

Can't Get Ahead For Falling Behind

DEVELOPMENT POLICY,
POVERTY, AND RELIEF
TRAPS

BY CHRISTOPHER B. BARRETT AND MICHAEL R. CARTER

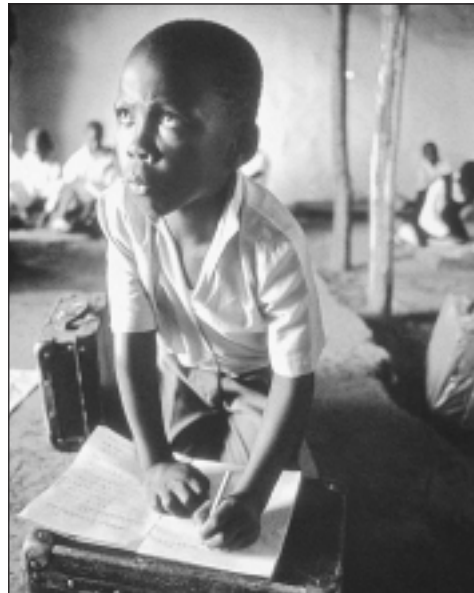
“Can't get ahead for falling behind.” The powerlessness this phrase evokes applies as much to development assistance as it does to the people that the assistance is meant to help. These two kinds of powerlessness are related. The longer individuals remain in poverty, the more vulnerable they become to natural disasters and civil strife, and the more likely that overseas aid for them will come only as humanitarian relief efforts. And as aid becomes concentrated in relief efforts, fewer resources are available to address the structural causes of chronic poverty. A vicious cycle ensues. Escape from these poverty and relief traps will require serious efforts to increase and retarget development assistance in order to remedy market deficiencies and to enable families to invest productively in their futures.

The Relief Trap For Development Assistance

The past ten years has brought a sharp decline in aid flowing to low-income countries. OECD data show that after growing more than 20 percent through the 1980s, real (inflation-adjusted) global aid to developing countries fell sharply through the mid-1990s (Figure 1). Real aid peaked at \$60.4 billion (in 1998 dollars) in 1992, then fell to \$47.5 billion in 1997. The recent partial recovery is attributable to sharp increases in emergency spending, continuing the trend toward an increasing concentration of foreign assistance on establishing refugee camps, emergency feeding programs, and other responses to humanitarian emergencies. The share of global aid spent on structural development and change – education, health, economic infrastructure, agricultural production technologies, and the like – fell from 47 percent in 1993 to 31 percent in 1999 (Figure 1).

Foreign aid from the United States mirrors these global patterns. Real aid flows that had averaged more than \$16 billion in the mid-1960s, slipped to \$13 billion by 1990-92, and to only \$8 billion in 1997-99 (Figure 2). The decline in American aid flows is more rapid still when measured as a proportion of real U.S. GDP (Figure 2). The United States' 1999 aid ranked last among the 22 nations in the OECD's Development Assistance Committee (DAC), barely a quarter the 22-country average of 0.39

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percent of GDP, and barely a seventh of the United Nations' target contribution rate of 0.70 percent.

It also appears that the share of U.S. foreign aid earmarked for humanitarian emergencies has increased significantly over this same time period. For example, a majority of Public Law 480 (PL480) food aid now goes for emergencies, where less than 20 percent flowed for humanitarian purposes a quarter century ago. Spending on agricultural development has suffered disproportionately, falling from \$900 million in 1990 to \$300 million in 1999.

Because the reduction in foreign aid is heavily influenced by geopolitical objectives, donor country exports, or macroeconomic policy reforms, the amount of untied, non-emergency aid available for structural development has fallen precipitously. A pattern of emergency and response, followed by incomplete recovery, produces a vicious cycle in which reactive relief efforts further undermine already-fragile market and social institutions. Populations become even more vulnerable to the next shock. Meanwhile, funding for necessary development expenditures dwindles. Extraordinary efforts must be made to break this cycle of vulnerability and reactive aid: emphasis must be moved from reaction and recovery to mitigation.

Donor nations have tried to respond to increased emergency demands on reduced aid budgets by developing strategies to link relief and development. While the principle is laudable, there is little evidence that it works. The task is daunting, because the effectiveness of aid depends in part on a sound institutional and policy environment in the recipient nations – things that are frequently missing during emergencies.

Recovery through emergency assistance also depends on effectively targeting needy recipients. Unfortunately, the evidence on targeting aid indicates that there is at best a weak correlation between need for aid and receipt of aid. For example, at national levels, food aid historically is uncorrelated with changes in nonconcessional food availability. At the micro level, food aid is as likely to reach relatively wealthy households as it is to reach the poorest households.

In theory, development-oriented relief is attractive. Especially attractive is the idea of self-targeting transfers that provide both income insurance and labor-intensive investment in crucial public goods, such as roads and irrigation systems.

The record in practice remains mixed. Food for work (FFW) programs that employ able-bodied recipients in public works initiatives have grown especially popular. Too often, however, complementary inputs such as tools, cement, or transport are

unavailable. The productivity of the effort proves low or the asset created proves unsustainable — for example, roads that are not maintained. Moreover, when rural markets fail, the poorest can have a higher marginal productivity of labor than the wealthiest, thereby inducing the most needy to choose not to participate in FFW schemes intended to benefit them, as has recently been demonstrated in Ethiopia.

More creative uses of aid to address rural market failures are possible and may help eliminate the mechanisms that perpetuate poverty and vulnerability in low-income communities. For example, in the Greater Horn of Africa, where relief packages are common because of drought and war, investments to reduce livestock mortality and to market a fraction of the saved animals could dramatically reduce economic vulnerability among livestock herders.

Some small-scale initiatives have been launched to accomplish this objective, and some successes have been recorded. Food-aid-based school feeding programs have proved quite effective, especially for getting and keeping girls in school. Considerably more must be done to tailor emergency assistance toward the structural sources of vulnerability among target populations. Providers must restore real development assistance in order to break the recurring cycle of disaster and relief.

Poverty Traps: Institutionalizing Poverty and Vulnerability

What perpetuates poverty and vulnerability and keeps foreign assistance in relief mode? A good answer requires some updating of conventional definitions of poverty, following the World Bank's *World Development Report 2000-1*. Poor people most commonly define poverty in terms of insecurity, rather than low income. While many recognize that poverty breeds insecurity, the reverse is also true because insecurity distorts asset accumulation strategies. For example, in Africa, farmers cut the forests and deplete soil nutrients in response to price and yield risks. Food traders limit employment of able-bodied workers and sleep with their inventories for fear of theft, and

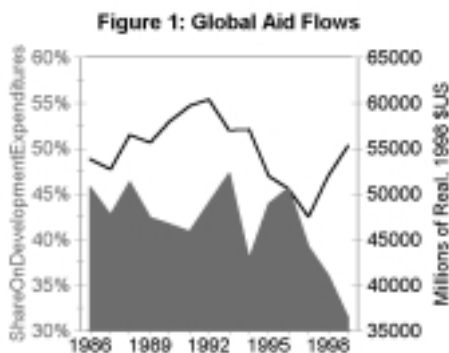


Table 1
Decomposing Poverty Transitions in South Africa
(Based on 1,200 Households)

		1998	
		Poor	Non-Poor
1993	Poor	18% Chronically Poor, of which: • 8% unlucky and transitorily poor • Up to 92% structurally trapped	9.7% Got Ahead, of which: • 58% recovered from 1993 bad luck • Up to 42% structurally escaped poverty
	Non-Poor	25% Fell Behind, of which: • 15% unlucky in 1998 • Up to 85% structurally poor	48% Never Poor

Source: Carter and May (forthcoming)

families reduce food intake to cope with shocks, thereby diminishing children's educational attainment.

The common denominator to these examples is that poor people respond to insecurity today in ways that compromise their capacity to build a better life tomorrow. Such behavior is rational. It reflects the constraints that affect the poor's capacity to break out of the poverty traps that have captured them and the relief traps that have stymied contemporary development policy.

Imperfect factor markets, such as credit markets accessible only to the wealthy, make it hard for the poor to put the few productive assets they do own to good use and limit their access to high return niches in emerging markets. In the textbook world of full, complete, and transparent markets, households that lack needed resources simply rent or purchase them. In the real world, some assets and opportunities can only be utilized effectively when they are matched by holdings of imperfectly tradable complementary assets. For example, land can only be used effectively when matched by capital that the poor cannot borrow. Poverty then turns not only on asset endowments, but also on factor markets that constrain the use of those endowments.

Child labor shows how market failure baits the poverty trap. When families are struck by crisis and have insufficient access to credit or insurance, or when adult unemployment is high, or wages low, families withdraw children from school and put them to work full-time. Because there is an inverse relation between full-time child labor and the child's productivity later in life, the adult labor market and credit market failures transmit poverty and vulnerability across generations.

Recent literature on the economics of poverty emphasizes the need to distinguish between families whose incomes are transitorily low and those who are structurally trapped at low levels of welfare. When poverty is primarily transitory, time

is an ally of the poor, but many of the world's poor are structurally trapped by accumulation failure. The march of time brings no relief, just recurring crises, and the future appears as a sequence in which they "can't get ahead for falling behind."

How significant is chronic, structural poverty? An ongoing study of poverty dynamics in South Africa offers important insights on this question.

Table 1 presents a mobility or transition matrix wherein the

rows classify 1200 sample households by their 1993 household expenditures per capita (scaled for household subsistence needs), and the columns show their 1998 per capita expenditures. The northeast cell shows those households that were below the poverty line in 1993, but above it in 1998. The southwest cell shows those households that went from being non-poor to poor, while the remaining two cells show households that did not change their status. In the sample, 18 percent of households were poor in both time periods, 10 percent got ahead, and 25 percent fell behind. A majority were poor at some point.

A closer look at these poverty transitions shows that more than half of the ten percent of the population that escaped poverty recovered from prior ill fortune. However, no more than 42 percent of these households (less than 5 percent of the overall sample) escaped from structural poverty through asset accumulation. Only a small fraction (15 percent) of the segment of the population that fell into poverty over time appear to have done so on a temporary basis as of 1998. The remainder of these households that fell behind are probably structurally poor.

These are households that literally could not get ahead. Well over half suffered significant loss of productive assets between 1993 and 1998. The results indicate that more than two-thirds of the South African poor in 1998 may be trapped in structural poverty.

Although the passage of time may permit some members of this group, and equivalent groups in other countries, to escape poverty, the challenge of poverty reduction demands more than just patience. In the South African study, time appears to be the enemy rather than the ally of the poor. Time merely oversees the chronic perpetuation of a poverty class. Merely responding to crises does not constitute a concerted effort to put the poor on a pathway to wealth accumulation and a better future.

Redirecting Development Assistance

As we begin to better understand the structural features of chronic poverty, it is important to deemphasize reactive aid and increase support that firms up the factor markets that underlie both the production and perpetuation of poverty. Stocks of financial, natural, manmade, and social capital help individuals manage risk so as to prevent vulnerability. Vulnerability goes hand in hand with asset poverty. Yet asset ownership is only a necessary condition against vulnerability. The poor cannot eat currency, or soil, or the goodwill of neighbors or governments. They must have access to markets and technologies that enable them to turn their assets into a sustainable income sufficient for a healthy life. International investment in low-income communities and in basic market infrastructure has fallen sharply over the past decade as real aid budgets have dwindled and been increasingly absorbed by emergency relief, tied exports, and macroeconomic policy conditions. Aid providers must reverse this trend.

The past two decades' emphasis on extricating government from markets has not been matched by equally necessary emphasis on fostering efficient and fair markets in which the poor can fully participate. Further liberalization and preferential trading arrangements that open OECD markets to exports from low-income countries will surely help those who enjoy the necessary access to technology and domestic factor markets.

However, these measures are unlikely to assist the structurally poor whose condition is defined by exclusion from these markets. Relief of debt that was not being serviced in the poorest countries will do little to stimulate investment in creating market-based opportunities for the poor. Both debt relief and trade policy reform attempt to address poverty problems without committing the real resources needed to unlock poverty and relief traps. Providers must restore real developmental aid to previous levels and focus more on crisis mitigation — in other words, development — than crisis response.

In the short term, the need for emergency assistance is undeniable. This implies the need for extraordinary short-term increases in development assistance if serious efforts are to be made at crisis mitigation without reducing crisis response efforts. If this is not done, more than one billion people living in extreme poverty — on less than one dollar per day — will not escape the vulnerability and poverty traps in which they are currently caught, and aid programs will remain ensnared in related relief traps.

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Christopher Barrett is Associate Professor in the Department of Applied Economics and Management at Cornell University. Michael Carter is Professor of Agricultural and Applied Economics at the University of Wisconsin. The authors wish to thank Kevin Heisey for research assistance, and acknowledge the support of the U.S. Agency for International Development. All views, interpretations, recommendations, and conclusions expressed in this paper are the views of the authors, and not necessarily those of the cooperating institutions.

