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Transcript

The Surprising Truth about Life on Less than \$1 a Day

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Frances Stewart:

Hello, everybody. I'm Frances Stewart, I'm a professor of development economics, emeritus at Oxford, and work a lot on poverty and human development in conflict. And it's my big privilege to be chairing this meeting today.

Now, it's really very exciting to have Abhijit Banerjee here to speak to us. He's produced with Esther Duflo, a very important book called *Poor Economics*, which has won the *Financial Times* and Goldman Sachs Business Book of the Year Award, which is quite a credit because it's about poor people and for the business community to do it. But that's very exciting.

He's had a very, very distinguished career. He's the Ford Foundation International Professor of Economics at MIT and he founded something called the Abdul Latif Jameel Poverty Action Lab, known as JPAL with Esther Duflo and Sendhil Mullainathan and he's one of the directors of the Lab. And this one also has won a prize, a Frontier of Knowledge Award in Development Cooperation category.

He's past president of the Bureau for the Research in Economic Analysis of Development at the NBER and a CEPR Research Fellow and all sorts of other distinguished things, I won't continue. But I think you've probably all been told about it.

But I think most important is that he's dedicated his life to thinking about how poor people can escape from poverty, an issue that is of course of pre-eminent importance and we're very pleased that he's going to tell us about it.

Abhijit V Banerjee:

Well thank you for having me here in this beautiful building on a beautiful day, so thank you for being here. I'm sure you have many better things you could do.

This is a book that... let me start, if you had to characterise it, it's a book that's sort of not about any one thing except that it's a book which says that the challenge of fighting poverty is really a challenge of solving many, many, many problems; not any one problem. And that unless you think of them as separate problems, you usually get it wrong.

So the book starts by, if you like, in a cliché. My co-author Esther tells a story from when she was five years old. She read a comic book about Mother Teresa and from that comic book, she somehow gleaned the idea that in the

city of Calcutta where I was brought up, every person had one square metre to live in. And at the age of five, she imagined the entire city as kind of a checkerboard, if you like, with one metre squares with a person inside of each of those squares. That was her vision of the city.

And then of course when she actually went there, she found there was lots of empty spaces, there didn't seem to be any checkerboard where people were sitting inside, there were no doubt very crowded neighbourhoods but all sorts of empty spaces. And that's sort of, I think, an example of how we are often driven into thinking about development through the lens of particular clichés.

What I want to spend my half an hour talking about is a few of those clichés, and why they are both tempting to get into and why they constrain us from thinking clearly. So that's sort of what I want to emphasise.

So start with the first one. The first one is I think, it's the one that's really, I think, very familiar to many of us because it's almost like, it's almost an expression to say 'the poor and the hungry'. You sort of think of the poor as being people who don't have enough to eat. Now, that's certainly something... that particular vision has a long history. It's not accidental. If you think about the world as it was 200 years ago, the world really didn't have enough food for everyone, and there was real hunger. Most poor people were hungry 200 years ago.

One of the things that's happened in the world since is that the basic production of food has gone up enormously and there's certainly enough food in the world to feed people. That doesn't mean the food gets to the right people, but that means that food has become a lot cheaper.

If you look at the actual numbers on how much food somebody who's poor, let's say lives on under \$1 a day, can afford, in most countries of the world, they can afford substantially more than the calories you need for sustaining yourself and for children to grow and for entire families to have adequate nutrition and have money left over. So if you think \$1 a day as being the cut off, the numbers people often mention for how much, what's the minimum you could live on, the minimum is something like 35 cents a day.

Now, there's a catch. And the catch is that while it is entirely, as I said, possible to live and eat fully nutritious meals on \$1 a day, most people don't. The interesting question starts from there. So if you look at especially the part of the world I'm from, which is South Asia, South Asia is kind of the malnutrition capital of the world. Something like 40% of South Asian children are extremely 'malnourished' - that's a word that economists use, but an ugly word, if you like.

Why is that number striking? It's striking first for the reason I just said, which is that most of these people can afford enough food, but also because that number is for example much higher than the malnutrition rate in Sub-Saharan Africa, which is a much poorer part of the world. And even more strikingly, if you look at the middle of the distribution of income in South Asia, people in the middle of the distribution show more malnutrition, much more malnutrition than in Sub-Saharan Africa. So there are much, much richer people who show more malnutrition. That fact, that malnutrition has relatively little to do with income levels, is very, very striking.

What does it have something to do with? Why do we see this pattern? Well, it goes back to the, in a sense the number I mentioned. The 35 cents a day. How do you live on 35 cents a day? Let me be clear. It's not 35 cents a day in [the] UK. Not in London for sure. It's in purchasing power parity, which means you adjust it for difference in prices. So things are cheaper in poorer countries, so you adjust it for that.

But even if you do that, it's not a huge amount of money. How do you live on it? Well, mostly you eat eggs and bananas. Turns out if you eat eggs and bananas, you can get lots of nutrition very cheap. Eggs and bananas happen to be very, very cheap and very nutritious.

Problem is, we don't want to live on eggs and bananas. And that's fundamental to understanding the problem of nutrition and of generally how the poor live their lives. You have to understand that it's not a matter of just kind of blindly investing in nutrition with sort of just an eye fixed on the future. It's a matter of living your life. You have to live your life and have some pleasure in it as well.

And unless you create a space for pleasure, life isn't worth living. So that fact pervades the decision-making of the poor. They're not just taking decisions to just maximise the nutritional value of the money they spend, they're trying to live a life. It was brought home to us very nicely by a man we met in Morocco, who was standing outside his house. We asked him, in making conversation, 'Suppose you had a little bit more money. What would you do with it?' and he said, 'Well, I'd spend it on food.' We asked him, 'If you had a *little* bit more money, what would you do with it?' 'Spend it on food.' It kept going... we were convinced he was a really hungry man.

Then he invites us into his house, and we see that there is a television, an antenna, and a DVD player in this house. We asked him, 'What's that? You're hungry!' And he says, very blandly, 'Television is more important than food.' And he says that without any... I don't think he was posturing. He was just

saying a fact about his life. If you think about the way poor people live, that makes perfect sense to me. I don't know how many of you have spent an evening in a village in a third world country, but I can tell you I've done it many times and it's extraordinarily boring. You can sit in the tea shop where there's lots of mosquitos. You can try to kill the mosquitos but... Otherwise, you've been sitting with these people for the last ten years and somebody says something, you say something back then you sit in silence for a couple of minutes. The somebody says something. You kill some mosquitos. It's very boring.

And I think that that fact, if we don't recognise that fact, and the fact that, in the end, the priorities of the poor are to live a pleasurable life rather than just surviving, then you will get the wrong reading on a lot of policies. This is important, because there's an enormous pressure to sort of go from this fact that there is malnutrition to a policy which says, 'Let's give poor people food.' If they don't want the food, they're not going to eat it – they'll sell it. Unless it's a priority for them, if they want a cell phone more than they want food, they're going to sell the food. So you have to find ways to persuade them to eat the food. Unless you do that, a policy which says, you know, we're going to deliver food to a lot of people... India is just about to pass a right to food bill. And the philosophy of the right to food bill is exactly founded on the idea that these people are not eating because they don't have food.

That just happens to be, as I was saying, not true for most of these people. These people are not eating because they don't prioritise food. And they don't prioritise food because they are rational beings who like living a life that's pleasurable. And unless we work with that, unless we find ways to make them understand the value of nutrition, unless we find ways to deliver nutrition to them in ways that they will not resist...

For example, one big issue in nutrition is always anaemia and the solution to anaemia is iron, there are available technologies for making iron accessible to people. For example, now there's technology for getting salt that has iron in it, which provides enough iron I think for most people. Developing technologies like that, so that when people buy the salt, they buy the right salt, is a much more effective way. Or when you provide cereals, putting micronutrients into the cereals so that when they get the cereals they also get the micronutrients. That's a more efficient way to do it.

Then to assume that if I just give them a bag of grain, that's going to improve nutrition. I think that particular policy stance is located in this clichéd vision of the poor as the hungry. They may well be hungry. Do you see malnutrition?

But they don't see themselves as hungry. What's important is how they see themselves, not how we see them. That distinction is often missed.

I'll take one more example. That's the example of micro-credit. Micro-credit has sort of been, I guess... five years ago or seven, eight years ago it was kind of the flavour of the years, if you like. And now it's sort of a little bit lost its sheen and people are less enthusiastic about it, but it's a kind of thing that has been very much in the air for a while.

The premise of micro-credit, the thing that it does very successfully, I'm going to say some less positive things about it but it's worth remembering the context. Poor people pay interest rates of 60, 70, 80, 100 percent, 200 percent, 300 percent. And in most countries, micro-credit has brought the interest [rates] down very substantially. So it has done one very important thing, which is that it's now a lot cheaper for poor people to borrow. So in India, the average interest rate that poor people pay is something like 80% a year when they borrow in the market. When they borrow from micro-credit, it's more like 25% a year.

So it's a huge difference. So it's not the case that it hasn't done a lot of good. Now having said that, the premise of micro-credit was that it would transform lives. It would make poor people rich by, they're going to invest this micro-credit money and they're going to become rich.

We've looked at this carefully. One of the things we do in... Francis was very kind to tell you about the organisation we have, which is called Poverty Action Lab. One thing we do is we carry out these large scale randomised control trials where some areas get access, you know, basically in micro-credit, that this means that some areas get access to micro-credit chosen by lottery, and areas don't get it and we look at the difference.

We've done this now in India, in Morocco and in Mongolia to take three very different places, and you find exactly the same patterns. You see some increase in the number of businesses that poor people set up, but these businesses are tiny, they don't make any money, and they don't... if you look at measures of well-being, they don't change very much.

And that should not be surprising to us, because after all, these people are very, very poor, they have very few skills. When they invest in micro-credit, they invest in exactly the same industry as their neighbour. So all of them sell tomatoes. Or all of them have little grocery stores. Or all of them buy cows. So when you do that, the returns aren't going to be very high.

And that's not surprising. Why would you expect them to be the very creative entrepreneurs? Except that this thing was started from a vision of, for example, of Mohammed Yunus for example who said that the poor are natural entrepreneurs. So the idea was somehow that they have just this unique talent for being entrepreneurs, and therefore even if they have \$250 worth of capital and no skills, they're going to extract gold from this tiny bit of investment and they're just going to become very rich.

That idea, where does that idea come from? It comes from another sort of misreading, if you like, of what the world looks like. If you look in the world, what's very, very clear is the poor are extraordinarily likely to be entrepreneurs. About 12% of people in OECD describe themselves as self-employed. If you look at the number in urban... we have a dataset of 18 countries across all the continents, among the urban poor, that number is more like 50%. And if you count agriculture, that number is like 70% in rural areas.

So most people are entrepreneurs in some sense in developing countries. But that's not to say that they want to be entrepreneurs. It's not that they have any... this doesn't come out of a burning desire to be entrepreneurial, it comes out of the fact that they can't find jobs. They become entrepreneurs because they can't find jobs.

So we did one thing that was sort of very revealing. We did surveys in a few countries where we asked people 'What would you like your child to become? What job would you want for them? Or what occupation would you want for them?' And we said, let's say you won a lottery so you can actually give them some money to set up, if you wanted, make it easier. Whichever way you ask it, the answer is always, 80% want their children to have a government job and 0% want them to be entrepreneurs. It's resoundingly clear that they don't think being entrepreneurs, that's not an aspiration for them. It's a default.

Again, if you start from the fact that the stance of these entrepreneurs, you say, 'Oh my God, this must be because they are really talented.' It's the opposite. It's because they don't have any options, because other people are not hiring them that they become entrepreneurs. It's not because they're really talented at being entrepreneurs. But if we start with the wrong reading, then we immediately start expecting miracles from micro-credit because we assume, our story is that these people are talented in being entrepreneurs, when in fact they're not particularly gifted at being entrepreneurs. They are just desperate. And if you misread the data, you end up with the wrong story.

Let me tell one last story. This is in a different domain, again you can see the power of the received belief. So many years ago – not many, maybe 15 years ago – India passed a law which was called the 73rd Amendment of the Indian Constitution which required that in local government, one out of every three seats would have to be reserved for women. So women, the person who has to be elected would have to be a woman. This was for the village level government or regionally, and it's now been spreading, but it started with the village level government.

When this was passed, we went and talked to a lot of people. We were interested in what this means. Everybody said, 'This is going to do nothing. It's inconceivable this will do anything, because there is these completely, these men who have just contempt for women. And they're never going to let the women really run the governments. They're going to maybe, someone will get elected because it's the law, but their husbands or their brothers will run the government.' That was the claim that was made. And that these are immutable prejudices and this is never going to happen.

And *prima facie* it looked plausible, because one of the things that immediately happened after that was that a lot of villages acquired a new post, if you like, and that was a person who was called the husband of the village head. So the husband of the village head became a kind of official person to refer to, as a go to person.

So there was a presumption, a very strong presumption that therefore nothing will change. So then, one advantage of looking at the data is that you get surprised. After this had run for about five years, we went ahead and collected data in a bunch of villages on spending patterns. What happened in the villages where the woman was the head? Compared to other villages. The reason why we could do that easily is these villages were chosen by lottery. The government actually created a lottery and numbered the villages, and every third village was going to be a woman-headed village.

So you could now think of every village that had a woman head was exactly like every other village, because they were chosen literally by lottery by the government. So you could compare the ones that had a woman head with the ones that didn't. You do that, you see that even though all of these kind of sociological claims were true, there was a very substantial change in how the villages ran.

In particular, one very big priority for women turns out to be water. Why? Because women are in charge of providing drinking water for their households. And if it involves walking three miles to get the water, then they

will walk three miles. So you see a clear pattern where spending on other things goes down, in particular, surprisingly, spending on education goes down when a woman is a head, and spending on water goes up dramatically. That's not surprising, because water is the... if you think of what's a real pain in the lives of women, it's this responsibility of getting water.

So you start to see exactly what you would expect from the exercise of some power, even though everybody believed that this is all going to not work out. You do see an effect.

Now, what happens later is more interesting. At the end of those five years, there was some complicated political negotiation, and as a result of that, instead of now going to... the original idea was that if village number one had a woman chief this year, village number two which didn't have one will have one the next round – it was going to be a rotation. But in fact, for some reason, that rotation was not carried out. Instead, they had another lottery. Because they had another lottery, some villages ended up having a woman two years in a row. So two rounds in a row, for five years and then another five years.

So now we have basically, because there was two lotteries, there were three kinds of villages. Villages which had had a woman for two rounds. Villages which had a woman for one round, and villages which never had a woman chief.

Look at the villages with a woman chief, you ask people – and these were all originally identical villages – ask people, 'What do you think about a woman being a chief?' Or you can do more complicated things, like play a speech. The identical speech given by a purported woman or man leader, and say 'Grade that speech. Tell us, what do you think of this speech?' And clearly people start, in the villages which have never had a woman leader, they always say the woman's speech is much worse. She's just not suitable for running government.

If you look at places which have had one round of a woman head, they start creeping up and the woman is less... the same speech. The same exact speech, but the perception of the speech is, no the woman is okay. And by the time you get to two rounds of having a woman head, the woman and the man are identical. In fact, people like the woman better than the man by the time they've had...

People, in a sense these ideas of immutable preferences, which are completely fixed in stone, etched in stone, it just doesn't seem to be there. It seems like we started with this prejudice, that these rural males are macho,

they will never pay women any respect. And you put them under a woman leader and if she's relatively effective then they realise that it's fine to have women leaders. It's normal. And you change people's beliefs.

I'm going to basically stop here, because the book... I can't really say that there is a message in the book, other than this message that unless you actually look at what's going on and think hard about what's going on and be open-minded about what you might find in the data, you're going to end up with all kinds of stories that you made up, which have nothing to do with reality.

So this is as good a place as any to stop.