

When Endowments and Opportunities Don't Match: Understanding Chronic Poverty

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Motivation:

To contrast the roles of level and structure of assets/endowments in explaining chronic poverty.

Traditional focus: low level of assets/endowments; e.g. poverty trap literature.

Proposed focus: mismatch between the structure of endowments and the structure of opportunities – structural mismatch.

1. Characterization of chronic poverty
2. Endowments and opportunities
 - (a) Chronic poverty with or without trap
 - (b) Macro versus structural constraint
 - (c) Growth and chronic poverty

Characterization of chronic poverty

The income generation process over time can be described by the following recursive system of dynamic equations:

$$Y_t = F(D_t, X_t) + e_t \quad (1)$$

$$D_t = G(Y_{t-1}, D_{t-1}, X_t) + \varepsilon_t \quad (2)$$

where, Y = Income

D = Endowments

X = Exogenous factors

Characterization of chronic poverty (contd)

If the exogenous variables obtaining at time τ were to remain unchanged over the remainder of a person's working life – denoted by the interval $[\tau, T]$ – then the income generation process can be expressed as:

$$Y_t = F(D_t, X_\tau) + e_t; \quad \text{for all } t \in [\tau, T] \quad (3)$$

$$D_t = G(Y_{t-1}, H_{t-1}, X_\tau) + \varepsilon_t \quad \text{for all } t \in [\tau, T] \quad (4)$$

Characterization of chronic poverty (contd)

Let $D_t^* = E(D_t)$.

Then the criterion by which we can identify the chronically poor is the time path of $E(Y_t | D_t^*, X_\tau)$.

The formal definition of chronic poverty can now be given as follows.

Definition: A person is chronically poor if $E(Y_t | D_t^*, X_\tau) < Z$, for all $t \in [\tau, T]$, where Z is the poverty line income.

Fig. 1: Chronic Poverty

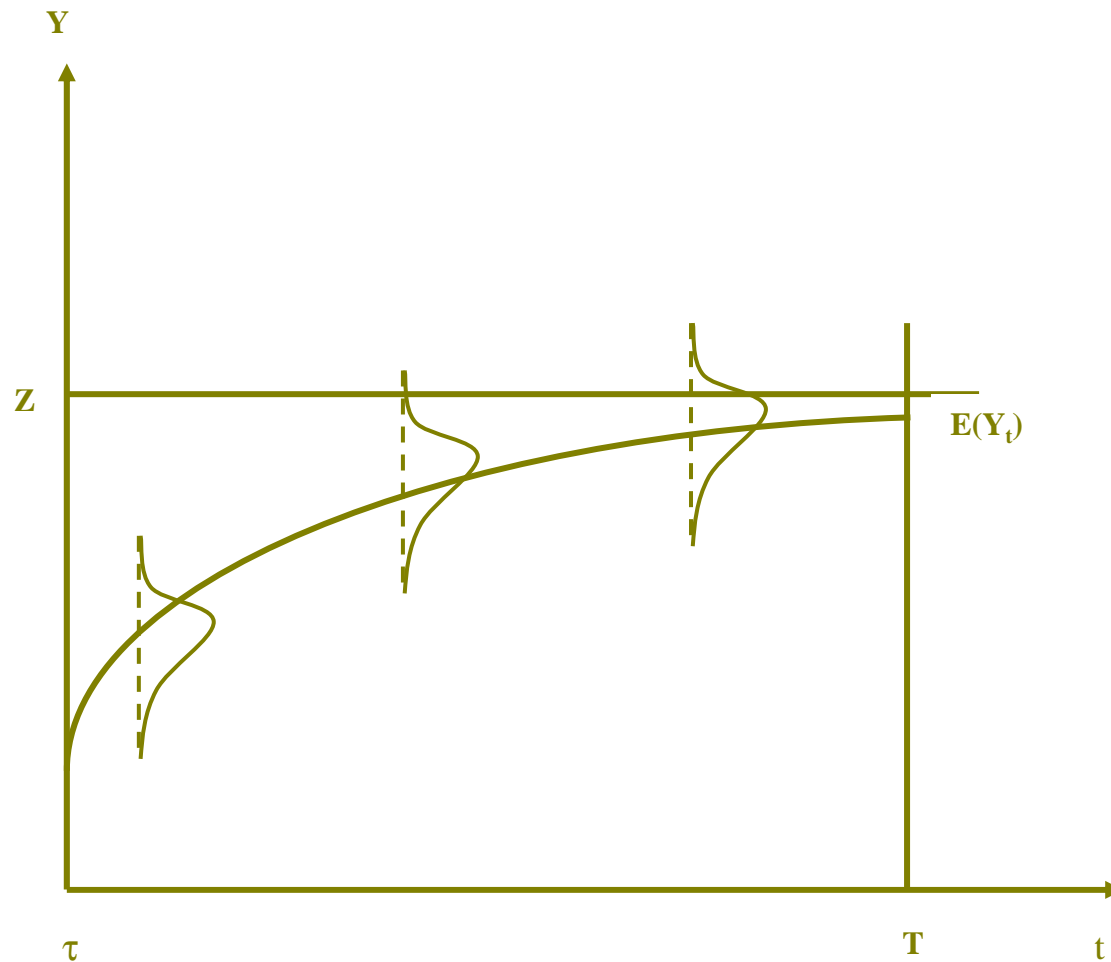
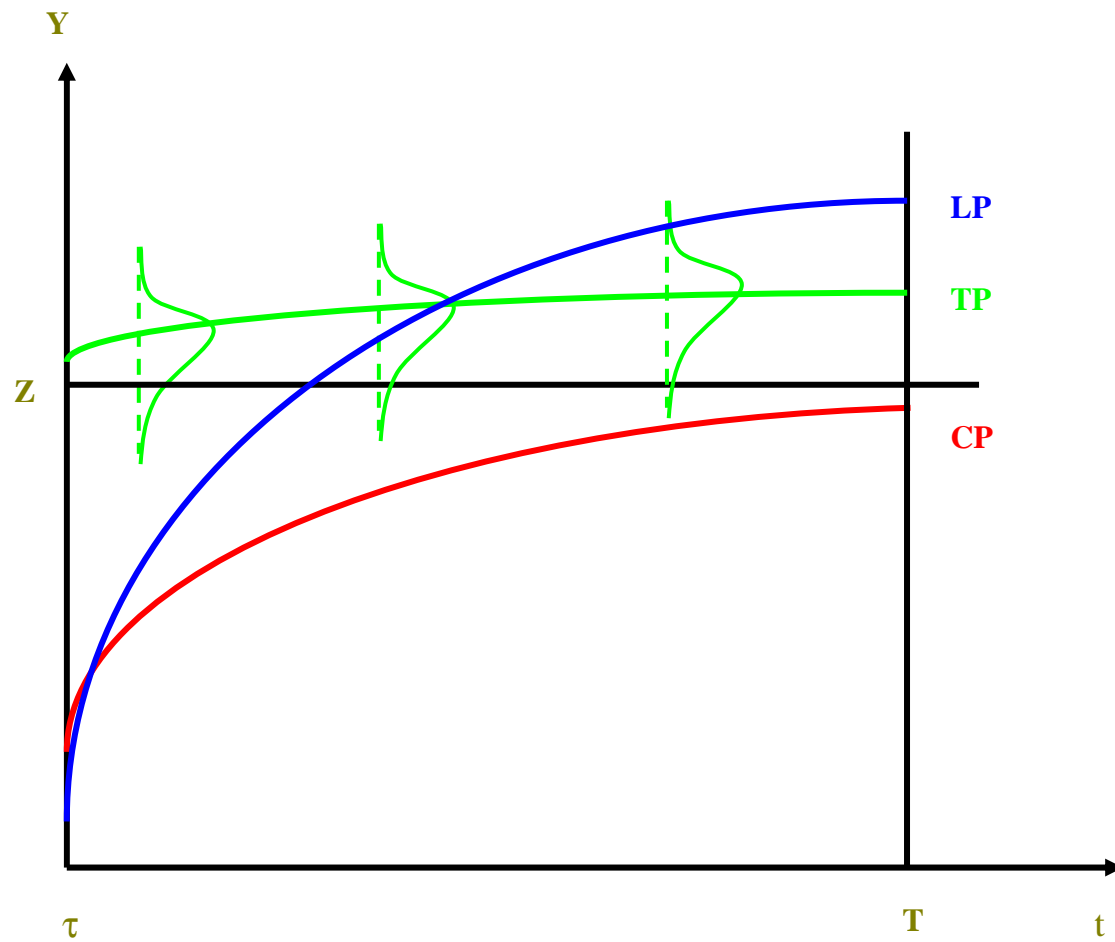


Fig. 2: Varieties of Poverty

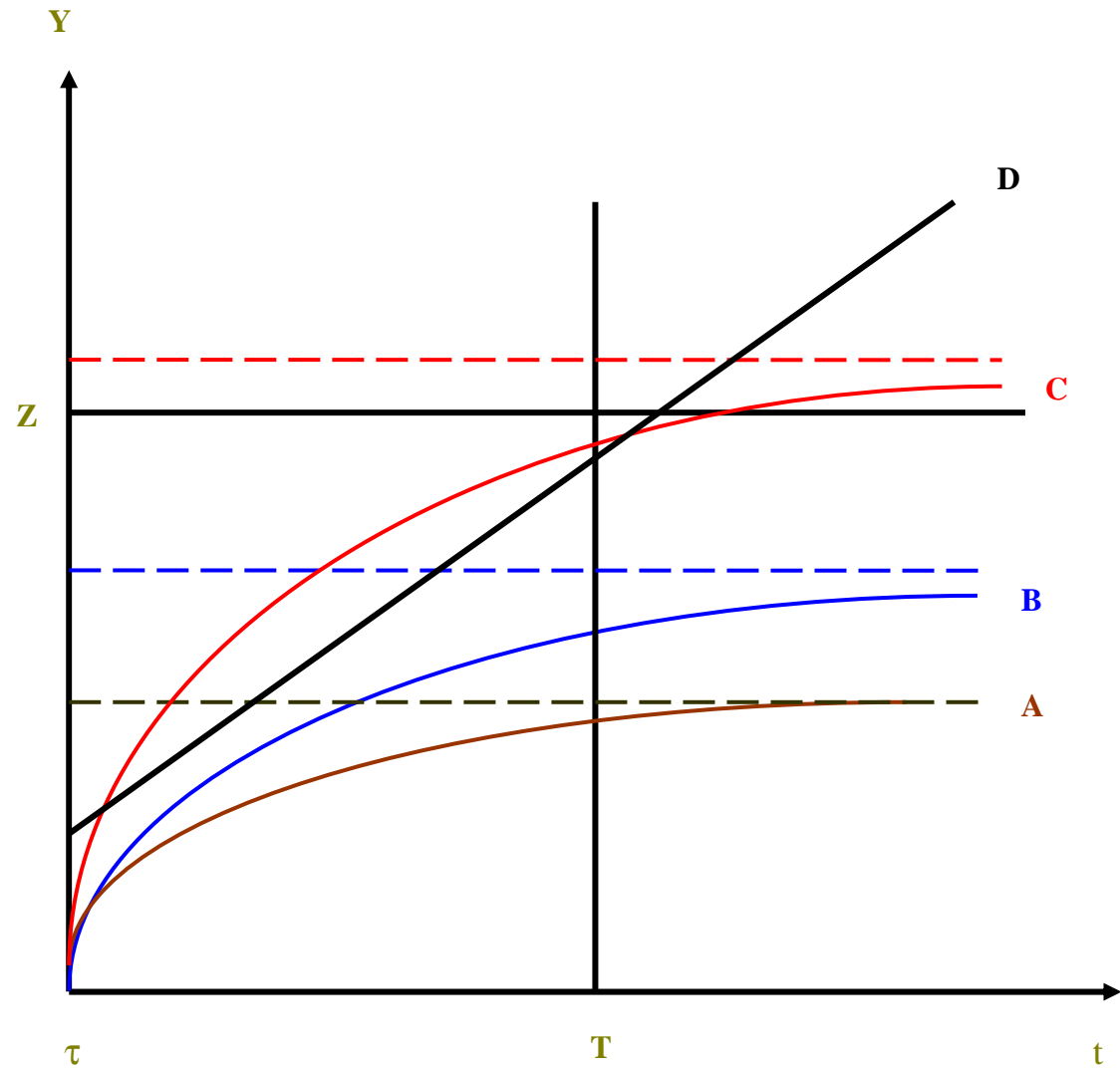
CP → Chronic poverty
TP → Transitory poverty
LP → Life cycle poverty



Endowments and opportunities

- (a) Chronic poverty with or without trap
- (b) Macro versus structural constraint
- (c) Growth and chronic poverty

Fig. 3: Varieties of Chronic Poverty



Macro versus structural constraint

(a) Macro: Limitation of Market Size

(b) Structural: Mismatch between the structure of endowments and structure of opportunities

Macro versus structural constraint (contd)

Examples of structural mismatch:

1. Mismatch of skills
2. Labour market imperfections
3. Gender

Growth and Chronic Poverty

Impact of growth depends on the nature of constraints:

1. Macro constraint: rate of growth matters
2. Structural constraint: pattern of growth and targeted interventions matter

Growth and Chronic Poverty (contd.)

Pattern of growth can alter the structure of opportunities

Targeted interventions can alter the structure of
endowments