

Ceteris paribus

HET WOORD AAN...

Maitreesh Ghatak

Maitreesh Ghatak is hoogleraar aan de London School of Economics. Op 3 oktober geeft hij een seminar aan de Erasmus School of Economics. *ESB* stelde hem een aantal vragen.

What are you currently working on?

"I am currently writing a policy paper which looks at the development economics literature on poverty traps. My goal is to make two conceptual contributions, by first categorising poverty traps in terms of their causes, and second investigating how best to aid the individuals trapped in poverty. I thus aim to link the theoretical literature on poverty traps with the various types of policies designed to counter poverty, and find out which measures are most efficient in which cases. We could classify poverty-alleviation policies in

three broad categories: unconditional cash transfers, conditional cash transfers, and in-kind transfers. To qualify for a cash transfer an individual's income needs to be below a certain threshold value, if this is indeed the case a cash transfer will be granted. This can either be with or without external requirement, which could for instance require the individual to send his children to school or let them take immunisation shots. Alternatively, aid providers could opt to provide food, sanitation, education and health services to those who have limited access to these goods and services, which we refer to as an in-kind transfer. The debate is about which kind of transfers are most efficient. But it might be the case that a uniform approach does not exist, and we therefore need to come up with tailor-made solutions. For this, we need to diagnose what is the source of the problem and then design



the treatment accordingly. This is the main point I want to make."

How do you go about this question?

"First, I divide poverty traps in two broad categories. The first argument is that part of the poverty traps found are caused by factors which are outside of the individual's choice set and is not simply a matter of people having little money. One could think of missing markets. As in developing countries judiciary systems tend to be weak, the enforceability of contracts often is weak as well. This leads to credit constraints as credit suppliers are worried about default. This hits the poorest the hardest, as they need credit most and also, because they lack assets that could be used as collateral. As a result, these individuals remain entrapped in poverty. These problems are outside of the individual's control, and cannot be solved by giving them more money, but

they do affect his choice set significantly.

The second argument is that part of the poverty traps however, are within the individual's control. Having very low incomes means an individual has to engage in a day-to-day struggle for survival for himself and his family. These subsistence needs rule out the feasibility of saving money and being able to secure a better future for themselves and their children, for example, through investments in health and education. These problems are compounded if poorer people tend to discount the future more, or put less weight on the welfare of their children, or engage in behaviour that is not in the long-run interest of himself or his family. I would argue that both types of poverty traps are dealt with in different ways."

What actions would you suggest policy makers take for both types of poverty traps?

"For the former type I would suggest cash transfers are only a second-best treatment. A better cure to the externally driven poverty traps is to intervene directly to fix the market failure and remove the institutional imperfections. This can be combined with cash transfers, but in and of itself, it is not going to solve the problem. The latter type can only be solved by cash transfers, as the source of the problem is poverty itself. To the extent individuals are subject to behavioural biases, and are not necessarily putting the same welfare weights on every member of the family (e.g., women, children) then these transfers could well be conditioned on an external requirement, thereby limiting the effects of these biases."

UIT DE OUDE ESB-DOOS

NIEUW IS ALTIJD BETER?

Er doen zich voortdurend nieuwe ontwikkelingen voor, waardoor de waargenomen samenhangen veranderen. Men spreekt dan van trendbreuken of van veranderingen van de economische structuur, maar het is natuurlijk niet de werkelijkheid die zich misdraagt, maar het model dat het niet meer kan volgen.

Langman, M.A. (1986) Nakaarten. *ESB*, 71(3551), 369.

