What Determines Poverty Reduction?

Foreword to *What Works for the Poorest*? Edited by David Hulme, David Lawson, Imran Matin and Karen Moore

By

Ravi Kanbur

www.kanbur.aem.cornell.edu

July, 2009

What determines poverty reduction? If we knew the answer to that, the poor would be millionaires. Poverty however we define it, and much rides on how we define it, has gone down in some parts of the world and gone up in others over the past half century. How did this happen, the ups and the downs? In the development discourse, the Holy Grail seems to be finding a watertight causal connection to policy instruments that can then be wielded by benevolent philosopher kings to better the lot of the poor. But there are at least two problems. First, finding that causal connection to specific policy instruments is problematic. Second, benevolent philosopher kings, who can make things happen for the poor, are not be found outside of Kallipolis. The kings we actually have oftentimes turn out to be neither philosophers nor benevolent.

Let us start with the first problem. The well worn tale of economic growth and poverty does not of course find that tight causal connection between policy instruments and poverty reduction; it is simply a correlation between two variables which are influenced by a multitude of factors, policy instruments among them. But it must give pause that there is a negative correlation between them, and that nobody has highlighted a case where actual negative growth has accompanied poverty reduction. Equally, it must give pause that the correlation between economic growth and poverty reduction is not perfect, indeed far from so when poverty is defined to include deprivation in dimensions other than income. Further, which policy instruments give rise to economic growth is itself debated, and there is the further complication of how these instruments themselves affect poverty directly.

Thus while it is not clear why anybody would be against growth per se, even somebody or especially somebody whose primary objective is poverty reduction, it is perfectly legitimate to question whether this or that policy instrument will or will not lead to poverty reduction, whether directly or indirectly through the growth channel. Put another way, the debate on whether growth leads to poverty reduction or not is a non-debate, since growth is itself not a policy instrument. Much more fruitful is a debate on propositions such as “legal systems that protect private property, low taxes, low tariffs, low controls on foreign direct investment, an open capital account, lead in the medium term lead to higher poverty reduction”; or “legal systems and social customs that eliminate discrimination against women and minorities, land reform, relatively high public expenditures on health and education, a system of social protection lead, in the
short term and in the medium term, to greater poverty reduction”; or “governance structures which make government transparent and accountable, higher decentralization in government, low levels of corruption in national and local government, a judiciary that is independent and courts to which all have relatively easy access, lead to higher poverty reduction in the medium term”.

Even these propositions, better though they are for debate than the sterile “growth is good for poverty” formulation, could do with sharpening, with clearer specification of which policy instruments exactly are being discussed. After all, as is now well recognized, “institutions” can themselves be endogenous, and a correlation between a particular institutional form and poverty reduction (or higher economic growth) cannot be taken to the bank as a causation (or cannot be taken to the World Bank as a policy recommendation). Moreover, the detail of country context and specificity is important. A cross-country correlation, even if interpreted as causation, must allow for variations around the regression line, and we must understand phenomena like the “Bangladesh paradox”, where a country with one of the worst indicators on governance and corruption nevertheless has delivered some of the best improvements in social indicators (relative to appropriate comparators) in the last two decades.

Allied to the importance of country specificity is the importance of “poverty specificity.” Just as a country can grow with worsening poverty, national poverty can decline with increases in poverty among significant sections of the population, or at least stagnation or much lower rates of poverty reduction in these groups. This is the pattern that has been prevalent in fast growing countries over the past two decades—rising inequality, and relative stagnation or even immiserization in “pockets of poverty.” The determinants of poverty reduction would seem to be more complex, then, than national level policy instruments, complex enough though that nexus is by itself.

But all of this with philosopher kings in mind—if only they could find the determinants of poverty reduction, they would reduce poverty. That poverty persists might indicate one of two things; either the determinants of poverty reduction are not known, or they are known but are not being put in place. Of course, it could be a combination of the two. Let us, however, now focus on the second.

Why might it be that knowledge of poverty reduction is not put to use to reduce poverty? The answer must be that application of these instruments that are known to reduce poverty would (of course) benefit the poor but would not benefit some others, indeed it may harm them. It is not in the interests of these others for these instruments to be applied, and they will work to make sure they are not applied or, if they are applied, to undermine their implementation on the ground. In fact, in the absence of far reaching altruism, it is a reasonable assumption that individuals and groups will work to advance policies and interventions that will benefit themselves—if they benefit others, that is by and large neither here nor there to them. More to the point, individuals and groups will work to oppose policies and interventions that hurt them—the fact that they benefit others, even the poor, will cut no ice. This way of looking at things leads to a simple conclusion. The determinants of poverty reduction are policy instruments that benefit the
dominant coalition of political power but which, incidentally and also, benefit poverty reduction. If a set of instruments harms the interests of the dominant coalition, it will not be implemented, even if it is known to be a determinant of poverty reduction.

I recognize of course that the above is too simple, too simplistic. For a start, the poor are themselves a group with divergent interests. Although debates on policy reform are often presented in terms of one group of the rich blocking changes that would benefit the poor, policy reform often pits the interests of one group of poor against another. And the non-poor themselves have divergent interests. Further, narrow sectional interests are not all that matters. Appeals to altruism and national solidarity work sometimes. And history shows that negative externalities from poverty through diseases and the like are a powerful motivating force among dominant interests. But the central point remains, that poverty reduction requires an alignment of the interest of the poor with the interests of the dominant coalition.

What does this line of argument mean for analysis of poverty, and for political advocacy on behalf of the poor? First, there is a lot that we do not know about the determinants of poverty reduction, even from a narrow technocratic perspective. Specifically, although we now know that specificity and context matters, we know far less about how exactly it matters, and about the detail of how different poverty reduction instruments actually work. Second, although we now know that international, national and local politics matters in determining which policies and interventions are chosen, and thus whether poverty reduction will happen or not, we know far less about the detail of what sorts of configurations of dominant interests align with the interests of the poor, and when that was not the case, how change happened which shifted the coalition in favor of the poor. Third, it means that to advocate for poverty reduction must mean not only advocacy for instruments that we know will lead to this outcome, but it also means advocating for a realignment of the dominant coalition in away that will align it with the interest of the poor. Specifically, this means that we should advocate for empowerment of the poor so that they can indeed challenge the dominant interests, to shift alliances in a way that will make possible policies and interventions for poverty reduction.

The papers in this volume are an excellent attempt at generating knowledge that is detailed and context specific on poverty reduction, using a full range of qualitative and quantitative methodologies from the social sciences. They take us beyond the first cut of cross-country regression analysis to examine why particular interventions work in particular settings, and when they do not, why not. The knowledge presented here is invaluable in identifying the determinants of poverty reduction. My hope is that it will also help in the more difficult task of actually changing the policies and interventions in the direction of poverty reduction, by helping those who advocate for the interest of the poor. Because, ultimately, it is the empowerment of the poorest that works for the poorest.