

# The magnitude of the problem

- **Poor countries are very poor indeed.**
- GNP per capita at current exchange rates in 2007 in Switzerland was 59880. What was it in the poorest country?
- GNP per capita at PPP in 2007 was 45850 in the US. What was it in the poorest country?
- 61.2% of the population in Mali in the 2001 lived on less than \$1.25 a day at 2005 PPP prices and 86.4% in Nigeria lived under \$2 a day in 1996-1997.

# This translates into

- 30% of the children under 5 in Mali in 2000-2007 had measurable signs of malnutrition (44% in India, 0 in Sweden)
- Under 5 mortality rate in Mali was 217/1000 in 2006 (270 in Sierra Leone, 4 in Norway)
- Life expectancy at birth for males was 52 years in Mali (41 years in Sierra Leone, 79 in Sweden)
- 76% of adults were illiterate in Mali in 2005 (61% in Niger, 0 in Sweden)

# In the world

- In 2005, 865 million people lived under a dollar a day at Purchasing power parity: they have the purchasing power of *1 1993 dollar*. What does this mean?
- 27 million children every year do not get the essential vaccinations
- 6.5 million children die every year before their first birthday, mainly of diseases that could have been prevented.
- Half of school-aged children in India cannot read a very easy paragraph (even though most are in school)

# What to do?

- Nothing? The Rokia experiment

# The collapse of compassion

Small, Loewenstein, & Slovic, 2006

## **Identifiable Lives Condition:**

Rokia, a 7-year-old girl from Mali, Africa, is desperately poor and faces a threat of severe hunger or even starvation. Her life will be changed for the better as a result of your financial gift. With your support, and the support of other caring sponsors, Save the Children will work with Rokia's family and other members of the community to help feed her, provide her with education, as well as basic medical care and hygiene education.



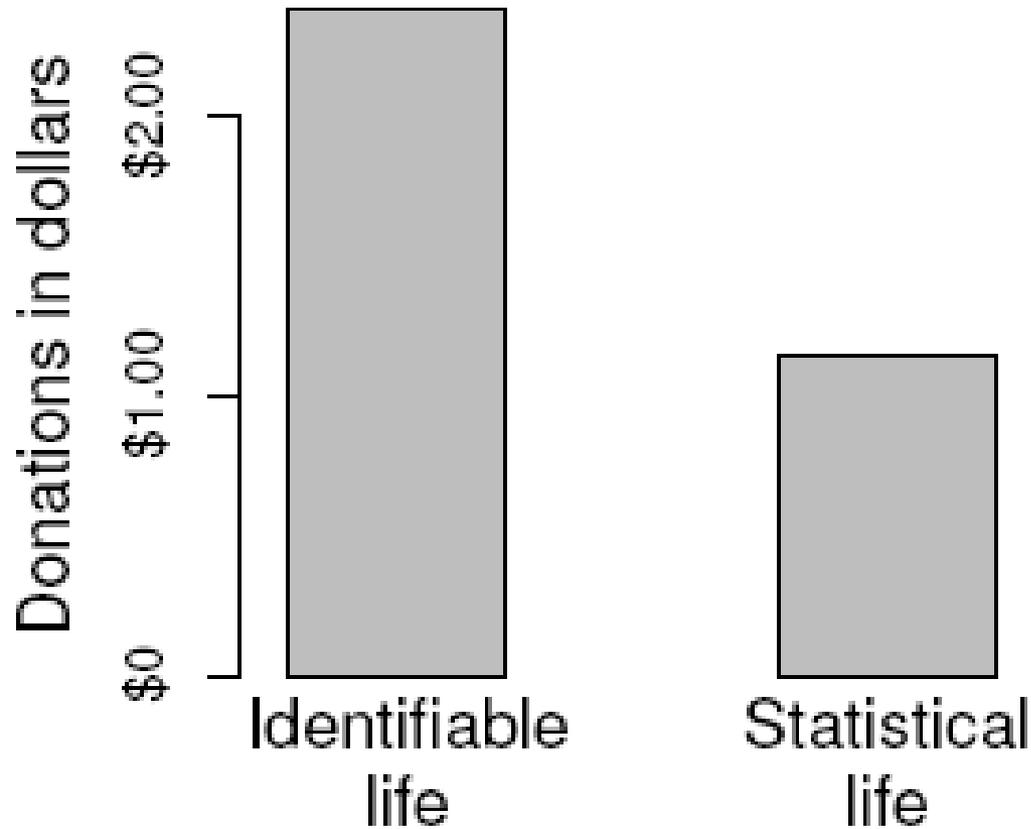
# The collapse of compassion

Small, Loewenstein, & Slovic, 2006

## **Statistical Lives Condition:**

- Food shortages in Malawi are affecting more than 3 million children.
- In Zambia, severe rainfall deficits have resulted in a 42% drop in maize production from 2000. As a result, an estimated 3 million Zambians face hunger.
- Four million Angolans — one third of the population— have been forced to flee their homes.
- More than 11 million people in Ethiopia need immediate food assistance.

# The collapse of compassion



# What to do?

- Nothing? The Rokia experiment
- Promise to eradicate poverty?
  - With money...
  - With growth and free markets...
- Try to understand in details: what is poverty? How do the poor live? Does poverty beget poverty? Why?
- Use this more detailed understanding to help understand what policies might work to help the poor (live better lives here and now... and get less poor in the future).
- And examine how well these policies achieve their objectives in the field.

## The Story Of Abu

- From *A quiet violence*, by Betsy Hartman and James Boyce, 1983.
- A quasi-journalistic account by two economists of life in rural Bangladesh, circa, 1975.
- These were the worst years in the history of Bangladesh. Things have gone much better since.
- This is story of one peasant family.

## The First Visit

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

# The past

- Abu used to have enough land to live on, but he needed money to take care of his mother who was sick, and sold some of the land.
- She died any way.
- They had a number of children and the land they had was no longer enough to feed everyone
- When there was no food, they borrowed from the money lender at very high rates, which ate into their future income
- Abu started working for a landlord who gives one meal and 1.25 kilos of rice a day.
- He could sharecrop and get to keep half of what he grows but he gets it after the harvest and in the meanwhile they starve. Also renting a plough-team costs 2 days labor/day.
- He had to mortgage more land to his landlord.

# The future

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

## The second visit

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

# Is the vicious circle completely closed ?

- Should you take away from this introduction that there is no need to take this class: as long as people are poor they will be sick and as long as they are sick they will be poor?
- In fact, there are many examples where the vicious circle can be broken: many interventions could durably help Abu and others.
- Development economics is largely about this question: how do vicious circles emerge and what can we do about them?

# Topics: Households

- Nutrition
  - Formalizing the poverty trap argument
  - Is it relevant in practice
- Health
  - Status and determinants of health; health behaviors
  - Impact of health status
- Education
  - How do get children into school?
  - How to teach any thing to children?
  - What are the returns to education?

# Households (2)

- Gender discrimination
  - The extent of the problem
  - Why do household discriminate against girls?
- The family
  - How does the family function?
  - Does it matter?

# Topics: Markets

- Insurance
  - Do households get together to pool risks in income?
  - What are the difficulties and the limits of these arrangements?
- Land markets
  - Who owns and who tiles
  - Is there a role for land reform?
  - Can individuals borrow to make productive investments?
  - If not why not? Can they be helped
- Credit markets
- Savings
  - Can households save to cope with fluctuations in their income and to invest?

# Topics: Institutions

- Formal and informal institutions
  - Development policy does not happen in the void.
    - Formal institutions:
      - Their roles, their design, their consequences
- Corruption
  - Where does it come from ?
  - What limits does it create for policy effectiveness?
  - Can anything be done about it?