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INEFFECTIVENESS OF POVERTY ALLEVIATION PROGRAMMES IN UNDERDEVELOPED ECONOMIES: A THEORETICAL ANALYSIS

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Abstract:

Poor people remained mostly poor despite even honest implementation of development programmes designed to uplift their socioeconomic status. Most of these programmes follow Keynesian logics of demand boosting up to activate the economy through multiplier effects. Specification of Keynesian relationship presumes income is a major determinant of consumption among other things. But behavioral studies of poor shows that income of the poor people is itself is a function of consumption and policies of income generation are failing to achieve desired results in poor underdeveloped labour surplus economies partly due to this misspecification also.

Key Words: Poverty, Income, Consumption, Multiplier & Specification

Introduction:

Despite massive progress in reducing poverty in some parts of the world over the past couple of decades – notably in East Asia – there are still about 1.4 billion people living on less than US$1.25 a day, and close to 1 billion people suffering from hunger. At least 70 per cent of the world's very poor people are rural, and a large proportion of the poor and hungry are children and young people. Neither of these facts is likely to change in the immediate future, despite widespread urbanization and demographic changes in all regions. South Asia, with the greatest number of poor rural people, and sub-Saharan Africa, with the highest incidence of rural poverty, are the regions worst affected by poverty and hunger. Levels of poverty vary considerably however, not just across regions and countries, but also within countries. The livelihoods of poor rural households are diverse across regions and countries, and within countries. Livelihoods are derived, to varying degrees, from smallholder farming – including livestock production and artisanal fisheries – agricultural wage labour, wage or self-employment in the rural non-farm economy and migration. While some households rely primarily on one type of activity, most seek to diversify their livelihood base as a way to reduce risk. Agriculture plays a vital role in most countries – over 80 per cent of rural households farm to some extent, and typically it is the poorest households that rely most on farming and agricultural labour. However, non-farm income sources are increasingly important across regions, and income gains at the household level are generally associated with a shift towards more non-agricultural wages and self-employment income.

Rural poverty results from lack of assets, limited economic opportunities and poor education and capabilities, as well as disadvantages rooted in social and political inequalities. Yet large numbers of households move in and out of poverty repeatedly. So while there are rural households that find themselves in chronic, or persistent, poverty, relatively large proportions of people are poor only at specific points in time. Households fall into poverty primarily as a result of shocks such as ill health, poor harvests, social expenses, or conflict and disasters. Mobility out of poverty is associated with personal initiative and enterprise. It is highly correlated with household characteristics such as education and ownership of physical assets, and it is also

dependent on good health. Beyond household-level factors, economic growth, and local availability of opportunities, markets, infrastructure and enabling institutions – including good governance – are all important. All these factors tend to be unequally distributed within each country. Certain groups – particularly rural women, youth, indigenous peoples and ethnic minorities – are often disproportionately held back by disadvantages rooted in inequalities. Addressing these disadvantages requires building people's assets and strengthening their capabilities – both individual and collective, while creating locally available opportunities and mitigating or helping them to better manage risks they face. Until recently, rural people's capabilities have often been treated separately from investment in creating opportunities for rural development. However, these issues need to be tackled together in order to facilitate broad-based mobility out of poverty and to achieve inclusive, pro-poor rural growth.

Two types of programmes are generally advocated by policy makers to tackle poverty one, capacity enhancement programmes and second social security programmes. Capacity enhancement programmes again are of two types as production capacity of the place and production capacity of the people involved. Most of the times planners use both of these tools with varying degrees as per requirement and financial capability of the nation in question. Sometimes, political objectives play important role in thinking, designing and in implementation of programmes. Policies following Keynesian macroeconomics do believe that better capacity utilization through demand generation can ease out poverty. But we are of the opinion that the backbone of the Keynesian model, the consumption function is not applicable in the poor economies as thought in Keynesian literature. Income is not only a determining variable of consumption rather it is also a determined variable by consumption of the poor people. In our analysis we have assumed income of poor people is consumption determined and Keynesian multiplier analysis is not applicable here and there by support programmes, capacity enhancement programmes are becoming wasteful expenditures failing to reduce poverty as envisaged.

Literature Survey:

Empirical studies have generally found that agricultural development is correlated with reductions in poverty. Studies comparing income, poverty levels, and agricultural development across countries consistently found that higher levels of agricultural development (variously defined) tend to be associated with lower levels of poverty. Moreover, studies examining both differences across countries and changes over time have found that agricultural development tends to precede improvements in income. Studies are based on large international data sets, with sub-Saharan Africa, Asia, and Latin America all well represented. Irz et al (2001 [P&E; OBS;→]) run cross-country regressions investigating the impact of improvements in agricultural land productivity, agricultural labour productivity, and a combination of the two on headcount poverty using a sample of 40 countries, including 18 from sub-Saharan Africa. They conclude that there is a significant relationship whereby increases in yields are an important determinant of poverty, but acknowledge that results may have been biased by variables omitted from their model. A study by Ligon and Sadoulet (2007 [P&E; OBS; →]) uses a sample of 41 countries, covering all major developing regions, and attempts to address the possibility that unobserved factors may influence both their variable of interest and their explanatory factors, potentially resulting in spurious results. This is done by including neighbouring country agricultural income as an instrumental variable. Their model specification considers the relationship between changes in national agricultural and non-agricultural income on expenditure for

different deciles of the income distribution. The study finds that agricultural income growth has a particularly beneficial effect on the poorest groups' expenditure, whilst the benefits from non-agricultural growth are more modest for lower deciles. Using 40 years of data from India, Ravallion and Datt (1996 [P&E; OBS; ↑]) found that output growth in the primary and tertiary sectors reduced headcount poverty in both urban and rural areas, but secondary growth did not reduce poverty in either. Conversely, using state-level data from India, Besley et al (2005 [P&E; OBS; →]) control for unobserved state and year effects and find that output growth in the primary sector reduced poverty more slowly than growth in other sectors. However, Timmer (2005 [S; OR]) criticise the technique used by Besley et al as potentially obscuring the true poverty reducing effect of agriculture. Diao et al (2008 [TC]) use a multi-market model to simulate a scenario where agricultural productivity across Africa converges on the regional productivity frontier and regional trade barriers are removed, finding that under such conditions 74 million people would be lifted out of poverty. However, the modelling approach used is sensitive to choices made in elasticises, which were based on findings in the broader literature. Furthermore, the removal of trade barriers envisaged in the model would require substantial investment in infrastructure, so arguably infrastructure would be major joint contributor to poverty reduction. Studies identified consistently found evidence of a multiplier effect from agricultural growth to the rural non-farm economy, increasing the poverty reducing effectiveness of agricultural growth. The first paper of this series, 'Agricultural and economic growth', concluded that evidence from studies of agricultural multipliers in Africa and Asia suggest that rising farming incomes with improving agricultural productivity create demand for the non-farm sectors. At early stages of development, consumption linkages appear to dominate the positive relationship between agriculture and the rest of the economy. However, as economies grow, forward linkages with sectors processing agricultural output become more important.

Existing literature has not covered why different policies are failing across nations. We tried to fill this gap in literature by providing a theoretical justification in it.

Motivation, Methodology & Modeling:

Poverty alleviation programmes in the entire world in general and in developing countries in particular got theoretical and methodological momentum in the last quarter of the 20th century by initiatives taken by international funding agencies and United Nations. It was increasingly felt that fruits of development should be distributed more evenly to address basic issues of life and livelihood. But most of the policies in developing world became unsuccessful and poverty remained a major challenge in present day world. Lapses in implementation techniques may be one explanation but understanding of the problem itself is perhaps much more responsible for the overall failure of such policies across the globe rather than implementation only.

Following Keynesian analogy we have tried to frame a theoretical model which explains the ineffectiveness of poverty alleviation programmes in a more comprehensive way and tried to locate the areas where we can work to control poverty to have a better result. We have studied consumption behavior of affluent and that of poor in a typical less developed economy and build an analytical framework which explains persistent poverty despite adoption of several remedial measures.

Consumption function of rich: $C = F(Y)$; $F' > 0$

Consumption function of poor: $Y = f(C)$; $f' > 0$

In a Simple Keynesian economy basic income equation is, $Y = C + I$, where notations have their usual meanings. Now for rich affluent people assuming a linear

consumption function, C = a + b.Y ; where a autonomous consumption and b is mpc. equilibrium income (Y^*) will be $Y^*= 1/(1- b) \times (a + I_0)$ where 1>mpc>0; a> 0 & I_0>0. Now considering a poor traditional subsistence economy assuming a linear income function, Y = d.C ; 0< d< 1; equilibrium consumption will be $C^* = 1/(d - 1) \times I_0$. Therefore Y* for this economy will be $Y^*=d/(d - 1) \times I_0$.

Value of d is crucial in the analysis. It is assumed that in a consumption determined income, economy its value will be close to zero if common property or income of other family members supports targeted consumption, if not it will be higher than zero maximum up to one.

Analysis:

Consumption of rich is income determined as income increases consumption also increases but less than proportionately. This can be explained as follows. A rich person plans his consumption after keeping aside enough for nonearning days, asset generation for future consumption and meet up skill development expenditure of wards. Now the surplus after meeting these is spent on consumption. As income increases consumption also increases following rational expectations.

In case of poor people income remain low broadly from two set of logics. First one, is the low return from agriculture. Traditional technology, low quality of seeds, lack of fertilizers and modern inputs all contribute to the low productivity of agriculture. Again if modern farming technologies are available even then due to expensive process and low price growth of agricultural products profitability or surplus generation will become impossible. Second is non agricultural income. People diversify their economic activities as only one type of economic activity becomes insufficient for sustenance. Using local available resources they produce crafts and necessities of life and sell them at the local markets at low prices. These products easily find market and are sold immediately but as these are low profit activity, people cannot earn surplus to be rich. So they remain poor.

We have chosen two timeframes, one the economy is a restricted & closed one and the other the economy is open and liberal one. In the first time frame income and consumption both grows in the same rate leaving no gap between them as income is consumption determined (figure - 1). First, income and consumption both remain low. With time surplus productions are exchanged with monetization. There exist no consumption income gaps as earned income is completely spent on local produces. But people earn that much which is required for their subsistence not more than that. They consume entirely for present leaving nothing for tomorrow.

In such a society Govt. skill generation programmes cannot grow interest among people as their consciousness to grow out of this situation is low due to lack of individual education and also low social acceptability of the importance of education. These programmes only create some opportunities for middleman and executives but very little for the people for whom it was originally designed. Irregular participation, lack of meaningful linking with their livelihood generation methods and lack of awareness about the importance of these programmes to make them come out of their low income situation ultimately make these programme unsuccessful one. Govt. expenditure to create skill among people turns to be wasteful expenditures. All govt. transfer programmes to eradicate poverty failed to increase productivity rather induced them to remain poor so that they can enjoy those govt. benefits.

Growth of Income & Consumption

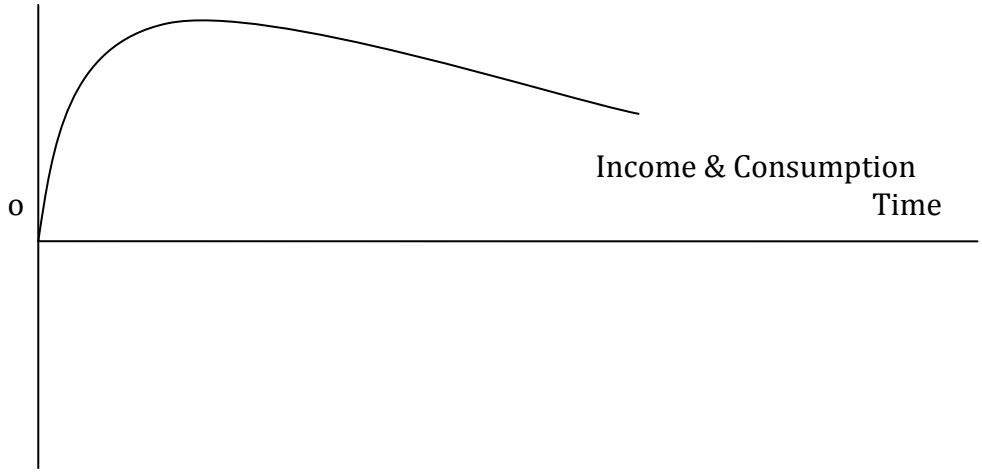

Figure 1

The curve shows with time income and consumption both grows and at the same pace as income is consumption determined and value of marginal propensity to earn is very close to zero. First it grows at a high rate as they start from zero but with time low income from agriculture and low profit works gradually decelerates their growth of income and consumption. They remain a traditional low income rural agrarian economy which works only for sustainability. The value of the multiplier will almost be close to zero. The agony continues despite various attempts from govt. to make people out of this low income situation. It appears that they are trapped in low income situation. It takes many years to achieve a small rate of growth.

After opening up of the economy, situation changed. Now domestic produces face competition from branded products and lost their market shares at a brisk rate. Further substitutes are available now in cheap rate for quality products. So is the

Growth of Income & Consumption

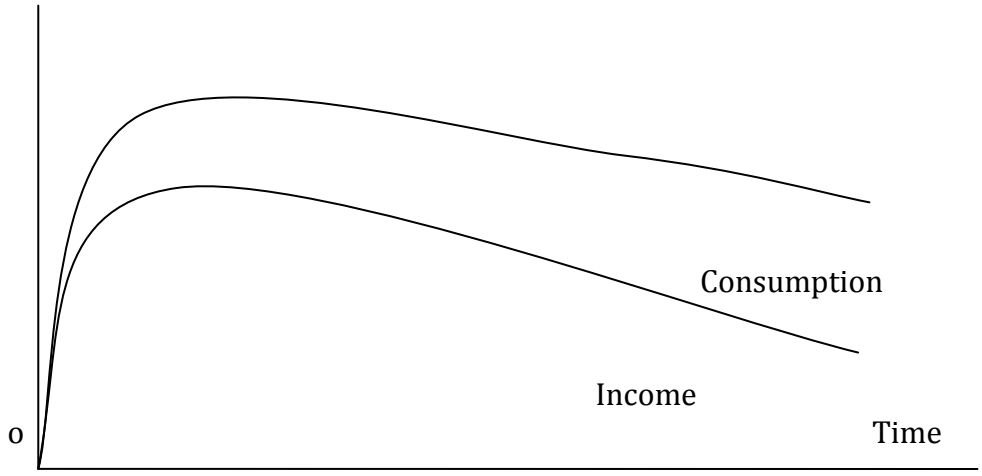

Figure - 2

situation for agriculture. Agriculture and cottage industry both become sick but urbanization and service led growth opportunities in informal sector increases. This is basically from push factors. This employment is offering higher uncertain wage compared to the previous case due to Trade union activity, minimum wage law & NREGA wage fixation. Though wage income increases, domestic cost of living index grows even at higher rate as consumption basket changes in presence of demonstration effects of new products. Earlier, which was a luxury item that becomes necessary item now. Net result is the increase in size of the consumption basket. Along with this standardization of products through marketing chains increases price of the products as local available inputs are no longer used at production. Now foreign producers are producing at their technology and domestic producers are losing their market in competition with them. Gradually local crafts and small and collage industries are becoming obsolete. Increase in consumption items and that too at higher costs will grow at a higher rate than the income. The expenditure made on imported foreign products creates a leakage in consumption resulting a gap in income consumption levels. This is shown in figure 2 of our analysis. The income growth line is the lower one and after some beginning years consumption grows at a higher rate than the income. The vertical distance shows the gap in consumption growth rate and income growth rate at a given point of time. This gap is bridged by liquidating family assets, and using the govt. support programmes as endowment benefits for the poor. Gradually people are becoming poorer. Who were poor or middle class people they have become very poor. An agriculturist becomes agriculture laborer, an artisan has become wage labourer and with urbanization and development in service sector informal labour market is offering some earning avenues for these people. That is why they are engaged with more than one type of work together. People now also refusing effectively the skill development programmes as they found domestic entrepreneurial activities are becoming less attractive as local produces are not attracting consumers. Again govt. expenditures on these programmes become wasteful expenditure.

Conclusions:

We found people were poor and government tried to improve their economic situation by enabling them through skill development programmes but all generated very unsatisfactory results. The expected outcome was far from reality as people used these programmes not for skill development as they were unable to understand the long run utility of such programmes. Even they tried to remain poor to enjoy the benefits given by government. Government at present provides two types of programmes one skill development programmes and second social security programmes. The aim of these programmes will be to uplift the income or earnings of people beyond the threshold level. We recommend the following measures to achieve the targeted results.

1. Big / Foreign Capital to use local inputs in the production system and facilitate the technology transfer to enable the local producers to be ancillaries of branded producer.
2. To make the technology transfer viable govt. to provide the required infrastructure using the fund which was earlier used as wasteful expenditure in the name of poverty eradication.
3. Sectors which are naturally insulated from competition like rural tourism are to be boosted through infrastructure development by government.

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