

Poverty and Aspirations Failure

By Sayantan Ghosal, Patricio Dalton and Anandi Mani

Chronic poverty is a condition that requires an understanding of the multidimensional processes that make people poor and keep them poor. The Chronic Poverty Report (2008-2009) estimates that 320 to 443 million people will live trapped in chronic poverty: i.e., they will remain poor for much or all of their lives and their children are likely to inherit their poverty as well.

An influential literature on poverty traps argues that such persistent poverty prevails due to constraints that are external to the individual. Examples of such constraints are credit or insurance market imperfections, coordination problems, institutional or governmental failures, malnutrition, neighbourhood effects or even the family system.

An alternative view is that living in poverty itself, impacts peoples' expectations and aspirations.

This in turn makes it more difficult for them to escape from poverty. Arjun Appadurai notes that poor people may lack the capacity to aspire to contest and alter the conditions of their own poverty. However, unlike with external constraints, it is not clear whether such internal constraints are the cause of poverty – or its consequence. Is it that the poor exhibit the same biases as do people from other walks of life, except that in poverty these biases lead to worse outcomes?

In our paper, "Poverty and Aspirations Failure", we have established a theoretical framework that models the feedback loop between initial disadvantage and aspirations, choices and achievement. We begin by modelling an important behavioural

bias that individuals suffer from, in setting life goals or aspirations.

In the ladder of individual aspirations, most people are typically able to visualise only one rung above at a time – but not the entire pathway of how far they can travel.

Individuals underestimate how their aspirations evolve over their lifetime as a consequence of their effort. Evidence suggests that the rich are not very different from the poor in this respect. However, poverty imposes an additional constraint on the poor: They face much greater downside risks than the rich. This means that poverty exacerbates the behavioural bias in setting aspirations, by affecting their effort choices, and hence makes them more susceptible to an aspirations failure.

So, for example, take a poor farmer who is worried about whether she will get a good enough crop to feed her family. If her child is under performing in school, she may wonder whether it's worth expending more resources on getting him to catch up and doing better at school; making sure the family does not starve would seem more important. But lower parental effort in this regard increases the odds of low performance by the child; and

INSIDE

| **CAGE people**
Recent visitors

| **News**
Modern Society and the
Economics of Happiness

| **Events**
CAGE Seminar Series on the
Emerging World Economy

worse, low performance feeds into lower aspiration for how well he can do in school, and diminishes his long term education achievement well below what he may be capable of.

Think of two individuals who have the same initial aspiration level, one rich and the other poor. At this given aspiration level, the poor person would optimally choose a lower effort level than the rich one, due to a higher downside risk. However, the feedback from effort to aspirations implies that the lower effort of the poor person will cause his aspiration level to diverge from that of the rich person.

We have begun investigating whether raising aspirations can help raise levels of achievement amongst the poor. In one case study in Kolkata, India, researchers examined the use of "dream building sessions" aimed at raising the aspirations of a socially excluded group - sex workers. A recently concluded pilot study has yielded promising results. The next stage of the research will be a scaled up piece of fieldwork that will produce evidence of the impact of "dream building" on altering

Continued from page 1

choices for example, increased condom usage and changing savings behaviour.

A second planned case study, Orchestras for Children and Young Students in Buenos Aires, will examine whether the aspirations of children from very deprived backgrounds are raised with their participation in classical music orchestras. The researchers will examine whether their regular participation has spill-overs

in other dimensions such as educational performance.

The research will set the ground work to develop the techniques required to raise low aspirations. It is not enough to spend money to raise educational standards in schools: children must also aspire to attain those standards. Policymakers must intervene to raise aspirations and expectations to help people out of poverty

and social exclusion. This intervention is vital to break the vicious cycle that perpetuates chronic poverty. Raising low aspirations must complement the delivery of aid and assistance on the ground.

This article draws on the CAGE Working Paper "Poverty and Aspirations Failure", P. S. Dalton, S. Ghosal and A. Mani (2011).

Professor Vera Troeger



Vera Troeger is Professor of Quantitative Political Science at the Economics Department and the Department for Politics and International Studies at

Warwick. She joined CAGE in August 2011. Her role will centre on establishing a research group focusing on the interface between political science and economics in the context of globalisation.

Vera is Co-editor of Political Analysis and serves on the editorial board of the European Journal of Political Research. She is also a council member of the newly founded European Political Science Association. Before she came to Warwick she was director of the

Essex Summer School in Social Science Data Analysis – the largest summer programme of its kind.

Her research interests lie at the intersection of international and comparative political economy, econometrics, and applied statistics, in particular economic policy diffusion and spillovers of monetary and tax policy. She has specialised in several branches of econometrics including pooled cross-section time series analysis.

She has published papers on the external effects of currency unions, monetary policy autonomy, international tax competition, budgetary party politics, and war and stock market reactions in the American Journal of Political Science, the European Journal for Political Research, the British Journal of Political Science, International Studies Quarterly, the Journal of Conflict Resolution, European Union Politics and Political Analysis.

CAGE Visitors

Professor Maitreesh Gatak



We are pleased to welcome Professor Maitreesh Gatak to CAGE this term.

Maitreesh will be working with Professor Sayantan Ghosal on the

impact of institutions on economic performance.

Maitreesh is Professor of Economics at LSE. His research is in the area of Development Economics, the Economics of Organisations and Public Economics. Maitreesh is also the Editor of the Journal of Development Economics and the Director of the Economic Organization and Public Policy Program (EOPP) in STICERD, LSE.

Dr David Jacks



David Jacks, Associate Professor in the Economics Department at Simon Fraser University, Vancouver, visited CAGE this term.

David is a faculty research fellow of the National Bureau of Economic Research (NBER). His research interests are in economic history and international economics. His current research includes work on the economic history of globalisation; the determinants and evolution of trade costs; and commodity markets. During his visit David has been working with CAGE Research Associate Dr Dennis Novy.

Professor Sascha Becker



Sascha Becker is Deputy Director of CAGE. His particular focus is on CAGE's research impact and on knowledge transfer. He is also involved in

the Centre's research connection with China.

In his research, Sascha looks at Prussian economic history and at long-run economic effects of historic institutions. He also researches the effect of trade and foreign direct investment on labour markets in developed countries and he analyses the effect of EU Structural Funds on regional growth.

Before moving to Warwick, Sascha headed the Research and Knowledge Exchange Panel at Stirling Management School. He has been involved in various international research networks funded by the EU. He is an external Research Professor at the Ifo Institute at the University of Munich, a Research Fellow at CESifo Munich and at IZA Bonn and a Research Affiliate at the Centre for Economic Policy Research (CEPR).

In 2009 he won the "Habilitationpreis der Gesellschaft der Freunde und Förderer der LMU" and in 2010 he won the "Prize for Academic Research" from the Friends of the Ifo Institute for his paper in the Quarterly Journal of Economics entitled "Was Weber Wrong? A Human Capital Theory of Protestant Economic History".

Modern Society and the Economics of Happiness: 5th & 6th October 2011

These two events, organised by **Professor Andrew Oswald** and **CAGE**, brought together leading thinkers in the field of happiness economics to discuss key questions for the modern world.

The Centre welcomed the founding father of happiness economics, **Professor Richard Easterlin** (University of Southern California), and **Professor Andrew Clark** (Paris School of Economics) for a two strand event, the first taking place at the University of Warwick with an audience of students, academics and staff from across all areas of the University and the second taking place in Central London, chaired by **Emma Duncan** (Deputy Editor, *The Economist*) where the speakers were joined by members of the policy making community, economists and statisticians.

The debate was lively and addressed the following questions:

- What are the appropriate goals for a modern society?
- Should economic growth be a major priority?
- How do we balance environmental concerns with the goal of higher GDP?
- What are the causes and policy implications of risky health behaviours?

The lectures are available to view on our website:

Professor Richard Easterlin:
'Raising Happiness in Poorer Countries: Will Economic Growth do the Job?'

Professor Andrew Clark:
'Is man a Social Animal'

Professor Andrew Oswald:
'Modern Society and the Economics of Happiness'

Visit our website to see a video of a round-table discussion between Professors Easterlin, Clark and Oswald.



Professor Richard Easterlin, Professor Andrew Oswald, Professor Andrew Clark

Congratulations

CAGE Research Associate, Dr Fabian Waldinger, has been awarded the CESifo Distinguished Affiliate Award which is awarded annually by CESifo (Munich) to the best paper presented by a young author at a CESifo Area Conference on Employment and Social Protection. The prize was awarded for the paper **"Peer Effects in Science – Evidence from the Dismissal of Scientists in Nazi Germany"**. The paper uses the dismissal of Jewish and 'politically unreliable' scholars from Nazi Germany to investigate localized peer effects among academics. Waldinger finds that local peers, even very high quality ones, do not affect the productivity of scientists.

CAGE Summer School



Vacation Schools are an important activity for young researchers and CAGE was happy to be able to contribute to this tradition again this year.

CAGE welcomed 25 PhD students and post-doctoral researchers to the centre between 25th – 29th July 2011 for a Summer School focusing on Economic History. Students came from mostly European institutions including: Copenhagen, Groningen, Barcelona and the LSE but the cohort also included students from North and South America.

Co-ordinated by Stephen Broadberry, the main theme of the Summer School was Long Run Economic Growth with a core daily lecture being delivered by Gunnar Persson (Copenhagen) along with subsequent daily lectures given by a range of eminent Economic Historians including Kevin O'Rourke, Bishnupriya Gupta, Tirthankar Roy, Herman De Jong, Nikolaus Wolf and Debin Ma. The daily lectures developed themes from Persson's recent publication *An Economic History of Europe*.

Students were given the opportunity to present their own work to the group and the faculty for feedback and peer review. Comments on this element of programme were particularly positive with students appreciating the opportunity to present their work to a wide range of international colleagues.

Preparations are now beginning for the third CAGE vacation school which will focus on Political Economy.

CAGE Seminar Series on the Emerging World Economy



Throughout 2011 we have been running a series of seminars on the emerging world economy.

These seminars, which have so far included talks by professors **Dani Rodrik, Barry Eichengreen, Pranab Bardhan and Jim Robinson**, have been organised to bring new academic ideas to a wider audience.

Working Papers

CAGE publishes a series of working papers which are available online at go.warwick.ac.uk/cage

Recent papers include:

How to Waste a Crisis: Budget Cuts and Public Service Reform

*Author: David Hugh Jones
No. 51/2011*

In the aftermath of the financial crisis, governments have proposed saving money by reforming public services. This paper argues that tight budget constraints make reform harder. Governments are uncertain which departments are effective. Normally, effective departments can be identified by increasing their budget, since they can use the increase to produce more than ineffective departments. When budgets must be cut, however, ineffective departments can mimic effective ones by reducing their output. Budget cuts thus harm both short-run productive efficiency, and long-run allocative efficiency. These predictions are confirmed in a panel of US libraries. Low marginal productivity libraries reduce output by more than expected in response to a budget cut, and budget setters respond less to observed short-run output elasticity after cutback years.

Empowering Women: Inheritance Rights and Female Education in India

*Author: Sanchari Roy
No. 46/2011*

This paper examines the impact of property inheritance rights on education of women. Using plausibly exogenous variation created by amendments to female inheritance laws in India, Sanchari Roy finds that exposure to improved inheritance rights increased mean female educational attainment by approximately one additional year. Roy also provides suggestive evidence that the mechanism behind such an effect may be explained by the existence of complementarity between female inheritance rights and education in the context of household property management rather than by a relaxation of the household budget constraint owing to reduction in dowry payments following the reform.

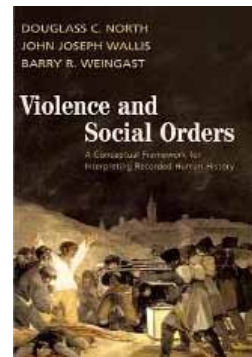
Professor John Wallis
Violence and Social Orders
University of Warwick:
7 December 2011

Professor John Wallis will give a lecture based on his new book *'Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History'* (John Wallis, Douglass North and Barry Weingast).

Wallis presents a conceptual framework that integrates a theory of economics and politics with the realisation that all human societies have to solve the problem of violence. In most societies, the political system limits violence by linking powerful individuals to economic opportunity and social privileges, and then using those privileges to coordinate powerful organisations. At the same time, these "limited access" societies are incapable of sustained modern economic growth because of the close ties between politics and economics: the political system manipulates the economy primarily to secure order rather than to promote development.

In modern "open access" societies, violence is limited by consolidating control of military and police power in the state, and then controlling the state through political and economic competition.

In his lecture Professor Wallis will talk about the conceptual framework and how we can use it to analyse the transition from limited to open access societies in the west and to draw lessons for present-day societies that are still struggling with how to create a social order that supports economic growth and civil rights.



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