CONTENTS

List of Boxes xiv
List of Figures xviii
List of Tables xxi
Preface xxiii
Abbreviations xxvii
Notation xxx

Introduction 1

How Much Poverty Is There? 2 Why Does Poverty Exist? 4 What Can Be Done to Eliminate Poverty? 4 Road Map 6

PART ONE HISTORY OF THOUGHT

1. Origins of the Idea of a World Free of Poverty 11

- 1.1 PROGRESS AGAINST ABSOLUTE POVERTY OVER THE LAST TWO HUNDRED YEARS 12
- 1.2 PREMODERN IDEAS ABOUT POVERTY 18Ancient Origins 18Mercantilism 19
- 1.3 EARLY ANTIPOVERTY POLICIES 28
- 1.4 THE FIRST POVERTY ENLIGHTENMENT 35
- 1.5 THE TRANSITION IN THINKING IN THE NINETEENTH AND EARLY TWENTIETH CENTURIES 47

The Industrial Revolution and Poverty 47
Debates on the Poor Laws 52
A Lost Opportunity in America 54
Utilitarianism 55

viii Contents

The Limitations of Charity 59
Schooling Debates 60
Socialism and the Labor Movement 62
Social Research on Poverty 64
New Thinking in the Early Twentieth Century 72

2. New Thinking on Poverty after 1950 80

2.1 THE SECOND POVERTY ENLIGHTENMENT 80
 New Economic Thinking Relevant to Poverty 82
 Rawls's Principles of Justice 87
 The Rediscovery of Poverty in America 91
 America Declares War on Poverty 94

2.2 DEBATES AND BACKLASHES 97

Poverty and Inequality in America 100

Culture of Poverty? 105

Relative and Subjective Poverty 106

The Basic-Income Movement 110

2.3 POVERTY IN THE DEVELOPING WORLD 111
Planning for Rapid Industrialization 111
The Planners' Critics 113
The Aid Industry and Development Economics Are Born 114
Bringing Inequality in from the Cold 115
Rebalancing Development Thinking 117
Debates on the Poverty Focus 120
Better Data 122
Globalization and Poverty 123
New Millennium, New Hope, New Challenges 125

PART TWO MEASURES AND METHODS

3. Measuring Welfare 131

3.1 CONCEPTS OF WELFARE 131

Welfarism 132
Extensions and Alternatives to Welfarism 136
Capabilities 137
Social Effects on Welfare 139
Opportunities 141
A Less Ambitious Goal 143

3.2 USING HOUSEHOLD SURVEYS FOR WELFARE MEASUREMENT 143
Survey Design 149
Goods Coverage and Valuation 152

Contents

ix

Variability and the Time Period of Measurement 153 Measurement Errors in Surveys 158 Interpersonal Comparisons of Welfare 162

3.3 ALTERNATIVE MEASURES IN THEORY AND PRACTICE 164
Real Consumption per Equivalent Single Adult 164
Predicted Welfare Based on Circumstances 175
Food Share 177
Nutritional Indicators 177
Qualitative and Mixed Methods 178
Self-Assessed Welfare 181

3.4 THREE PRINCIPLES 188

Principle 1: Strive to Be Absolutist in the Space of Welfare 188 Principle 2: Avoid Paternalism 189 Principle 3: Recognize Data Limitations 190

4. Poverty Lines 191

4.1 DEBATES ABOUT POVERTY LINES 191

4.2 OBJECTIVE POVERTY LINES 194

Basic Needs Poverty Lines 194

Updating Poverty Lines over Time 203

Revealed Preference Tests of Poverty Lines 204

The Food-Energy Intake Method 206

Relative Poverty Lines 208

Consistency versus Specificity 213

4.3 SUBJECTIVE POVERTY LINES 215

5. Poverty and Inequality Measures 219

- 5.1 NORMATIVE FOUNDATIONS 220
- 5.2 MEASURING INEQUALITY 221
- 5.3 MEASURING POVERTY 230
 Poverty Measures 232
 The Consumption Floor 238
 Estimation Issues 242
 Hypothesis Testing 243
 Summary 244
- 5.4 DECOMPOSITIONS OF POVERTY MEASURES 244
 Poverty Profiles 244
 Changes in Parameters versus Changes in Quantities 249
 Growth and Redistribution Components 251
 The Sectoral Decomposition of a Change in Poverty 253
 Transient versus Chronic Poverty 255
 5.5 THE ROBUSTNESS OF POVERTY COMPARISONS 257

5.6 PRO-POOR GROWTH AND GROWTH INCIDENCE 264

- 5.7 MEASURING THE "MIDDLE CLASS" 266
 Absolute and Relative Approaches 268
 Vulnerability and the Middle Class 269
- 5.8 POVERTY AND INEQUALITY OF OPPORTUNITY 270
- 5.9 TARGETING AND INCIDENCE MEASURES 272
 Targeting Measures 272
 Behavioral Effects 277
- 5.10 MASHUP INDICES 279

6. Impact Evaluation 290

- 6.1 KNOWLEDGE GAPS 290
- 6.2 THREATS TO THE INTERNAL VALIDITY OF AN EVALUATION 292
 Endogenous Interventions 292
 Spillover Effects 294
 Misspecification of the Impact Dynamics 294
 Behavioral Responses to an Evaluation 294
- 6.3 EVALUATION METHODS IN PRACTICE 295
 Social Experiments 297
 Non-Experimental Methods 298
 Difference-in-Difference (DD) Estimators 298
 Fixed Effects Regressions 299
 Instrumental Variables Estimators 301
- 6.4 THE EXTERNAL VALIDITY OF AN EVALUATION 304
 Heterogeneity in Impacts 305
 Portfolio Effects 306
 General Equilibrium Effects 308
 Structural Models 310
- 6.5 THE ETHICAL VALIDITY OF AN EVALUATION 311

PART THREE POVERTY AND POLICY

7. Dimensions of Poverty and Inequality 317

- 7.1 GLOBAL INEQUALITY 317

 Large Income Disparities in the World 317

 Inequality in the Developing World 321
- 7.2 POVERTY MEASURES FOR THE DEVELOPING WORLD 322

 Data and Measurement 324

 Absolute Poverty Measures 325

 Estimates of the Consumption Floor 328

Contents

xi

Poorest Left Behind? 329

Differing Fortunes across Regions 330

The Developing World's Bulging Middle Class 331

7.3 POVERTY MEASURES FOR URBAN AND RURAL AREAS 336

7.4 GLOBAL MEASURES OF POVERTY 339

Dissatisfaction with Standard Poverty Measures 339
A Globally Relevant Measure of Poverty 340
Interpreting the Global Relative Poverty Measures: Two Bounds 342
Truly Global Poverty Measures 343
Differences in Weakly Relative Poverty among Developing Countries 346
Concluding Comments on Relative Poverty 349

7.5 POVERTY AND THE NON-INCOME DIMENSIONS OF WELFARE 350

The Economic Gradients in Schooling and Learning 352 The Economic Gradient in Health and Nutrition 356 Obesity 359

Obesity 359
Socioeconomic Differences in Mortality 363
Socioeconomic Differences in Fertility 366
Family Size and Composition 368
Female-Headship and Poverty 369
Missing Women 370
The Feminization of Poverty 371
Violence and Poverty 374

8. Growth, Inequality, and Poverty 379

8.1 THEORIES OF ECONOMIC GROWTH AND DISTRIBUTIONAL CHANGE 380

Some Basic Concepts 380

Past Debates on Whether Poor People Benefit from Economic Growth 385

Development in a Segmented Economy 391

The Harris-Todaro Model 399

Labor-Market Frictions 402

Modern Growth Economics 404

Institutions and Growth 408

Factor Distribution and Growth 410

How Inequality and Poverty Can Retard Growth 413

Poverty Traps 421

8.2 EVIDENCE ON GROWTH AND DISTRIBUTIONAL CHANGES 430

The Industrial Revolution Did (Eventually) Benefit Wage Workers 431

Evidence on Distribution Post-Kuznets 433

Growth and Non-Income Dimensions of Welfare 436

Growth and Types of Inequality 437

Urbanization and Poverty 440

Progress against Absolute Poverty 441

xii Contents

Inequality as an Impediment to Pro-Poor Growth 445

Economic Crises and Poverty 447

- 8.3 EVIDENCE ON DISTRIBUTIONAL IMPEDIMENTS TO GROWTH 451
 Macro Evidence That Inequality Impedes Growth 454
 Evidence from Micro Studies 458
- 8.4 PRO-POOR GROWTH? CASE STUDIES OF CHINA, BRAZIL, AND INDIA 460
 China 460
 Brazil 469
 India 472

9. Economy-Wide and Sectoral Policies 477

- 9.1 URBAN VERSUS RURAL 478

 Urban-Rural Prioritization for Development 479

 Growth, Poverty, and Urbanization 481

 The Role of Agriculture and Rural Development 485
- 9.2 LAND POLICIES 485
- 9.3 HEALTHCARE POLICIES 487
- 9.4 WATER, SANITATION, AND HYGIENE 490
- 9.5 SCHOOLING POLICIES 493
 Why Do Children from Poor Families Get Less Schooling? 494
 Mass Schooling as a Policy Response 497
 Banning Child Labor 499
- 9.6 PUBLIC INFORMATION CAMPAIGNS 499
- 9.7 PRICE INTERVENTIONS 503
 Minimum Wages 504
 Rent Controls 506
- 9.8 TRADE POLICIES 508

 Whose Gains from Trade? 508

 The Globalization Debate 511
- 9.9 DEVELOPMENT AID 518External Development Assistance 518Aid and Poverty Reduction 520Aid and Growth 524
- 9.10 POLICIES, AID, AND INSTITUTIONS 529
 Policy Advice and Economics 532
 Conditions for Effective Aid 535
 Capital Flight and Odious Debt 538
 Poverty and Poor Institutions 539
 Understanding Persistently Poor Institutions 543

Contents xiii

10. Targeted Interventions 547

10.1 AN OVERVIEW OF COVERAGE 547

10.2 INCENTIVES, TARGETING, AND LEAKAGE 550
Information and Incentives 550
The BIG Idea 558
Targeting 560
Leakage 562

10.3 TARGETED TRANSFERS 565

State-Contingent Transfers Financed by Taxation 565
Unconditional Subsidies and Transfers 568
Targeted Incentives for Investing in Human Capital 571
Early Childhood Development 577
A Caveat on Service Quality 579

10.4 OTHER TARGETED POLICIES 580

Workfare 580
Training and Wage-Subsidy Schemes 582
Land-Based Targeting and Land Reforms 584
Microfinance for Poor People 585
Poor Area Development Programs 587

Conclusions: Past Progress and Future Challenges 592

PROGRESS AGAINST POVERTY 594

EXPLAINING THE TRANSITION IN THINKING 597

KNOWLEDGE CHALLENGES 599

TWO PATHS GOING FORWARD 601

References 605 Index 663