**POOR ECONOMICS: RETHINKING POVERTY AND THE WAYS TO END IT**

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**Abstract:**

Abhijit V. Banerjee and Esther Duflo, winners of the 2019 Nobel Prize in Economics have pioneered their research on the real nature of poverty and offered insightful ways to alleviate it. The book is organized into two parts with five chapters in each part. The first part of the book which covers the first five chapters deals with major dimensions of poverty like income per capita, health, education, inequality and population. The author has pointed out the correlation among all the real factors behind poverty with each of the factor reinforcing the another. The second part of the book deals with the institutions in the global world and the key role of Government in getting the poor people out of poverty. The authors necessitate a strong, transparent and accountable institutions and policies with suitable laws for their successful implementation in order to break the poverty trap.

**Keywords:** Poverty, Alleviate, Dimensions, Correlation, Transparent, Accountable

The author pointed out that poor need the basic minimum comprising not only food but other survival needs as well to lead a dignified life. As poverty and hunger are correlated, globally, there are prevalent food subsidy programs. However, there have been leakages in institutional delivery mechanism. A vicious circle of poverty makes poor less productive and keeps them poor, thus widening the gap between rich and poor leading to inequality. Angus Deaton and Jean Dreze have empirically found the declining per capita calorie consumption, led by the declining proportion of people in physical labor. The health scenario of India reportedly pointed out the results of National Family Health Survey (NFHS-3), indicating the lack in nourishment and nutrition levels of mothers and their children. Nutritional deprivation are indicated by factors like child stunting, child wasting and less number of institutional delivering of women. Child nutrition is of utmost importance to country like India at a time when India is leveraging its potential in reaping the benefits of demographic dividend. The nutrition level of child, directly or indirectly affects the ability of adults to stand at the global level. Enriching children with micronutrient meals, supplemented by health care to pregnant women can tremendously increase the social returns in the country.

Further, the book highlighted the importance of ‘low- hanging fruit’ for good health. Low- hanging fruit is defined as the basic health care services which includes vaccination, timely treatment, bed nets etc. Countries like Africa and Sub-Saharan Africa and Rajasthan state of India needs a rehydration solution which can prevent diarrhea. Similarly, mosquito bed nets can prevent malaria. However, instead of picking these homely solutions, people goes to antibiotics. Most of the people in the global economy are stuck in a health based poverty trap. In order to ensure decline in mortality and morbidity rates, health investments are effective which includes access to clean piped water, better sanitation and chlorination of water sources. A review of public health delivery system should be done at the ground level as evidence high absenteeism rates and low motivation among Government health care providers which lead to under usage of immunizations and antenatal checks for prospective mothers. The reason that people do not take advantage of cheap preventive technologies to improve their health is a “psychological sunk cost” effect- i.e. people are more likely to make use of something they have paid a lot for. Also, things are judged to be valueless precisely because they are cheap. The major focus of health care policy in poor countries should be to make it as easy as possible for the poor to obtain preventive care while at the same time regulating the quality of treatment people get. Also, treatment should be given while taking care of two things: making sure that people can afford the medicines they need and also restricting the access to medicines people don’t need as a way to prevent growing drug resistance.

Next dimension covered in the book is “Education”. The author has highlighted the importance of education to alleviate poverty. Both demand and supply side plays a major role in getting access to education. As a result, supply will follow the suit. Building schools, necessary infrastructure, hiring teachers and having an access to education are the major factors influencing the supply side of education. After the announcement of UN’s Millennium Development Goals (MDG), to which the world’s nations agreed to reach by 2015, India has made a progress and about 95% of the children now have a school within a half mile or so. Enrollment rates has increased and this is where learning would follow. In order to increase the enrollment rates of children in school, the Government should take a necessary step in education policy: the conditional cash transfer. One of the conditional cash transfer program is PROGRESA, a program that offered money to poor children conditional on their regular attendance of school. In such a way, an incentive is given to encourage children to attend school. So, in this way Government intervention is essential to make education cheaper in order to ensure that each child gets a chance and thus be able to get close to a social efficient outcome. The author pointed out an educational NGO named *Pratham* evidenced the deficiencies of the educational system and offered remedial steps to fix it. The evidence suggests that the major leakages are found to be in schools where the absenteeism rates among children and teachers is highest. Thus, it creates a poverty trap and creates distortions in the education system. In developing nations like India, two basic tasks are usually left untouched: a sound skill set and identifying talent. There is certainly a shortage of demand of teachers as with growth in high- tech sectors, people prefer to become programmers, computer systems managers and bankers instead of becoming a teacher. The remedial measures or steps discussed by *Pratham* is focusing on building basic skills and commitment towards achieving it along with reorganization of curriculum structure while making rational usage of Information Technology in education.

Another dimension of poverty has been rising population. India has given utmost importance to Family Planning methods during development plan, specifically in Emergency period of 1975. Sterilization technique was used to achieve the immediate target but it led to the violations of civil liberties. One of the well- known examples of severely enforced population control measures has been the country like China which has enforced One child policy to curb rising population. There are certainly vitally important issues due to population growth like increasing pollutants and emissions leading to global warming, water scarcity issue etc. Hence, developing country like India need a population policy. Thomas Malthus gave his theory on population growth that with limited or fixed resources, increasing population was bound to make a country poorer. The author claims that in order to make a progress on this issue, we have to shift our focus towards the lives and choice of poor people. The poor people generally have large families and the children born in these families lack accessibility to education and faces health barriers. As a result, a mechanism is created which leads to intergenerational transmission of poverty. As a result, a population policy is required to confront poverty trap. Next, the author is concerned about why the poor people cannot control their fertility decisions. Research shows that one reason could be non- availability of modern contraceptive methods and the regions where there are more clinics have lesser fertility. Therefore, the most effective population policy is to make optimal decisions of fertility and to have fewer children in particular. Effective social safety nets which includes health insurance and old age pensions enhance the retirement savings of people which could have contributed to declining fertility and stable population.

Poor often encounters the risk while employed as casual labors or owning farms or small businesses. Risks are not only related to finance, income or food security but other types of risks associated are health risk, violence, crimes etc. As a result, poor are sometimes called hedge fund managers. In order to hedge against these kinds of risks, effective strategies involved are cited. First, poor often create a diversified portfolio of both their occupations and financial instruments. Second, they tend to remain stick to traditional technologies as new productive variety involves a huge expenditure. Third, to work on agricultural land as share tenant which can limit farmer’s cost. The major issue highlighted is the reason why there are not enough insurance companies for the poor in developing countries. The major root cause lies in the problems companies generally face in providing insurance. One is “Moral Hazard” which occur when people care less about the insured product or activity as they know that any loss or damage will be insured by the insurance company. Another is “Adverse Selection” which occurs when insurance company is not able to identify the risk extent of those taking insurance and consequently charges average amount of premium. As a result, only those customers are willing to pay this premium who are at high risk. Lack of knowledge about insurance policies and lack of credibility are cited as the major reasons that poor are not involved in taking insurance.

Next, the author gives an insight of the formal and informal sources of credit to the poor. Formal access to credit include institutional sources like commercial banks or cooperative banks. But, it has been observed that poor generally get an access to finance from informal sources like money lenders who often charges high rate of interest and seized collateral in case of loan default. However, now- a- days, MFIs are established at remote places which provides loan at reasonable rates of interest with sufficient time given to repay the principal and interest amount.

Another area of focus has been the low savings of the poor. Poor people faces constraints in getting access to finance and lack of insurance compel them to face risks. Books named ‘The Poor and Their Money’ and “Portfolios of the Poor” by Stuart Rutherford found out the ways of savings by the poorer. He advocated the formation of Self-help groups (SHGs) or savings clubs in which people poor their money and lend to the member of the group who is in need of finance. This concept of SHGs has been popular in India as it provides one of the way for easy and affordable credit. Another way for poor for accessing credit is through Microcredit schemes. A minimum social safety net is required by the poor to get entitled to basic service needs and ensuring participation in decision making.

The last two chapters of the book focuses on the vicious circle of poverty trap. Generally, poor people face constraints in setting up their business and becoming entrepreneurs. The main issue is the small project scope as poor usually set up their business at small scale which make it difficult for them to extract profits. Easy and affordable accessibility to credit through Microfinance Institutions are imperative for growth of business. However, this is not the only measure to get out of poverty trap. The real root cause behind poverty in developing economies is not figuring out good policies but putting these policies into action. Bad institutions in society and inadequate policy implementation creates vicious circle of poverty. In order to alleviate poverty, the poor countries should be provided the requisite aid for food production, sanitation, good health and education and to make society empowered. Thus, the state must endeavor to deliver public services to the poor with appropriate implementation of policies along with decentralization of powers to make the system more accountable and transparent.

The book majorly gives interesting insights of why poor remain poor and the factors which created poverty circles in most of the countries. Despite significant measures and conventions at national and international level, the world has not been able to get over poverty. The underlying issue has been in discussion since several decades and its high time to have a pro- active approach for making lives better.

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