WW2. As with the Poor Laws, there was much debate about these policies. (America's Social Security System was decried as "socialism" in some quarters, and still is.) Similarly to the 1834 reforms to the Poor Laws, calls for targeting have become common since 1980, in attempting to reduce the fiscal cost of social insurance.

Uniform but state-contingent transfers are not common in developing countries today. It seems that developing countries have largely skipped this stage in the history of social policy. However, it is not entirely clear why this is the case or that it is a good idea from the point of view of sound policy making. To explain why uniform state-contingent transfers of the social insurance type are not used, it is sometimes claimed that such policies are unsuitable to poor economies; they would be too costly, and targeting is called for. While the fiscal burden of social policies must never be ignored, it is notable that the Old Poor Laws were invented in what was clearly a poor economy by today's standards. For some 300 years the Old Poor Laws provided a degree of social protection and stability at seemingly modest cost (Solar, 1995).

As we will see, while better targeting may help, finely targeted policies have costs that are often hidden but must be considered in any proper evaluation of the policy options.

Workfare: The workhouses that emerged in Europe around 1600 can be interpreted as a means of getting around the information and incentive problems of targeting. Design features encouraged those truly in need of help to turn to the workhouse <u>and</u> encouraged them to drop out of it when help is no longer needed, given better options in the rest of the economy. This solves the information problem of targeting. However, it does so by imposing costs on participants, notably the forgone earnings and the possible welfare costs of stigma and subjugation (as Oliver Twist experienced). A truly utilitarian-welfarist assessment relative to un-targeted transfers would clearly be ambiguous without further evidence. Arguably England's workhouses of the 19th century went too far in imposing costs on participants to assure self-targeting. The costs came to be widely seen as objectionable. But the idea of self-targeting had lasting influence.

The workhouses are an example of a class of direct interventions often called today "workfare schemes"—schemes that impose work requirements on welfare recipients as a means of assuring incentive compatibility. Though not involving workhouses, this idea was embodied in the Famine Codes introduced in British India around 1880, and the idea has continued to play an important role to this day in the sub-continent (Drèze, 1990a). Such schemes have helped in responding to, and preventing, famines including in Sub-Saharan Africa (Drèze, 1990b). Workfare was also a key element of the New Deal introduced by US President Roosevelt in 1933 in response to the Great Depression.

An important sub-class of workfare schemes has aimed to guarantee employment to anyone who wants it at a pre-determined (typically low) wage rate. Employment Guarantee Schemes (EGSs) have been popular in South Asia, notably (though not only) in India where the Maharashtra EGS, which started in 1973, was long considered a model. In 2005, the central government implemented a national version, the Mahatma Gandhi National Rural EGS. This promises 100 days of work per year per rural household to those willing to do unskilled manual labor at the statutory minimum wage notified for the program. The work requirement is (more or less explicitly) seen as a means of assuring that the program is reaching India's rural poor.[127]

These schemes can be interpreted as attempts to enforce a minimum wage rate in situations in which there is no other means of legal enforcement. Minimum wages appeared in the late 19th century, with the first law being introduced by New Zealand in 1894. Critics have long pointed to concerns about negative effects on overall employment of minimum wages rates, although advocates have pointed out that those effects may be small in practice, and even positive in monopsonistic labor markets. However, enforcement of minimum wage legislation has been famously weak in developing countries with large informal sectors (including traditional farming). For example, Rinku Murgai and Ravallion (2005) show that in 2004-05 three-quarters of India's casual labor was paid less than the country's (state-level) statutory minimum wage rates. In an EGS, anyone who wants work can (in theory) get it provided they are willing to do unskilled manual labor at the statutory minimum wage rate in agriculture.

An important difference between an EGS and minimum wage legislation is that an EGS aims to provide comprehensive insurance for the able-bodied poor, in that anyone who needs work can get it, at least on paper. Eligibility is open to all, so that a farmer who would not need the scheme in normal times can turn to it in a drought (say). This was explicit from the outset of

[127] Puja Dutta et al. (2013) provides an assessment. Also see Raghbendra Jha et al. (2012), Raghav Gaiha (1997), Clement Imbert and John Papp (2011).

the idea of an EGS (as it developed in Maharashtra in the early 1970s). Whether this insurance function is served in practice is another matter; Dutta et al. (2012) find evidence of considerable rationing on India's national EGS. The rationing tends to be greater in poorer states, which may well reflect weaker administrative capabilities for implementing a complex program such as India's national EGS.

These schemes illustrate that even a well-targeted transfer scheme can be dominated by un-targeted transfers when one takes account of all the costs involved, such as income forgone or other costs in complying with the conditionalities imposed. Ravallion and Datt (1995) and Murgai et al (2013) provide evidence that in both the Maharashtra EGS and the new national scheme an un-targeted basic income scheme would have been more cost-effective in directly transferring incomes to poor people.

Workfare schemes have typically been seen as short-term palliatives—a form of social insurance. In principle, a workfare scheme can also directly serve promotional goals. One way is by generating assets that could change the wealth distribution, or shift the production function, which could also allow people to break out of the poverty trap illustrated in Figure 1. In practice, asset creation has not been given much weight in these schemes in South Asia, although it seems to have higher weight elsewhere, including in Latin America (such as Argentina's *Trabajar Program*).

Another way that workfare programs can better serve the promotional aim is by tying benefits to efforts to enhance human capital through training. Welfare reforms in many countries of the rich world since the early 1990s have aimed to make transfers conditional on investments in human capital, and to incentivize private employment search and take-up.[128] This form of workfare does not actually provide employment, as in the public-works form of workfare. Training and encouragements for private sector employment using wage subsidies have also been used to encourage the transition from public employment on workfare schemes to private employment.[129]

Next we turn to a policy for which the creation of human wealth is seen as crucial to poverty reduction.

[128] Anton Hemerijck (2014) provides an overview of such reforms in Europe.
[129] An example is the *Proempleo* scheme in Argentina studied by Galasso et al. (2004).

Schooling for children from poor families: Children from poor families tend to get less schooling. This "economic gradient" in schooling persists to this day almost everywhere and has long been seen as a factor perpetuating poverty across generations—a potential source of a poverty trap. As noted in Section 5, the inability of poor families to finance their children's schooling given credit-market failures came to be recognized as a key factor in perpetuating poverty and entailing that a more unequal initial wealth distribution will generate aggregate efficiency costs.[130] Thus policies that can promote the schooling of children from poor families can be seen as an important social policy idea that could improve both equity and efficiency, and credibly allow people to escape poverty permanently.

Such policies are a modern idea, advocated at times but little known in practice prior to 19th century (section 5). Past and ongoing policy debates over mass education have raised many issues, but a fundamental one is whether compulsory schooling is even in the interest of poor families, for it was typically their children who were un-schooled. Opponents (on both the left and right) of compulsory schooling pointed to the costs (primarily their forgone earnings) to poor families of sending their children to school. While compulsory schooling could break the poverty trap, a short-term tradeoff was created by the costs to poor families. Advocates argued, in effect, that the longer-term benefits from breaking out of a poverty trap outweighed these costs.

After much debate, compulsory schooling emerged in virtually all industrialized countries by the early 20th century, with a significant state role in both public provision and support for private schooling. In England, the "Elementary Education Act" of 1870 was a breakthrough in establishing a secular public sector institutional framework, including democratic school boards. Implementation was uneven geographically, and there was a continuing struggle for control of schools between the democratically elected local bodies and religious organizations (W.B. Stephens, 1998). It was not until the 1880 act of the same name that education was compulsory in England for children aged 5-10. This happened in France about the same time. In the US, 34 states had compulsory schooling laws by 1900, 30 of which required attendance until at least age 14. Japan in the Meiji period (1868-1912) was not behind the West in promoting mass education, which was virtually universal by the end of the period. Mass public education (with tertiary education left largely to the private sector) was given high

[130] This is not of course the only factor. Physical accessibility is also relevant. However, the simulations by Filmer (2007) do not suggest that this is a major factor in the schooling gap between rich and poor in developing countries; Filmer finds that very large reductions in distance to school would be needed to close the gap.

priority throughout developing East Asia, with educational attainments far surpassing most developing countries, and some developed countries.

The payoffs from mass public education were clearly huge. Equitable, broad-based, education has been identified by Claudia Goldin and Lawrence Katz (2008) as a key factor in the US record of relatively equitable and rapid growth in the period 1940-80. The ability of the schooling system to support a relatively rapid increase in education attainments in the US in this period (though slowing down greatly after 1980) meant that the supply of skilled workers kept up with the extra demand stemming from new technologies—what Jan Tinbergen (1975) dubbed the "race between education and technology"—thus attenuating the inequality-increasing effects of technical progress favoring demand for relatively skilled labor. The fact that American educational expansion was so broad-based in this period was key. A more elitist schooling system would have entailed a more unequal distribution of the gains from growth. And Goldin and Katz argue that rising inequality in the US since 1980 stems in large part from the fact that the education system has not allowed the supply of the types of skilled labor required for the new technologies of the time to keep up with the demand. And it tends to be children from poor families who are most disadvantaged in this race.

Broad-based education has also been identified as a key factor in East Asia's relatively equitable growth. Using a regression of GDP per capita growth rates over 1960-85 on primary and secondary education attainments in 1960—with controls for initial GDP per capita, population growth, and the share of investment in GDP—an influential report by the World Bank (1993) identified primary education as the most important single factor, accounting for somewhere between 58 percent (Japan) and 87 percent (Thailand) of GDP growth. Of course, such calculations can be sensitive to model specification; the education variables could well be correlated with other omitted factors. However, it is nonetheless striking that primary education is found to account for a greater share of the variance in growth rates than private (non-human) investment.

There is also evidence that education attainments interact strongly with India's growth process in determining the impact of that growth on poverty. This was demonstrated by Ravallion and Datt (2002) by comparing rates of poverty reduction across states of India. While the elasticities of measured poverty to farm yields did not vary significantly across states, those for non-farm output did. The non-farm growth process tended to be significantly more poverty reducing in states with initially higher literacy rates, and inter-state differences in literacy rates were the dominant factor amongst those identified by Ravallion and Datt. The importance of mass education has long been acknowledged in principle in India. A "directive principle" of state policy in the 1949 Constitution was free compulsory education to the age of 14.[131] However, implementation has lagged considerably, with large inter-state differences, and often poor quality schooling across the country (Probe Team, 1999). The state that has made the most progress in mass public education is Kerala. Expanding literacy to the whole population was a high priority of the state government from the 1950s (building on a history of prior successes in schooling provided by Christian missionaries back to the early 19th century). The results of Ravallion and Datt (2002) indicate that Kerala's success in mass schooling has generated a far more pro-poor process of non-farm economic growth than found in other states.

Bans on child labor have often been proposed and legislated. Moshe Hazan and Binyamin Berdugo (2002) model an interesting version of a poverty trap in which, at the early stage of development, child labor is abundant, while fertility is high and mean output is low. With economic growth stemming from technical progress, the returns to schooling rise, making child labor less attractive, and also lowering fertility. In this model, the economy eventually converges to a new equilibrium in which child labor has vanished. Hazan and Berdugo show that an effective ban on child labor will speed up the transition to this new equilibrium.

However, in economies with large informal sectors, the enforcement of such bans is difficult. Legislation to set a minimum working age was introduced in some countries from the late 19th century, although it is unclear how much this helped reduce the incidence of child labor; Carolyn Moehling's (1999) analysis suggests little effect. Kaushik Basu (1999) argues that compulsory schooling is a better way of implementing a ban on child labor than an actual ban, and compulsory schooling can also break the poverty trap.

Policy incentives for schooling: While out-of-pocket expenses and the forgone earnings of children figured in the 19th century debates about the idea of compulsory education, there was not much discussion of the obvious policy response: a bursary for poor families. Smith (1786) and Mill (1856, Ch.5) had advocated tuition subsidies for children from poor families. Marshall (1890, p.594) took a less sympathetic attitude and proposed instead penalizing poor parents (a public policy of "paternal discipline") who neglected to send their children to school or to care

[131] A *Right to Education Act* was passed by India's parliament in 2009, essentially ratifying the Constitution.

for their health. Educational institutions have for a long time provided relief on tuition fees and other costs to selected students, often based on some sort of means test. England's 1870 Elementary Education Act recommended tuition subsidies for children from poor families (Gillie, 1996). However, implementation of public policies providing any form of schooling incentive for poor parents had to wait until the middle of the 20th century, after which it started to become common practice to build in incentives for children from poor families to stay in school. Britain's 1942 *Beveridge Report* recommended a universal child allowance paid up to the age of 16 if the child stayed in school.[132] Australia had a school bursary program from the 1960s that essentially paid parents from poor families to keep their children in school beyond the school leaving age as long as the children passed a special exam. It is common today for various forms of education subsidies (scholarships, tuition subsidies, subsidized loans) to be means-tested.

In the development literature in the 1990s, targeted bursaries came to be known as CCTs.[133] The idea was the same: a monetary incentive for parents in poor families to keep their children in school. Transfers are made under the condition that the children of the recipient family demonstrate adequate school attendance (and health care in some versions). Plainly, the promotion benefits of these programs rest crucially on assuring that the transfers go to poor families, on the presumption that the children of the non-poor will already be in school. Thus targeting has been instrumentally important to both the protection and promotion benefits. The promotion benefits also depend on designing the conditions such that the required level of schooling would not be attained in the absence of the program. Early influential examples of these programs in developing countries were Mexico's *PROGRESA* program (now called *Oportunidades*) and *Bolsa Escola* in Brazil. Another early example was the *Food-for-Education Program* in Bangladesh for which the transfers (targeted to poor families) were made in kind, but also conditional on school attendance. Bolivia's CCT, *Bono Juancito Pinto*, introduced in 2006, is an example of a universal (un-targeted) transfer program, for which every child enrolled in public school is eligible, irrespective of family income. Over 30 developing countries now have CCT programs and the number is growing (World Bank). And other countries have formally similar policies not called CCTs; for example, in attempting to assure that poverty did not constrain schooling, since 2002 China has had a "two exemptions, one subsidy" policy for

[132] Similarly, the US *Earned Income Tax Credit* (introduced in 1975) gives different age cut offs for full time students.
[133] Most other direct interventions also have conditions; for example, workfare entails a work requirement.

students from poor rural families; the exemptions are for tuition fees and textbooks and the subsidy is for living costs.

These programs are clearly designed with a view to breaking the poverty trap stemming from the aforementioned economic gradient in human development. If the sole concern was with current income gains to participating households then a policy maker would not impose schooling requirements, which entail a cost to poor families by incentivizing them to withdraw children or teenagers from the labor force, thus reducing the (net) income gain to poor people. The idea of these programs is to strike a balance between protection and promotion, premised on the presumption that poor families cannot strike the socially optimal balance on their own. The program's incentive effect on labor supply (previously seen as an adverse outcome of transfers) is now judged to be a benefit—to the extent that a well-targeted transfer allows poor families to keep the kids in school, rather than sending them to work. Concerns about distribution within households underlie the motivation for such programs; the program's conditions entail that relatively more of the gains accrue to children. Some advocates of CCTs also claimed that they would reduce child labor, although the economics is unclear about whether such a policy will work for this purpose; Ravallion and Quentin Wodon (2000a) show that, under standard assumptions, a tuition subsidy will increase schooling but has theoretically ambiguous effects on the supply of child labor; empirically, the authors find little effect of a tuition subsidy on child labor in Bangladesh.

There is evidence from impact evaluations that these schemes bring non-negligible benefits to poor households, in terms of both current incomes and future incomes, through higher investments in child schooling and health care.[134] The conditions change behavior. In the UK, means-tested grants paid to secondary students have been found to be very effective in reducing the incidence of school drop outs from poor families (Lorraine Dearden et al., 2009). The various evaluations of Mexico's *PROGRESA/Oportunidades* program have been positive; see the survey in Ariel Fiszbein and Norbert Schady (2009). Sarah Baird, Craig McIntosh and Berk Ozler (2011) found sizeable gain from the schooling conditions in a Malawi CCT. In a study for Burkina Faso, Richard Akresh, Damien de Walque and Harounan Kazianga (2013) found that the conditionality mattered more in encouraging the school enrollment of children who were initially less likely to go to school, including girls—children who are less likely to receive

[134] Fiszbein and Schady (2010) provide a comprehensive review. Also see the discussion in Jishnu Das et al. (2005).

investments from their parents. Lisa Cameron (2002) found that a CCT program in Indonesia, *Jaring Pengamanan Sosial*, had greatest impact at the lower secondary school level where children are most susceptible to dropping out. The design features have also been critically assessed. A series of papers on *PROGRESA* revealed that a budget-neutral switch of the enrolment subsidy from primary to secondary school would have delivered a net gain in school attainments, by increasing the proportion of children who continue onto secondary school.[135] While *PROGRESA* had an impact on schooling, it could have had a larger impact. However, it should be recalled that this type of program has two objectives: promotion by increasing schooling (reducing future poverty) and protection by reducing current poverty, through the targeted transfers. To the extent that refocusing the subsidies on secondary schooling would reduce the impact on current income poverty (by increasing the forgone income from children's employment), the case for this change in the program's design would need further analysis.

Impact evaluations have also pointed to high returns to early childhood interventions in some settings. The experimental *Perry Preschool Program* in the US in the 1960s provided schooling and home visits to children aged 3-4 year from poor families. The benefits included higher adult earnings and reduced crime, and the benefit-cost ratio (even without putting higher weight on the pro-poor distribution of the gains) was estimated to be over eight to one (Heckman, 2006). *Head Start* (also starting in the US's 1960s' *War of Poverty*) was a similar national pre-school program, which targeted a package of education, health and nutrition services to poor families; the program continues at the time of writing and, as of 2005, some 22 million pre-school children had participated. *Head Start* has also been found to generate sizeable long-term gains in schooling, earnings and reduced crime (Eliana Garces, Thomas and Currie, 2002). The aggregate benefits from *Head Start* also appear likely to exceed the cost, even without distributional weights (Jens Ludwig and Deborah Phillips, 2007). There is also evidence of significant long-term gains in adult health indicators from an intensive preschool program in the US in the 1970s, the *Carolina Abecedarian Project* (Campbell et al., 2014). There is much interest in how effective early childhood interventions might be devised for developing countries.

All these interventions require complementary efforts on the supply side, through effective (public or private) service delivery. This has been an important concern in many

[135] See Todd and Wolpin (2002), Attanasio et al., (2004) and de Janvry and Sadoulet (2006).

developing countries; World Bank (2004) reviews the evidence and discusses how better incentives for service delivery might be developed.

Microfinance schemes: As we have seen, credit market failures have been identified as a cause of poverty and a reason why poverty can be costly to overall economic performance. On top of long-standing moral arguments, transfers to poor people can be interpreted as a means of relieving the constraints stemming from such market failures. But there is another option, namely policies that aim to make financial institutions for saving and borrowing work better for poor people. Microfinance programs aiming to support small-scale credit and savings transactions by poor people have attracted much interest since the idea emerged in the late 1970s, and there are now many examples in the developing world.

The classic argument is about promotion, namely that relaxing borrowing constraints facing poor people allows them to invest and so eventually escape poverty by their own means. Credit and savings are also potentially important instruments for protection, by allowing poor households to more effectively smooth their consumption in the face of income fluctuations.

Much of the early (and on-going) enthusiasm for microfinance was really little more than advocacy, with weak conceptual and empirical foundations. In recent times there has been a rise in popular concern in the media (in South Asia especially) about over-borrowing by poor people once given new access to microfinance. Much of this concern also appears to stem from anecdotes, and the debate has also become politicized. Positive average impacts do not, of course, mean that there are no losers amongst recipients. This is probably true of all antipoverty policies but it is especially so in the case of credit-based interventions. Risk is not eliminated, shocks do occur and mistakes are made, such as due to faulty expectations. There will be both gainers and losers.

The earliest and still most famous example of this class of policies is Bangladesh's group-based lending scheme, *Grameen Bank* (GB). GB has made a conscious effort to reach the poor both through their eligibility criteria and their branch location decisions, which (in contrast to traditional banks) have favored areas where there are unexploited opportunities for poor people to switch to non-farm activities (Ravallion and Wodon, 2000b). Research on GB has indicated that the scheme has helped in both protection and promotion; in the former case by facilitating consumption smoothing and in the latter by helping to build the physical and human assets of poor people.[136] This was found by Mark Pitt and Shahidur Khandker (1998) who exploited the design features of GB, notably that it is targeted to the landless, for identifying impacts. Given that access to GB raises the returns to being landless, the returns to having land will be higher in villages that do not have access to GB credit. Thus, comparing the returns to having land between villages that are eligible for GB and those not (with controls for other observable differences) reveals the impact of access to GB credit. Put another way, Pitt and Khandker measure impact by the mean gain amongst households who are landless from living in a village that is eligible for GB, less the corresponding gain amongst those with land. They found positive impacts on measures relevant to both protection and promotion. This was confirmed in a subsequent study by Khandker and Hussain Samad (2014) using survey data on 3,000 households spanning 20 years. The success of GB has led to a proliferation of microfinance schemes in Bangladesh, with over 500 providers at the time of writing.

Even careful observational studies such as Pitt and Khandker require identifying assumptions that can be questioned, and there has been some debate about the robustness of their results.[137] This is a type of policy intervention for which it will inevitably be hard to convince everyone of the validity of the identifying assumptions given the likelihood of unobservable factors jointly influencing take-up and impacts. Experimental evaluations relying on randomized assignment (typically at the community level) have offered the hope of more robust results and there have been some interesting examples. A study by Banerjee et al. (2009) of the impacts of opening new micro-finance back branches in slums of Hyderabad in India found that overall borrowing, business start-ups and spending on consumer durables (but not non-durables) increased in the areas that were randomly assigned the new branches relative to the control areas. However, the study did not find evidence of positive impacts on health, education or women's self-efficacy. Heterogeneity was the focus of a recent experimental evaluation of access to micro-credit by working-age women in Mexico (under the *Compartamos Banco* scheme) by Manuela Angelucci, Dean Karlan, and Jonathan Zinman (2013). The authors found positive average impacts in a number of dimensions. There was heterogeneity in the impacts, but they found little evidence of significant losses, including amongst poor borrowers. More research on the benefits and costs of microfinance schemes can be expected.

[136] An early contribution to knowledge about GB was made by Mahabub Hossain (1988).
[137] See Jonathan Morduch (1999) and David Roodman and Morduch (2009) as well as the latest detailed rejoinder in Pitt and Khandker (2012).

It is clear that we have seen a shift in thinking about this class of policies over the last 200 years; in the days when poor people were routinely blamed for their poverty, giving them a loan would not have made sense. Of course, identifying credit market failures as one cause of poverty does not imply that credit for the poor will solve the problem. But well-designed programs do have a role, as a complement to other policies for protection and promotion.

Poor-area development programs: Almost all countries have their well-recognized "poor areas," in which the incidence of absolute poverty is unusually high by national standards. We would hope, and under certain conditions expect, that the growth process will help these poor areas catch up. But this process appears often to have been slow, and geographic divergence has sometimes been evident. This has led to antipoverty policies focused on lagging poor areas. "Poverty maps" are widely used in geographic targeting and the method proposed by Chris Elbers, Jean Lanjouw and Peter Lanjouw (2003) has facilitated many applications.

Lagging poor areas have prompted poor-area development projects—one of the oldest forms of development assistance, though under various headings (including "Integrated Rural Development Projects" and "Community Driven Development"). Extra resources are channeled to the targeted poor areas for infrastructure and services and developing (farm and non-farm) enterprises. Emphasis is often given to local citizen participation in deciding what is done, although a survey of the available evaluative research by Ghazala Mansuri and Vijayendra Rao (2012) found somewhat mixed success given the scope for capture by local elites.

It is widely agreed that poor areas are typically characterized by low capital to labor ratios, but there is less agreement on the right policy responses between efforts to augment local capital—investing in lagging poor areas—versus policies to encourage out migration. Geographic externalities clearly play an important role, but a still poorly understood role for lack of convincing empirical research.

In the case of China, where poor area development has been the main form of direct intervention against poverty since the mid-1980s, there is evidence of pervasive geographic externalities, whereby households living in poor areas have lower growth prospects than seemingly identical households living in well-off areas (Jalan and Ravallion, 2002; Ravallion, 2005). This suggests that there is scope for poor-area development as a means of assuring longer-term promotion from poverty, as well as protection. However, here too the evidence is mixed on the success of the policies found in practice.[138]

The main concerns about the incentive effects of poor-area programs have related to the responses of local governments to external aid and to migration. On the former, an example is found in Chen et al. (2009) who demonstrate that local government spending allocations changed in response to efforts by higher levels of government to target poor villages in rural China, dampening the targeting outcomes. On migration, it appears to be a widely accepted assumption that there is limited intra-rural mobility in developing countries, sometimes reflecting institutional and policy impediments (such as local administrative powers for land re-allocation as in China). It is not clear how confident we can still be in making that assumption.

There is still much we do not know about the impacts of poor-area development efforts, especially over the longer-term, and the trade-offs faced against policy options. While local infrastructure development is clearly crucial to fighting poverty it has not attracted the degree of attention in evaluative research that we have seen in social policies. Here an important factor is the extent to which "development impact" is challenged by donors and citizens. "Impact" is too often taken for granted with infrastructure. By contrast, the "softer" social policies have had to work hard to justify themselves, and evaluative research has served an important role. If the presumption of impact is routinely challenged by donors, aid organizations and citizens, then we will see stronger incentives for learning about impact, and fewer knowledge gaps.

Information campaigns: There has been recent interest in the scope for using information-based interventions. The premise is that lack of information is a decisive factor inhibiting successful participatory action by poor people to get the services to which they are entitled. There are some signs of support for this premise from past research. Strömberg (2004) reports evidence that a US antipoverty programs have worked better in places with greater access to radios. Besley and Burgess (2003) found that the governments of Indian states where newspaper circulation is greater are more responsive in their relief efforts to negative agricultural shocks. Reinikka and Svenson (2005) found significant impacts of information through a newspaper campaign on school outcomes in Uganda.

[138] For example, contrast the findings of Jalan and Ravallion (1998) with Chen et al. (2009) on poor area programs in China.

There have been some evaluations of information interventions. The results so far seem mixed. Focusing on one country and one sector, Priyanka Pandey et al. (2009) report that a community-based information campaign led to short-term gains in schooling outcomes, while the findings of Banerjee et al. (2010) are less encouraging on the scope for using information interventions to improve the monitoring of education service providers in India. In rich countries facing concerns about rising obesity incidence there have been efforts to post information on the "calorie prices" of food.[139] A recent review of both experimental and non-experimental evaluations found mixed evidence (Swartz et al. 2011).

Mixed results of this sort might not be surprising. Three observations can be made. First, public information about a program may well discourage participation; for some people, learning about the program may have the opposite effect; see, for example, Alexander Hertel-Fernandez and Jeffrey Wenger (2013), with regard to an information campaign for a US program. Second, incomplete information is only one of the possible reasons why poor people do not access services (Philip Keefer and Stuti Khemani 2005; Alexander Cappelen et al., 2010). Third, mixed results might also stem from heterogeneity in the quality of the information intervention itself. Also for India, Ravallion et al. (2013) report success in changing public awareness of rights and rules under India's EGS using an entertaining and high-quality fictional movie that can be taken to village settings. However, the results also warn that poor people knowing their rights is not sufficient for positive change. Public awareness can be improved, but this must be combined with effective responses on the supply-side.

10. Conclusions

The chapter has tried to describe and better understand how the idea of antipoverty policy emerged and evolved over the last 200 years. It has been argued that we have transited between two radically different views of poverty. In the first, there was little reason to think that poor people had the potential to be anything else than poor. Poverty would inevitably persist, and was indeed deemed necessary for economic expansion, which required a large number of people eager for work, and avoiding hunger was seen as the necessary incentive for doing that work. Social policy had a role in assuring social stability—most importantly, a generally docile

[139] For example, US legislation in 2010 requires restaurant chains with 20 or more outlets to post calorie counts for all food items sold.

working class willing to work for low wages—and successfully so it seems in the case of England's Poor Laws. Promotional antipoverty policies would probably not have made much sense to those in power, although the need for protection from shocks would have been more evident, and appears to have had reasonably broad support from the elites even when mass chronic poverty was taken for granted. However, beyond short-term palliatives to address shocks, there was little or no perceived scope for public effort to permanently reduce poverty. And a world free of poverty was unimaginable—after all, who then would be available to farm the land, work the factories and staff the armies?

In the second, modern, view, poverty is not only seen as a social ill that can be avoided through public action, but the latter is seen as perfectly consistent with a robust growing economy. Indeed, the right antipoverty policies are expected to contribute to development by removing material constraints on the freedom of individuals to pursue their own interests.

Granted, such a commitment is not universal today in any country. Some observers still point to behaviors of poor people as causes of their poverty, while others point to constraints beyond their control. Advocates against poverty are often frustrated by the setbacks. However, the progress that has been made in both the idea of antipoverty policy and its effective implementation is undeniable. Recognizing such a marked transition in mainstream thinking over 200 years makes one more optimistic that the idea of eliminating poverty can be more than a dream.

Progress was uneven over time. Two key historical steps in the transition can be identified, dubbed here as the First and Second Poverty Enlightenments. The First, just prior to the turn of the 19th century, saw the emergence of a new respect for poor people, as people—no longer the "shadows in a painting" or serving some purely instrumental role as means of production. Instead, the economy itself came to be seen as a means for promoting human welfare, including that of poor people. The Second Poverty Enlightenment, in the latter part of the 20th century, came with the strongest case yet for antipoverty policy, which saw poverty as a severe constraint on freedom and personal self-fulfillment. A consensus emerged that poverty was morally unacceptable, though with continuing debates on what to do about it.

While the foundation for this change was laid in the First Poverty Enlightenment—notably in seeing all human beings as morally equal, with legitimate desires for freedom and self-fulfillment—it was really only by the time of the Second Poverty Enlightenment that it came to be understood that freedom and self-fulfillment required (amongst other things) that people were not constrained by poverty. The state was seen to have a role in assuring that all individuals had access to the material conditions for their own personal fulfillment—arguably the most important requirement for equity, but also the key to breaking out of poverty traps. Antipoverty policy came to be seen as a matter of both promotion and protection. Along with rising real wages and (hence) savings by poor people, public education systems, sound health systems and reasonably well functioning financial markets came to be seen as crucial elements for the next generation of poor families to escape poverty for good.

Once it started to be widely accepted that those born poor could in fact escape poverty, public action against poverty became more acceptable, and more people joined political coalitions or struggles toward that end. Once successful promotion policies had been initiated, the fiscal burden of providing relief to those who remained poor started to fall. This was probably reinforced by new political support for action, and moral conviction on its need, stemming from the world's (now much expanded) middle class. Beyond some point, a self-reinforcing cycle emerged in the successful countries to help assure a sustained and (over time) more rapid escape from poverty. The cycle has been broken at times; the history of thinking and action on poverty gives ample illustration of the fragility of the progress we have seen. Each Poverty Enlightenment was followed by a backlash in thinking and policy making. But we have seen progress.

Appendix

This Appendix proves the claim made in section 8 about the properties of the characterization of wealth dynamics in section 2. The claim in section 8 referred to a situation in which the threshold is not binding, giving the Banerjee and Duflo (2003) model. The latter paper shows that higher initial wealth inequality lowers future growth in wealth. Here we focus instead on the implications of high initial wealth poverty.

Initial wealth, w_t for date *t*, is distributed across individuals according to the cumulative distribution function, $F_t(w)$, giving the population proportion with wealth lower than *w*, and let $H_t = F_t(z)$ denote the headcount index of poverty ("poverty rate") when the poverty line is *z*. (It will be analytically easier to work with the inverse of $F_t(w)$, namely the quantile function, $w_t(p)$.) If credit constrained ($w_t \leq k^* /(\lambda+1)$) then output at *t*+1 is limited by the amount of capital available at time *t*, which is given by own-wealth plus maximum borrowing, yielding an output of $h((\lambda+1)w_t)$. The recursion diagram for the credit-constrained individual then takes the form:

$$w_{t+1} = \phi(w_t) = \beta[h((\lambda+1)w_t) - r\lambda w_t] \text{ for } w_t \leq k^* /(\lambda+1) \tag{1}$$

By contrast, the following recursion diagram holds for the unconstrained person (who is free to implement the optimal capital stock k^* at which point $h'(k^*) = r$):

$$w_{t+1} = \beta[h(k^*) + r(w_t - k^*)] \text{ for } w_t > k^* /(\lambda+1) \tag{2}$$

Here β is the fixed share of current wealth that is not currently consumed. Plainly, $\phi(w_t)$ is strictly concave up to $k^* /(\lambda+1)$ and linear above that point. It is assumed that $z \leq k^* /(\lambda+1)$. Let $H_t^* \equiv F_t[k^* /(\lambda+1)]$. Mean future wealth is:

$$\mu_{t+1} = \int_0^\infty \phi[w_t(p)]dp \tag{3}$$

By standard properties of concave functions, we can readily verify that an inequality-increasing spread in the wealth distribution in this economy will reduce mean future wealth at a given level of mean current wealth, i.e., reduce the growth rate, as in Banerjee and Duflo (2003).

What about the impact on growth of higher initial poverty at a given initial mean? Using (1) and (2), we can re-write (3) as:

$$\mu_{t+1} = \beta \int_0^{H_t^*} [h((\lambda+1)w_t(p)) - \lambda r w_t(p)]dp + \beta \int_{H_t^*}^{1} [h(k^*) + (w_t(p) - k^*)r]dp \qquad (4)$$

Consider the growth effect of a mean-preserving increase in the poverty rate. It is assumed that H_t^* increases and that no individual with wealth less than $k^*/(\lambda+1)$ becomes better off, implying that $\partial w_t(p)/\partial H_t^* \leq 0$ for all $p \leq H_t^*$. If this holds then we can say that poverty is unambiguously higher. Note that the function ϕ is continuous at $k^*/(\lambda+1)$. Then it is readily verified that:

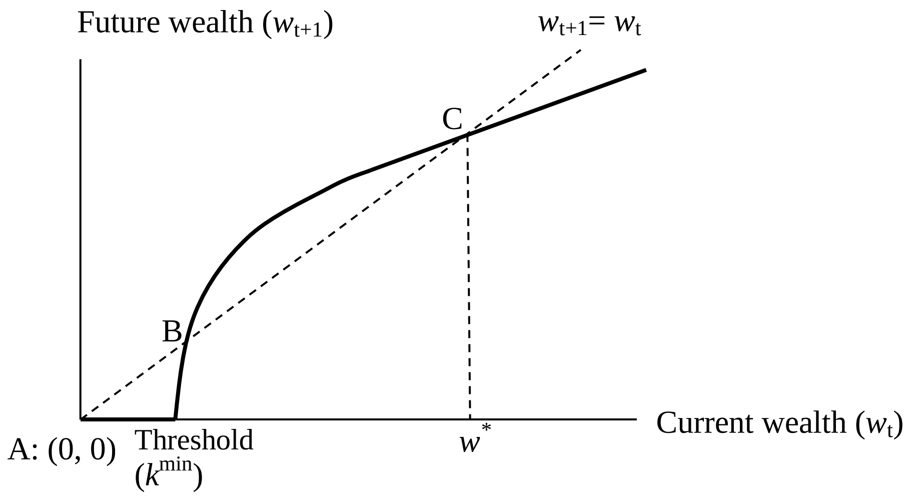
$$\frac{\partial \mu_{t+1}}{\partial H_t^*} = \beta \int_0^{H_t^*} [h'((\lambda+1)w_t(p))(\lambda+1) - \lambda r] \frac{\partial w_t(p)}{\partial H_t^*} dp + \beta r \int_0^{H_t^*} \frac{\partial w_t(p)}{\partial H_t^*} dp \qquad (5)$$

The sign of this expression cannot be determined under the assumptions so far. It may be noted that, if there is (unrestricted) first-order dominance, whereby $\partial w_t(p)/\partial H_t^* \leq 0$ for <u>all</u> $p \in [0, 1]$, then $\partial \mu_{t+1}/\partial H_t^* \leq 0$. However, first-order dominance is ruled out by the fact that the mean is held constant; there is a redistribution from the "wealth poor" to the "wealth nonpoor". On imposing a constant initial mean, $\mu_t = \bar{\mu}$, equation (5) simplifies to:

$$\left[\frac{\partial \mu_{t+1}}{\partial H_t^*}\right]_{\mu_t = \bar{\mu}} = \beta \int_0^{H_t^*} [h'((\lambda+1)w_t(p)) - r](\lambda+1) \frac{\partial w_t(p)}{\partial H_t^*} dp < 0 \qquad (6)$$

Thus we find that an unambiguously higher initial headcount index of poverty holding the initial mean constant implies a lower growth rate, as claimed in section 8.

Figure 1: Wealth dynamics with a poverty trap



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