



# Poor, Poorer, Poorest

The opinions expressed are solely those of the presenters and do not reflect the opinions of the Federal Reserve Bank of Dallas or the Federal Reserve System.

# Defining Poverty

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- Condition of having little or no money, goods or means of support
- US poverty threshold: \$18,106<sup>1</sup>
- 2497.4 hours of work at minimum wage
- 312 full-time work days

1.Threshold from the Census Bureau 2011 Poverty Thresholds by Size of Family and Number of Children. Household has 2 adults, one under 18 dependent and a head of household under 65 years of age.  
<http://www.census.gov/hhes/www/poverty/data/threshld/index.html>



# Poor: US Poverty Statistics<sup>1</sup>

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- In 2010
  - 46.2 million people
  - 15.1 percent of the population lived in poverty.
  - 16.4 million were under the age of 18.
  - 20.5 million lived at less than half their poverty level.

1. United States. Dept. of Commerce. *Income, Poverty, and Health Insurance Coverage in the United States: 2010*. Washington: GPO, 2011.



# Near Poverty

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- In 2010,
  - Over 60 million Americans lived below 1.25 times their poverty threshold.
  - Over 75 million lived below 1.5 times their poverty threshold.



# Living in Poverty (US)

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- Spring of 2011, 21.8 million households, or 69.2 million adults lived in doubled-up households.
- A family of four, living at the 2012 poverty line (\$23,050) qualifies for a maximum home price of \$61,327.
- In San Antonio, that will gain you access to 15% of the housing stock.



# Poor, But Not Impoverished

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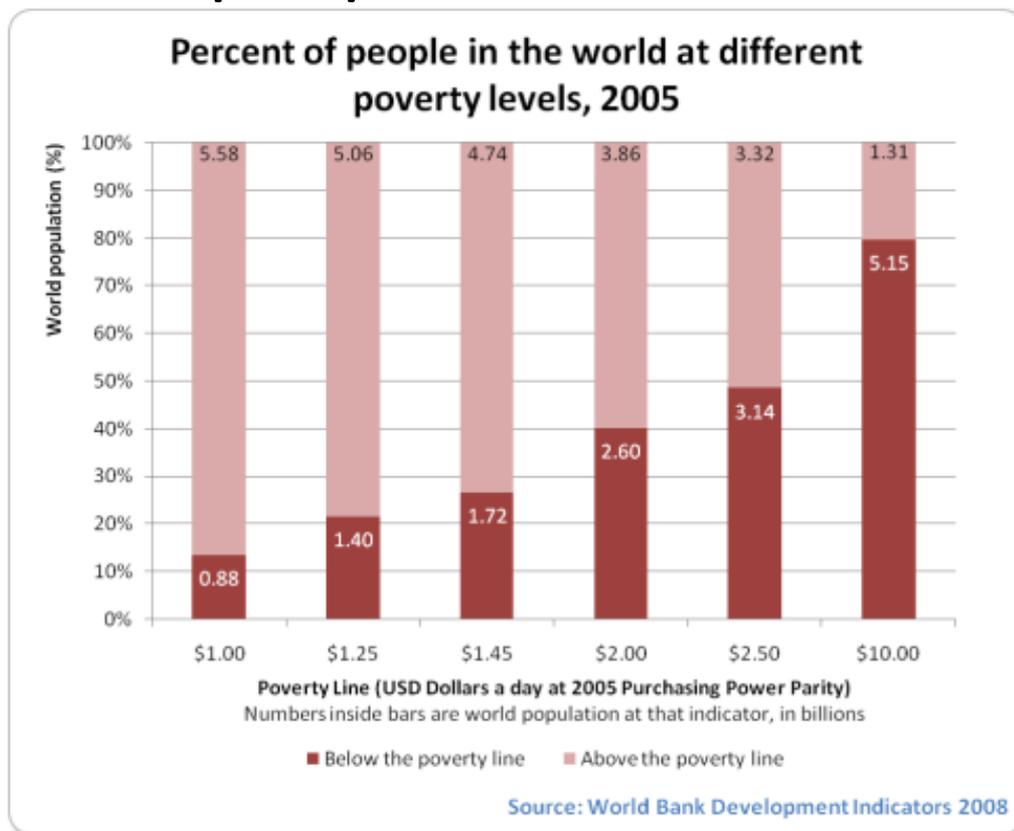
- *The current poverty thresholds do not adjust for rising levels and standards of living that have occurred since 1965<sup>1</sup>.*
- Thresholds do not account for variation in cost of living.

1.Short, Kathleen. *The Research Supplemental Poverty Measure:2010*. Washington: GPO, 2011.



# US Minimum Wage is Not Globally Poor

- 5.15 billion people live on less than \$10 per day.



# Poorer: Two Dollars a Day

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- Median poverty line in the developing world.
- Adjusted for purchasing power parity.
- 2.6 billion people



# What is Purchasing Power Parity?

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- Is an implicit exchange rate.
- How much money is necessary to purchase the same goods and services in different countries.
- A person living on “Two dollars a day” in different countries will be able to purchase the same amount of goods and services.



# Access to Basic Needs

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- More than two-thirds of people without clean water live on less than \$2 dollars a day.
- 2.4 billion people worldwide do not have access to adequate sanitation.



# Living on Two Dollars a Day

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- What would you eat on two dollars a day in the US?
  - Two double cheeseburgers a day (880 calories)
  - 3.4 lbs. of rice(5,598 calories)<sup>1</sup>
- After food, what would you have left?

1. Based on advertised price at Wal-Mart of \$11.86 for 20 lbs.



# A Developing World Problem?

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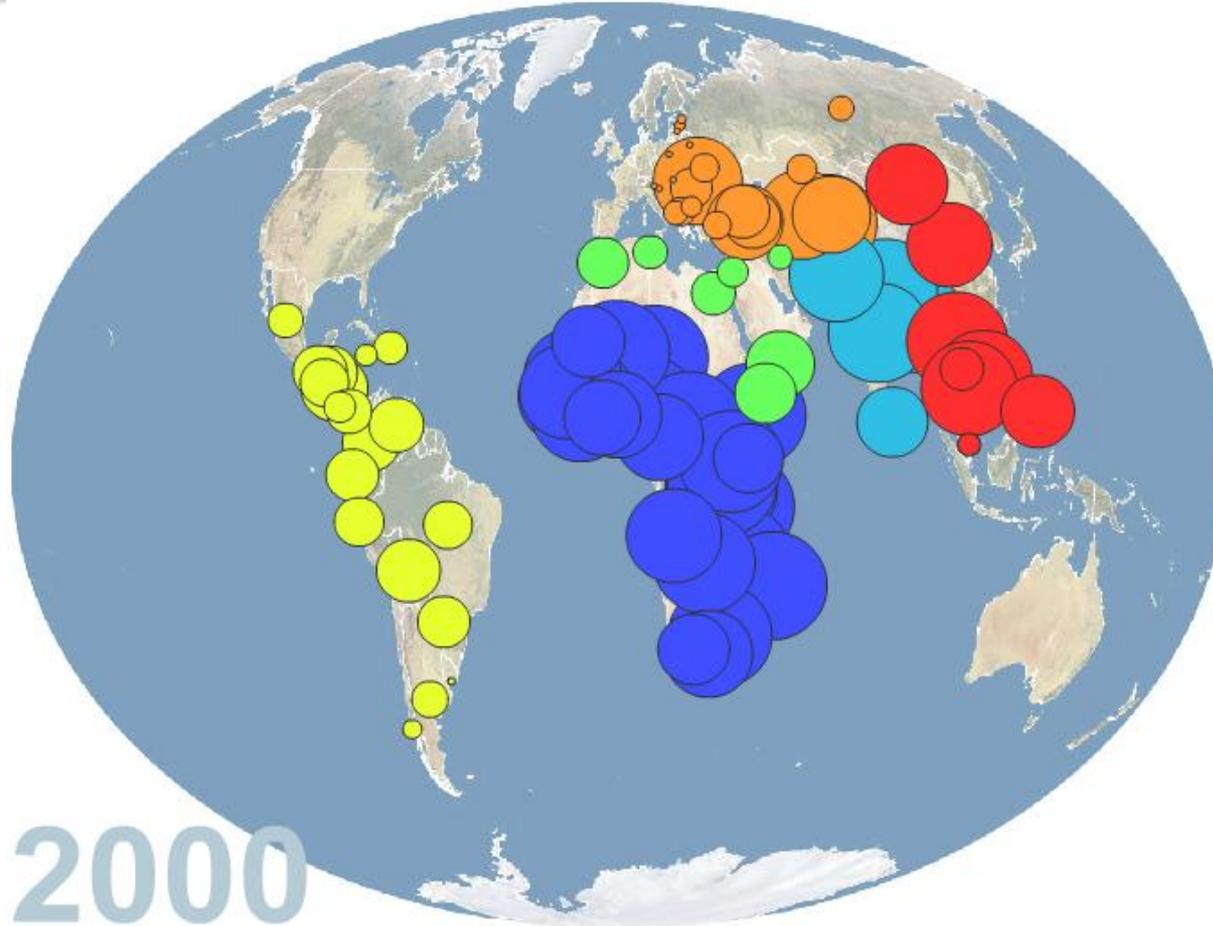
- 1.46 million Americans live on less than two dollars a day.<sup>1</sup>
- Even accounting for food assistance programs 795 thousand Americans live on less than two dollars a day.

1. Shaefer, H. Luke and Kathryn Edin. *Extreme Poverty in the United States, 1996 to 2011*, National Poverty Center Policy Brief #28



# Geographic Breakdown<sup>1</sup>

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1. Map created at [www.gapminder.com](http://www.gapminder.com). Circles represent the percent of a country's population living on less than \$2 a day.



# Poorest: Less than \$1.25 a day

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- 1.29 billion people
- Roughly 22 percent of the developing world
- Adjusted for purchasing power parity



# Access to Basic Needs

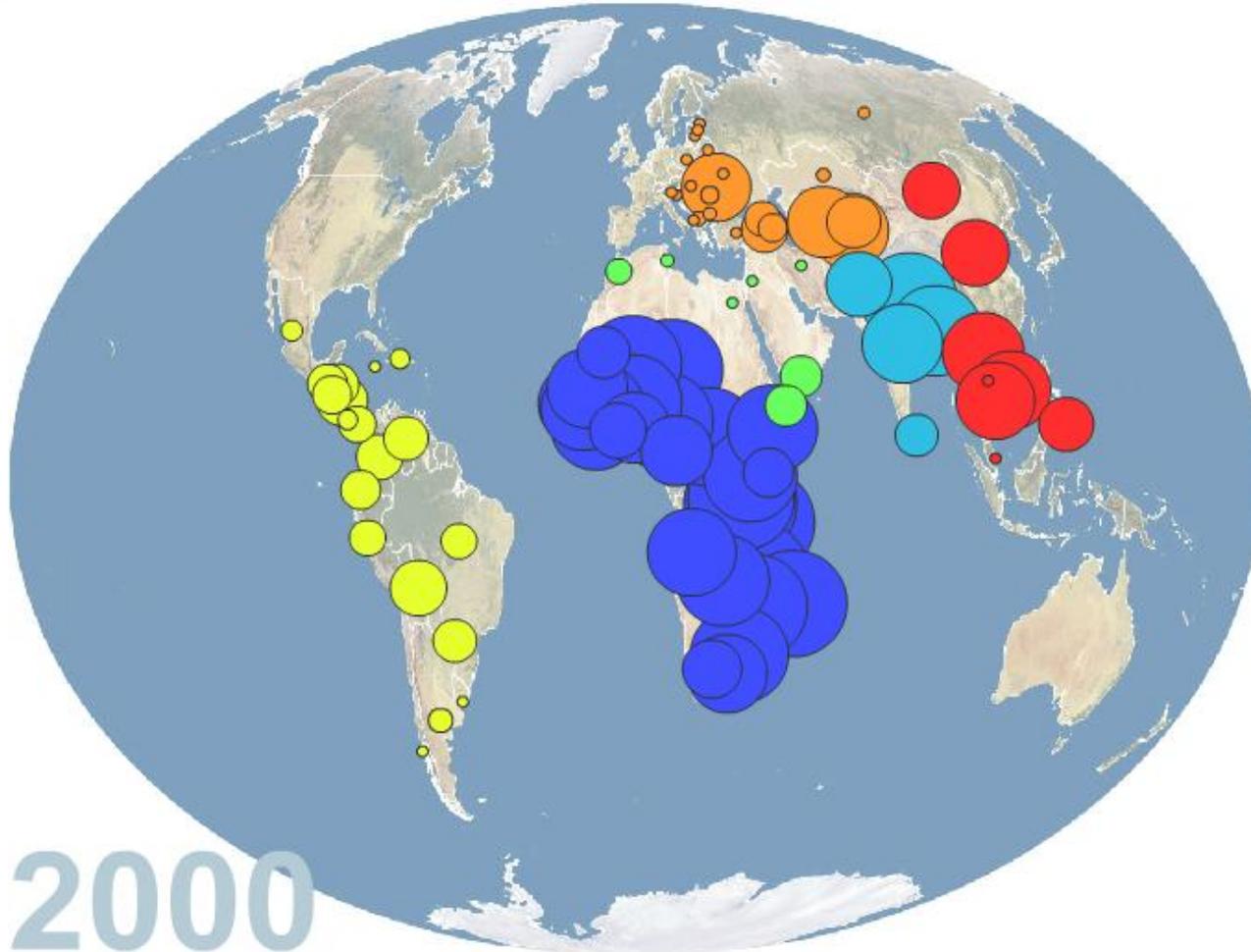
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- One third of all people who do not have access to clean water live on less than \$1.25 a day.



# Geographic Breakdown<sup>1</sup>

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2000

1. Map created at [www.gapminder.com](http://www.gapminder.com). Circles represent the percent of a country's population living on less than \$2 a day.

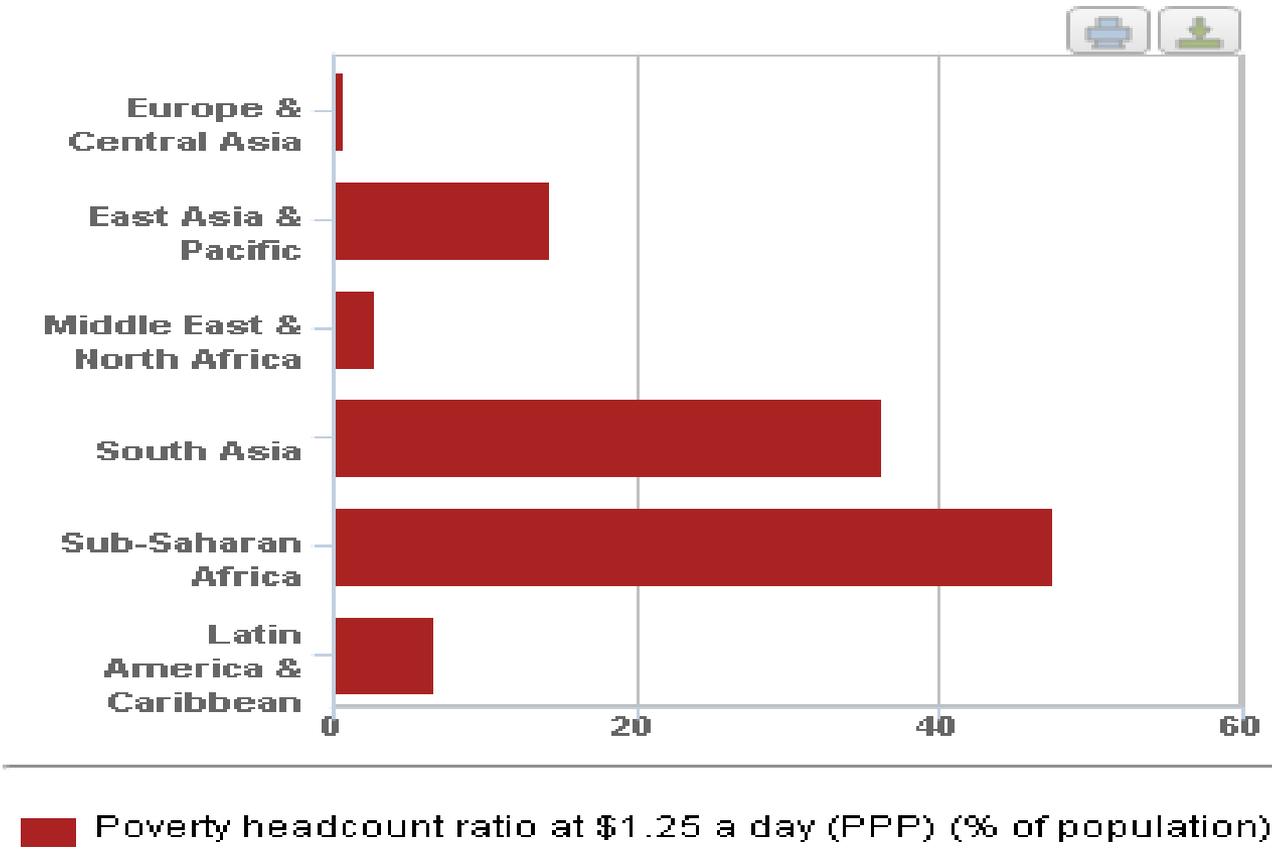


**Global Economic Forum**



# Regional Percentages of Extreme Poverty

People living on less than \$1.25 a day



Created from: World Bank, World Development Indicators and Global Development Finance

**Global Economic Forum**



# Regional Percentages of Extreme Poverty

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- **East Asia & the Pacific:** About 14% of its population lived below US\$1.25 a day in 2008, down from 77% in 1981, when it was the region with the highest poverty rate in the world. In China, 13%, or 173 million people, lived below \$1.25 a day in 2008. East Asia achieved MDG1 about 10 years ago.
- **In the developing world outside China,** the extreme-poverty rate was 25% in 2008, down from 41% in 1981. The number of people living in extreme poverty, however, was about the same in 2008 as 1981 at around 1.1 billion, after rising in the 1980s and 1990s and falling since 1999.
- **South Asia:** The \$1.25 a day poverty rate fell from 61% to 39% between 1981 and 2005 and fell a further 3% between 2005 and 2008. The proportion of the population living in extreme poverty is now the lowest since 1981.



# Regional Percentages of Extreme Poverty

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- **Latin America & the Caribbean:** From a peak of 14% living below \$1.25 a day in 1984, the poverty rate reached its lowest value so far of 6.5% in 2008. The number of the poor rose until 2002 and has been falling sharply since.
- **Middle East & North Africa:** The region had 8.6 million people — or 2.7% of the population — living on less than \$1.25 a day in 2008, down from 10.5 million in 2005 and 16.5 million in 1981.
- **Eastern Europe & Central Asia:** The proportion living on less than \$1.25 is now under 0.5%, having peaked at 3.8% in 1999. 2.2% lived on less than \$2 a day in 2008, down from a peak of 12% in 1999.
- **Sub-Saharan Africa:** For the first time since 1981, less than half of its population (47%) lived below \$1.25 a day. The rate was 51% in 1981. The \$1.25-a-day poverty rate in SSA has fallen 10% since 1999. 9 million fewer people living below \$1.25 a day in 2008 than 2005.



# Progress in Asia

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- East Asia and the Pacific
  - 1981 – 77 percent below \$1.25 a day
  - 2008 – 14 percent below \$1.25 a day
- South Asia
  - 1981 – 61 percent below \$1.25 a day
  - 2008 – 36 percent below \$1.25 a day



# Little Progress in Sub-Saharan Africa

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- 1981 – 51 percent under \$1.25 per day
- 2008 – 47 percent under \$1.25 per day



# Should the US Give Aid?

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- Is it helping?
- Is it hurting?
- In what form should aid be given?



# Some Aid Terminology

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- Official Development Assistance (ODA): Public Sector Aid
- Private Development Assistance: Private Sector Aid
- Public-Private Partnerships (PPPs): ODA and Private and Philanthropic Leadership



# More Aid Terminology

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- Unilateral Aid: Given by one country to another.
- Multilateral Aid: Aid delivered by an international organization.



# Should the US Give Aid? Yes

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- Many economists believe there is a framework of aid that may be valuable to the developing world.
- They differ on the structure, planners and recipients.



# Sachs on Aid: We Must Do More

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- The West has committed hundreds of billions of dollars to aid and has not delivered.
- This aid is necessary to help the poorest countries even begin the ascent out of poverty.
- One such undelivered promise is the Millennium Development Goals.



# Sachs on Aid, cont.

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- Does not believe that corruption and mismanagement is to blame for lingering poverty.
- Does admit that corruption and lawlessness will destroy an economy.
- Has addressed both top-down and bottom-up approaches, in both cases, believes significant coordination of large scale aid is required.



# Easterly on Aid: Fund Individuals

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- Aid has failed because of corruption and paternalistic delusion.
- Top-down goals, like the Millennium Development Goals, are doomed.
- We should fund non-profits, shift to smaller, incremental projects and hold the providers responsible.



# Easterly on Aid, cont.

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- Badly governed countries are poor.
- Top 15 aid recipients in 2002 all have governments ranked in the bottom quartile.
- Aid has tried and failed to change the quality of government.
- More aid has tried and failed more.



# Common Critiques of Sachs & Easterly

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- Both acknowledge the role of well defined and protected private property, but both undersell the impact.
- Neither are looking at the incentives of recipient governments or individuals as the driving force behind outcomes.



# Support of the Critics

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- China, the strongest success story in recent history, focused on bolstering entrepreneurship and fostering business investment.



# Banerjee and Duflo

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- Aid should not seek to change the condition of the poor through large scale projects.
- Small projects should seek to marginally, but efficiently, improve the lives of the poor.
- Small projects should be evaluated quantitatively.



# Familiar Methodology, Novel Application

- Random Control Trials (RCTs) are familiar to the pharmaceutical industry.
- Some people receive the drug, some the placebo, observe outcomes for trends.
- This methodology was used to answer small questions about aid projects.



# Using the Trials to Direct Action

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- Based on the results of RCTs, small policy decisions can be made to maximize the impact per dollar spent.
- The goal is to allow impartial data, not preconceived notions, to dictate action.



# An Example of RCTs

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- If the goal is to increase school attainment we could offer
  - Extra Teachers
  - Free Meals
  - Deworming
  - Information of Returns



# The Results of the RCT

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- Extra years of schooling per \$100
  - Extra Teachers 1.7 years
  - Free Meals 2.8 years
  - Deworming 28.6 years
  - Information of Returns 40.0 years



# Critiques of Banerjee & Duflo

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- Can't answer big questions.
- Only improve life of poor at the margin.
- Ethical Concerns?



# Should the US Give Aid? No

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- George B.N. Ayittey
  - Africa has the resources to become self-sustaining.
  - The problem is reliance on Western Aid.
  - Corruption has squandered, in some cases, all of the aid given to African countries.



# Should the US Give Aid? No

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- Countries who have seen significant progress against extreme poverty have not been the large aid recipients.
- Free markets and private property protection are the most important aspects of ascent from poverty.



# Summary

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- Many economists believe there is economic value to recipients of aid.
- There is substantial disagreement about the type and structure of aid.
- There are some who say the condition of certain nations make aid useless.
- The most successful stories of poverty reduction are about countries that have focused on entrepreneurship & private property protection.



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