The institutions of poverty

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A world without poverty means that every person would have the ability to take care of his or her own basic life needs. […] nobody would die of hunger or suffer from malnutrition. […] Everybody in every part of the globe would have access to education and health-care services […] Even in a poverty-free world where every man and every woman would earn enough to take care of themselves and their family, there would still be situations of temporary poverty due to a sudden catastrophe or misfortune, a bankruptcy or business downturn leading to failure, or some personal disease or disaster. […] But such temporary problems could be taken care of by the market mechanism through insurance […]. (Muhammad Yunus 1998)

"Much about poverty is obvious enough. One does not need elaborate criteria, cunning measurement, or probing analysis, to recognize raw poverty […] identification of the poor and the diagnosis of poverty may be far from obvious when we move away from extreme and raw poverty. […] the *causation* of poverty raises questions that are not easily answered."

(Amartya Sen, 1981)

Introduction

When we see a young mother begging, her baby in one arm; when we see a bunch of dirty children, bare-feet and hardly dressed, walking to the well, or cutting stones, or playing in the dust next to their dweller parents' huts, or being cramped together in a mud school room without real windows, nor blackboard, nor notebooks; then we know what poverty is. Despite the striking obviousness of poverty, economists have ever struggled to find common ground in describing poverty, let alone agreeing on the best way to get rid of it.

"The experience of teaching the section on poverty in a public economics or development economics course is usually quite a letdown. After admitting the great importance of the topic, the typical course starts by devoting a substantial amount of discussion to different ways of measuring poverty. This followed by a review of statistical estimates of poverty. Finally some policy issues are discussed: the scope and coverage of safety nets, whether transfers should be cash or in-kind, targeting and problems of work disincentives. […] Conspicuous by its absence is a coherent analysis of what causes poverty in the first place, its implications for the functioning of the economy, and the persistence of poverty into the future." (Mookherjee 2006)

The reason is that poverty implies a standard. A standard is a benchmark, or threshold, or cornerstone. The cornerstone divides inside from outside; the threshold divides performance from non-performance; the benchmark divides excellence from mediocrity. A standard always carries a value statement. Value statements are of axiomatic nature. They cannot be proven – but they can be disputed for ever. Poverty implies a negative standard; i. e. falling short of a threshold, or of passing by a cornerstone.

Sen (1981, 2000) offers a balanced, comprehensive overview of both technical and programmatic issues of poverty measurement. This paper does neither intend to add to the dispute over value-statements nor to the theoretical debate about poverty-measures. Do you, dear reader, build on absolute poverty as measured by a poverty line (1 and 2-PPP-US$ are most commonly used), or do you rely on relative poverty as measured by a poverty gap (such as less than 50% of the median income, e. g. tracked by UNDP)? Surely, you have strong reasons to favor one over the other. If you join the majority of scholars and practitioners who work with a combination of both, you surely have strong reasons for your idiosyncratic blend.

This paper makes a case that there are institutions of poverty applicable regardless of the choice of poverty standard. It is claimed that these institutions – a set of rules and organizations – always come to play where poverty occurs. It has been written for policy makers and students of policy making who are concerned about the institutions of poverty within economies.

Also, this paper does not look at individuals that are poor. It does not attempt to describe or explain how poor people perceive themselves and their environment, how they form their beliefs and priorities, how they come to their decisions, and what goals they set for their lives and those of their dear. This note is given with an air of urging. Policy makers and students of policy making should consider it of uttermost importance to study those individual perspectives. Reason being the following experience of development and welfare policies, programmes and their makers: First they fail to undertake any of such familiarization, and then they fail completely. Therefore, as much as this paper promises insights into the institutions of poverty, it does not claim to provide understanding of the poor. There is some little literature – often of journalistic origin – that may do so, and the reader is strongly advised to consult it (e. g. Blasberg 2007, Economist 2005, Shipler 2004, Sainath 1996).

This paper argues that, under the assumption of absence of distortions from macro-economic conditions, poverty persists

a) by preventing people from accumulating a mix of assets such as land or other physical means of production, or human capital, or some social network; and
b) by disempowering actual and potential asset-holders from claiming, accessing and applying accountability over the way their surrounding – their "livelihood" – is governed, be it companies, local or other government agencies, education and health care organizations, etc; and
c) by the pattern in which empowered actual and potential asset holders are disseminated in space, i. e. if they live in urban or rural settlements, and finally
d) by the extent to which empowered, favorably densely settled, actual and potential asset-holders are capable to predict their income over several succeeding periods, and

to which extent those predictions promise comparable income levels for those periods (that means the income is not subject to volatility).

In low-income-countries, rural and urban day laborers, smallholder farmers and slum dwellers do not get the chance to accumulate assets; they do not enjoy education, in that regard often following their parents' footsteps and setting their children onto the same path; their children (and sometimes wives) being numerous is one of the important handicaps of their accumulating assets; also, their social networks are regularly shattered and weak (having more than one wife is likely to add to that); the set of rules to which they subscribe to – like being additional or informal wife; or like living in a formally illegal squat – deprives them of accountability, and information, and often access to quality public goods like health care and education. They have to content themselves with income options that are strongly unreliable, and when faith strikes – like injury, or malady, or school fees, or family events (marriages, funerals, religious festivals, etc) – they are subject to the mercy and credit of their rulers and thus driven further into a trap with no way out.

In high-income-countries, those who fall out of employment or miss the entry-point – examples are school-drop-outs, under-age mothers – often find their assets deteriorating; they stop accumulating knowledge and skills, they are cut off "uplift" social networks, they find it hard to maintain properties. The latter is accelerated if the rules of social transfers encroach on physical assets such as housing, transport, savings. Facing such situations makes them slip into the shadow economy; and they are driven away from voicing their interests in the governance of public affairs, in particular the social benefit-system they are subject to.

This paper makes a case that these four institutions – in order of importance: assets, accountability, habitat structure, income predictability – do explain exhaustively poverty within any one country, either low- or high-income, and that their analysis for any specific country will allow establishing the level and persistence of poverty.

The paper organizes as follows: Section 2 presents a brief outline of poverty and its study throughout human history up to today. Section 3 highlights macro-economic drivers of poverty. Sections 4 to 7 examine the four institutions of poverty as given above. Three exemplary policy interventions which cut across the four institutions of poverty are presented as boxes at the end of section 4, 5 and 7 respectively. They are the 2005-Rural Employment Guarantee Act in India, the 2003-labor market reform in Germany, and the provision of Microfinance schemes all over the world since the mid-1990ties; the choice is at the pure discretion of the author. Section 8 concludes.

2 A brief history of poverty

Throughout its time, mankind has seen periods of thrive and periods of suffer. The bible (Gen 41) accounts "7 years of abundance, followed by 7 years of famine" to the making of Jahwe, the god of the Jews. It also records that the peoples of Egypt sailed safely through that period of famine by the making of government. That is, the ruler of Egypt entrusted his Jewish advisor Joseph, who in turn says to have got a hint from Jahwe, to head the Egyptian administration in taking pre-cautionary measures. Empirical research on the 19th and 20th century strongly suggests that popular vote rather than divine spin-doctoring is the most effective lever to avoid poverty in one of its most inhumane and brutal guises, that is famine (Sen 1981). Poverty can be traced back throughout several thousand years of human history. Government intervention has been proven critical to the manifestation of poverty at all times – something that can not be said about divine intervention.

Since mankind started opting for cultivating the lands rather than roaming them as hunters/gatherers about 10,000 years ago, periods of spreading poverty were obviously and directly driven by success and failure of harvest. Crops might not get enough water, or sun. Crops might get too much water, or too much sun. Crops or seeds might fall prey to plagues of insects, or bacteria, or fungus. If any of these happened, the cultivating people were bound to suffer poverty. They had to eat scarcely, they were more likely to fall sick, they might be forced to trade some of their possessions for food, or to abandon their lands and move somewhere else; and they faced increased probability of unlucky campaigns of war from which they might eventually loose part or all say in governing their own affairs.

On the other hand, successful harvests were correlated with population growth; growing populations could only be sustained by expanding cultivated lands. Cultivatable lands, initially, were a fixed factor of production; they were more available in some regions than in others; this is witnessed by the spatial distribution of the grand civilizations of ancient times: Along the great rivers of Yellow and Yangtze rivers, Indus and Ganges, Euphrates and Tigris, Nile and Niger.

The economics of Thomas Malthus predict that the constraint of food will constrain the capabilities of people: Unless they subscribed largely to abstinence (which Malthus himself found impracticable to practice: He fathered 3 children), the interplay of reproduction and constraint food supply would settle to equilibrium of misery (Suntum 1999). Malthus' theory can be counted among the most successful of all times: "Over"-population features prominently on many policy makers' and poverty scholars' minds. It is an elegant model, and it is intuitive. It is also very unrealistic. If it were realistic, mankind would never have thrived as builders of cities and empires with fortunate lives for many. Nor have the fruit of wealth ever been reserved to particularly abstinent people.

Landes (1998) argues, though, that comparatively lower reproduction rates in Europe favored the accumulation of assets, and thus European countries grew wealthier than non-European ones. Recent empirical studies indicate a (significantly) negative relationship between population growth and per-capita-income for some decades of the 20th century but not for others (Eswaran 2006).

There is an unlimited opportunity of technologies – not just one ("abstinence"). Inventive minds found many ways of expanding a given land's harvest; innovation in agriculture is traced back towards medieval times at least. Thus land ceases to be a fixed factor, though only in a long-term perspective. Moreover, cities are the tangible evidence of Malthus' failure to model reality meaningfully. City-folk strive on economic activities other than farming: Craftsmanship, trade, manufacturing, logistics and gastronomy, finance, education and arts, administration and judiciary. Cities are built on Adam Smith' principles of specialization and division of labor; they are the places were the critical mass for such ventures first springs up; with transport costs being one of the critical drivers, as Heinrich van Thuenen first modeled, around the time of Malthus (Suntum 1999).

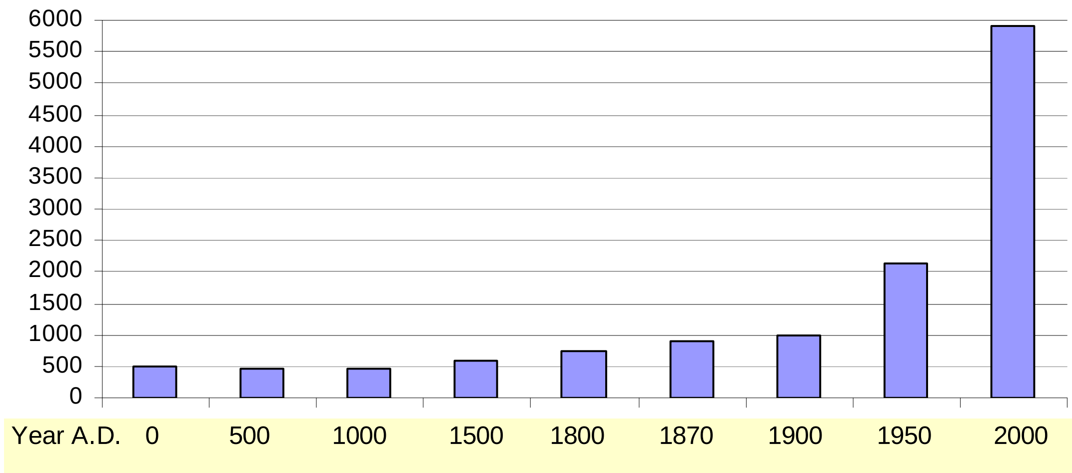
Mokyr (2006) argues that systematic creation of "useful knowledge", knowledge which is scientifically vetted and transformed into factors of production, occurred only in the aftermath of the enlightening (18th century), and gave way to growth of wealth through the first industrial revolution (steam engine and electrification). Weber (1980) argues that the formation of European cities and their being governed relatively independently from aristo-autocratic rulers was paramount to the process; Russell (1946) emphasizes the disintegration of the quasi-divine-autocratic rule of the Roman church led by one pope into many Christian churches (all but one protestant) led by various regional rulers. While Post-medieval-Europe thus enjoyed spread of a more libertarian governance which eventually paired with strong accountability of rulers towards their subjects, the realms of Islam faced the opposite: Knowledge and hence innovation was actively discouraged, and governance grew more autocratic and exploitative (Landes 1998).

Indeed, poverty tended to be rural while urban people enjoyed a high probability of being well-off, or of leaving poverty behind within one or two generations. Since 2007, one out of two humans around the world lives in an urban area. As low income-countries will soon be home to the biggest cities of the world (e. g. Dhaka, Bangla-Desh or Laos, Nigeria) the face of poverty urbanises as well. Up to half of the urban folk will be living in slums. In Africa, the urban poor account for about 70% of the urban people. The number of slum dwellers increases by 27 million annually. Poverty, manifested in malnutrition, poor health and also exposure to violence is rampant among slum-dwellers. For example, in Ethiopia, child malnutrition in slums and rural areas is 47 per cent and 49 per cent respectively, compared with 27 per cent in non-slum urban areas. In Brazil and

Cote d'Ivoire, child malnutrition is three to four times higher in slums than in non slum-areas. E. g. in Kenya, Tanzania and Zambia, HIV prevalence is significantly higher in urban areas than in rural areas.[1]

The data that is available today suggests that per-capita income stagnated throughout most of mankind's history (figure 1). From this view derives that most people were poor before the first industrial revolution and urbanization spread; through the first industrial revolution, most people in Europe and Northern America, and later to some degree in Asia and Southern America, got well-off.

Figure 1: World Average per Capita Income



Source: Sachs (2005), Bourguignon/Morrison (2002), own presentation.

There are a number of question marks to that view. Even if one accepts the Hegelian perspective that history – the history of wealth, in this case – happens to climax with ourselves, the data is highly selective. A closer, more detailed perspective unveils a lot of striking differences of well-being throughout all times and places. At their better moments, empires allowed more strata of society to accumulate assets and to enjoy relatively predictable income streams; also, central government's ability to interfere with local communities and individuals was much more limited than it is since the 20th century (Russell 1934), thus a certain degree of participation in local governance was available. E. g. in the Roman Empire, in the city-states of Italy, in the Islamic globalization which at

[1] The data displayed in this paragraph draws on the "State of the World's Cities Report 2006/7"-report from UN-Habitat. For further details, see e. g. Schlein/Krueger (2006).

its high point stretched from West Africa up to India, in the Indian empires and in stable times of the Chinese empire, people enjoyed times of prosperity. Other examples are the constituencies of Maya and Aztec rule: They were relatively well-off, not least were their public sanitation facilities (and corresponding habits) superior to those of the incoming Spaniards. Poverty came upon these people with the Spanish rule which robbed them of their assets and reduced from little to zero their say in their being governed. Even subscribing to the new rulers' religion did not prevent them from the faith of poverty. The development path of Middle and Southern America, with more often than not dissatisfying economic achievements and spreading poverty, can be traced back to Iberian exploitative strategies which shaped unfavorable asset, governance and incentive structures (Easterly 2006); turning their comparative wealth in the 17th century into poverty in the 20th century.[2]

However, it appears fair to say that periods of wealth were limited and interrupted by periods of peril and spreading poverty. Also, more often than not did those entrusted with public governance fail to provide conditions of prosperity; instead they extracted from their constituencies decadent wealth for few, and for a desire of waging war (see e. g. Tuchman 1978).

The art of war (or banditry) is a non-agricultural economic activity which precedes the cities. In a world of settlement rather than nomads, there was always an alternative to plowing the soil or inventing any other ingenious way of putting factors of production together. That is to take it by force from those who have done so.

Warfare to create income streams was always very critical in sedentary societies. It provided a lever to expand the own constituencies' scope of either farming or otherwise producing themselves, or of having others parting of a share of their farming and producing. And it provided a lever to prohibit others from expanding their claims over the own production. The nature of warriors is that they easily forget to differentiate between the two, and that they become a social group of their own which puts a strain on all others who thus have to factor their existence into their plans, one way or the other. Societies prospered that struck a balance between armed forces capable of defending but incapable of extracting unreasonable rents from their (non-war) enterprises. Societies that failed to strike that balance shrunk their geo-strategic role like Spain in the 16th, the Netherlands in the 17th and Great Britain in the 20th century; or fell into misery like the

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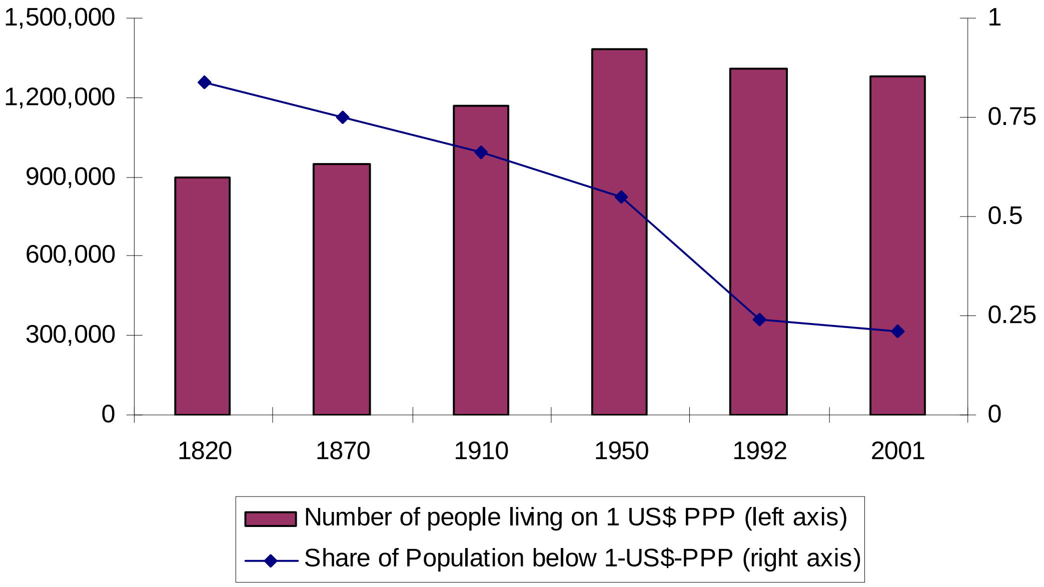
[2] "In 1700, product per head in Mexico was worth about 450 U.S. 1985 dollars, in the colonies that would become the United States, product was somewhat larger, say $490; and in the booming sugar colony of Barbados, the figure was substantially higher, $736. Onne hundred years later, Mexico was still at $450, and the United States was at $807. By 1989, the United States had drawn far ahead: GDP of $3,500 for Mexico, $5,350 for Barbados, $ 18,300 for the United States." (Landes 1998:292)

mentioned Middle- and South American civilizations, or India in the 19th century, or Liberia and Sierra Leone nowadays.

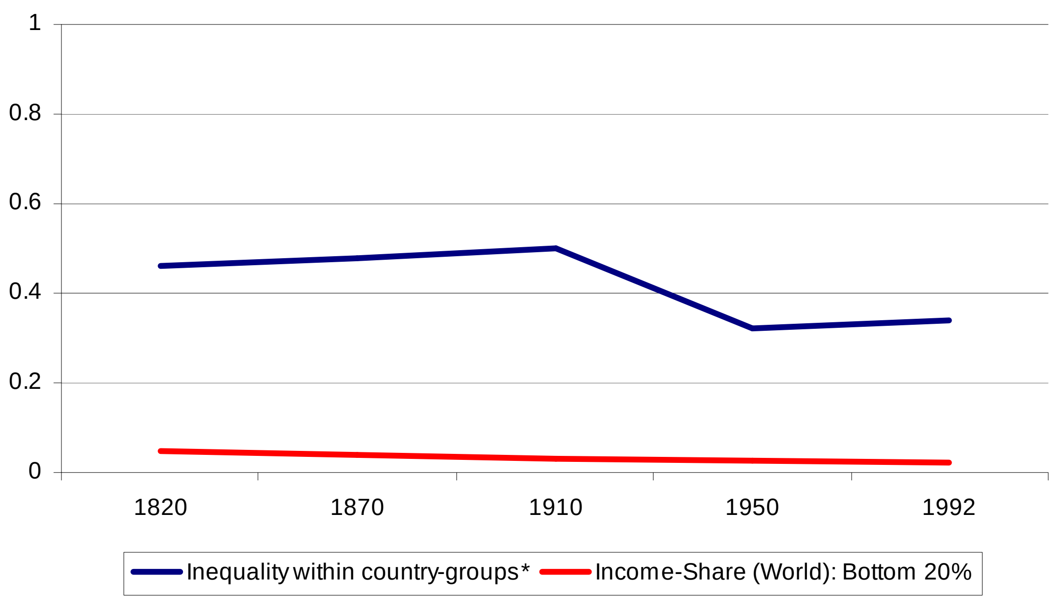
Figure 2: Absolute and Relative Poverty Count



Source: Bourguignon/Morrison (2002), Worldbank (2008a), own presentation.

Thus, the history of poverty in a nutshell is like a ride of regions and/or socially or professionally composed groups on the "wheel of Fortuna"; only that the ups and downs are largely man-made, though often not consciously or by intend. The outstanding story of shrinking poverty on a large scale is told by the first industrial revolution. The impressive relative alleviation of poverty did only weakly reflect in absolute numbers, because the same period saw a constant, so-far-unknown expansion of human population (figure 2). The second half of the 20th century, which might be related to the second industrial revolution (information + communication technologies) saw the poverty trend stagnating and inequality rising again (figure 3).

Figure 3: (In)Equality-trends



*Africa; Japan/Korea/Taiwan; Other Asia; Latin America; Eastern Europe; Western Europe

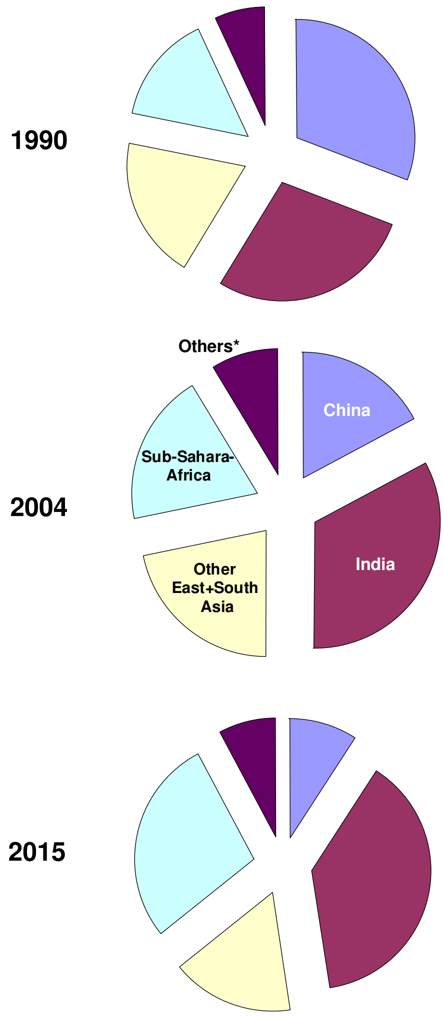
Source: Bourguignon/Morrisson (2002), own presentation.

In a regional perspective (figure 4), poverty today is overwhelmingly located in India and Sub-Sahara-Africa, where 1 out of 3 poor live; about 1,400m in 2004. China reports as flag-barer of successful poverty alleviation, with the absolute number of poor falling from 819m to 452m (1990 and 2004 respectively; expected number for 2015 is 186m). In other East+South Asia and Europe/Central Asia/North Africa/Latin America respectively, by 2015 absolute numbers are expected to fall by 235m and 70m. Among others, this will level a 1990ties-peak of poverty in the former Soviet-Union. It is noteworthy that these regions are not expected to significantly reduce their share of the world's poor, although they mostly report falling and sometimes close to stagnant population growth.

3 Macro-economic conditions of poverty

Where there is poverty, there is government failure. Government ability to identify poverty risks in time and to implement policies to mitigate those risks is paramount. Today, there is nominally no reason that anybody should not access adequate calorie intake. The agricultural capacity is more than sufficient to support the biggest human population ever. However, the nations' distribution systems do not reach everybody as they should, for reasons beyond environment. E. g. the current rise of food prices is among

Figure 4: Regional Distribution of Poverty (2-US$-per day)



* Europe and Central Asia; Middle East and North Africa; Latin America and the Caribbean.

Source: Worldbank (2008b), own presentation.

others[3] driven by changed diet which again is driven by changed economic conditions. Millions of Asians enjoy increased disposable income, and they spend it on extended meat intake. Meat production accelerates wheat and soy bean demand. As production does not expand in the short run, prices of wheat and soy beans rise, and all food made of it – the food for animals as well as that of people (Economist 2007).

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[3] "The increased use of food crops for production of biofuels is an important factor that led to large increases in the prices of vegetable oils and grains in 2007 which in turn contributed to an overall 15 percent increase in the index of agricultural prices and a 20 percent rise in food prices. The latter is of special concern for poor consumers in developing countries" (Worldbank 2008b:38).

Whereas details and priorities of economic growth and equality, of monetary stability and financial system remain disputed among economists and policy-makers, there is growing consensus that alleviation of poverty demands macro-economic stability. Surely, substantial long-term economic growth is necessary; but most scholars agree that it is not sufficient. Deaton (2006) reports that during the 1990ties poorer strata of population did profit under-proportionally from economic growth. Kaempke/Pestel/Radermacher (2003) show that the degree of equality itself is correlated with the prosperity of an economy. They find a U-shaped relationship; that is people fare worse in very equal and very unequal economies. Kawachi/Kennedy/Wilkinson (1999) show that people who live in highly unequal economies are less healthy than people who live in more leveled economies.

A reliable monetary system is critical. High inflation is particularly hurtful to middle- and low-income people. They have little or no opportunity to diversify their portfolios, e. g. buy inflation-robust assets such as land or gold or foreign currency. E. g. in Africa, with the second-biggest low-income population worldwide, recent inflationary tendencies are reflections of rising food prices (Worldbank 2008b). Governments have often been found to misuse their monopoly of providing money; causing inflation either more or less directly, e. g. by "printing money" (the recent case of Zimbabwe) or increasing public debt[4]. Such government misconduct has been limited by politically independent central banks. Since the 2nd half of the 20th century, these have been installed in most countries, adding significantly to a world-wide, long-term-low level of inflation (Worldbank 2008b). Meanwhile, in an internationally intertwined financial system, cross border flows of finance and debt became causes of long-term restraint of infrastructure maintenance or investment, as resources go into debt servicing; or acute crisis, as financial flows suddenly rush out of a country or region. Since the 19th century, such financial crises have been a regular feature; since the 1980ties, international financial markets with prior unknown volumes of short-term financial flows are one of the dominant characteristics of globalization (for details, see e. g. Stiglitz 2006, Schmidt 2005).

Beyond a certain balance of the above, peace, law and order are paramount. Wherever people have to fear for their houses and businesses to be looted and their homes and lives to be violated and destroyed, poverty will ultimately spread. About 3 out of 4 of the world's poorest live in acute or post-conflict countries (Collier 2007). Economic stagnation, spreading poverty and violent conflict oftentimes form a trap from which a country cannot escape out of its own effort and even spreading the evil to its neighbors; the Darfur-crisis (involving Sudan, Chad, Central-African Republic) just being the most

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[4] Debt expands the volume of money; if the volume of money expands faster than the volume of goods and services, i. e. if debt is used for consumptive rather than productive means, the value of each money unit depreciates; hence inflation.

recent example. Accordingly, Diamond (2005) argues that hostile neighbors are a core factor[5] of prosperity or decline of people and their economies.

The latest addition to the list of macro-level poverty risks might be environment. Indeed, poverty could be written as a story of failure to manage environmental resources accurately. Diamond (2005) shows how human civilizations ultimately fail to prosper if they fail to accurately assess and manage the natural resources available to them. With human population peaking at about 10 billion, stretched to practically all habitable corners of the planet, insight is growing more urgent that this risk might have to be addressed through the first truly global framework.

Meanwhile, let us assume macro-economic conditions settled and turn to the institutions of poverty within each country.

4 The first institution of poverty: Lack of assets

Physical assets are land and immobile facilities such as gardens and forests, buildings and machines. Mobile physical assets are vehicles and tools. Examples are mobile phones, laptops and their various hybrids as well as handheld juice presses, shoe-repairing-sets or handlooms.

The capability to accumulate physical assets is determined by the system that governs property rights. Those are the rights to purchase, transform (including destroy) and sell an asset and to receive income generated from it (e. g. selling juice produced with a juice press, or receiving a rent from lending out the fruit press). In many countries many people do not have formal property rights of the place where they and their families live (land title), and they do not have formal property rights of their businesses (licence). Whereas the costs to secure formal property rights are prohibitive, these people are vulnerable to property extraction, either through corruption (bribing), or through sudden raiding, e. g. tearing down of informal (i. e. "illegal") settlements. Furthermore, informal property rights and assets respectively cannot be "capitalized", that is put in as collateral for loans (liquid funds) which can be invested in maintaining, upgrading or expanding of the asset portfolio (De Soto 2000).

Immaterial assets are information and skills. Information is a set of facts that are relevant to making a decision in a given situation. E. g. the prices of peanuts on different days and at different locations are information relevant to the decision when and where to buy or sell a stock of peanuts. Skills could be understood as “hands-on” information; relevant to

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[5] The other interacting factors being (i) the damage that people have inflicted on their environment; (ii) climate change; (iii) changes in friendly trading partners; and (iv) the society's political, economic and social responses to these shifts. This list of 5 (including hostile neighbors) groups of factors is based on heuristic approach (Diamond 2005).

the production of tangible or intangible goods. The skill to search the internet is relevant for producing a report, or a presentation; the skill to handle a juice press, or shoe-repairing-set, or handloom is relevant to produce juice, or repair shoes, or weave towels or table cloths.

Information and skills can be analyzed from the property rights perspective, as far as up-grading and "selling" of labor is concerned. However, the chances for such upgrading are to a lesser degree determined by the risk of extraction, as in the case of physical assets, but by the cost of access. Many countries fail to provide free or low cost education. Many of those who formally do, provide it at de facto such low levels of quality that it is close to worthless. Building a system that grants access to education and skill-training at a given quality at subsidized prices depends on governance structures, hence assets and governance are interlinked. The latter will be discussed in the next section; note however that there is a high risk of a vicious circle here: Low access to information and skills results in low accountability of education system governance results in persisting low levels of information and skills.

Social assets are networks such as relatives, workmates, members of the same church, supporters of the same soccer club, or political party, people who share the same interest such as music, or swanking, or drinking.

Social assets appear to be less variable than others. However, people have always made new friends, formed new clubs or parties, or joined new churches. Social assets, sometimes dubbed "cultural", tend to be mystified both as refuges against the harsh winds of socio-economic change, and as chains tying people to some backward ways (Sen 2006).

There are people whose major asset is their being member of a certain community; and sometimes such communities tend to be poorer than others. There may be habits in such communities that hinder accumulation of assets; regularly they hover around suppression of women. However, suppression of women spreads far beyond a few backward communities; in fact, regularly women are denied equal property rights as men, e. g. purchasing land or inheriting family properties.

At the core here is a lack of opportunity to diversify assets. If alternatives do not present themselves, it would be pure gambling to loosen the ties to the only social network available. Note that comparable cases are made and observed for other categories of assets (think e. g. of the case of sugar plantations in Carribean countries like Barbados; see footnote 2). Undeniably, there is an element of the same vicious circle described above – low access to material and immaterial assets results in lack of opportunity to emancipate from the pre-dominant social network results in low access to material and immaterial assets. Again, this is strongly interlinked with the accountability of governance structures, here the social network in question. Oftentimes, such communities display rather autocratic governance, with its leaders taking advantage of their flock. Take the example of the Mahar, the "untouchable caste" (Dalit) from which came Bhimrao Ambedkar who was India's first minister of law and principle author of its 1950-constitution. Ambedkar was a leader on whose agenda education came second to nothing; such was this priority that he led the Mahars to convert to Buddhism. Consequently, many of today's Mahars have evolved from poverty. However, this holds mainly true for urban Mahars; rural Mahars continue to hover at the "lower end of the ladder", both economically and socially, last but not least Buddha is worshipped alongside any other Hindu deity (Luce 2006, pp. 111/112). This example shows how the social network and its leadership matter for creating opportunities, but how access (to education for villagers) and habitat structures matter just as well.

Many rural poor fall short of all three kinds of assets. As day-laborers, they depend on the means of production available at the employer, such as forks and hoes and the like. Beyond general peasant skills, such as digging, molding, harvesting they have no access to information and thus little chance to expand their skills. Sources of information are scarce in the countryside, e. g. newspapers and internet are not always available; so aren't training infrastructures. Many small-scale farmers command land, but are otherwise restricted as are the day-laborers, and thus the income is poor, as is the capability to expand it.

Slum dwellers are short of all three kinds of assets; indeed many of them are rural poor turned urbanites. Thus, most of them do not command of physical assets for production, including shelter for themselves and their families. Furthermore, most of them command very little information and skills relevant for urban strive. They rarely access systematic training and are often only semi-literate. Even if they are literate, newspapers and the internet that could be turned into information are regularly not provided in their vernacular language. Thus, they have to carve a living out of activities of lowest (physical) capital intensity and at lowest skill level. Examples are rag pickers, day laborers who move about stuff by digging or decomposing (e. g. stone cutting) or carrying it (often on their heads). Those with more complex skills can repair to activities like hawking, household work or simple craftsmanship, e. g. washing, ironing, embroiding of clothes; or become construction workers. Those who manage to further expand their line of skills and to combine it with some physical assets may establish themselves as petty traders, or bicycle/handcart/motorcycle/rickshaw-drivers or even craftsmen specialized in repair and or installation of electric or wooden or other facilities.

In high-income-countries, social transfer rules often constrain explicitly the beneficiaries' capacity to build up physical assets. They usually demand that social transfer should be the last resort; therefore, whatever physical assets somebody commands should be liquidated and lived off before transfer is granted. The rationale appears quite obvious, as taxpayers would not care to subsidize a person that owns say a house or a big car or a plot of land. However, an effect of that rationale is that either a huge bureaucracy is needed to enforce it at a level that might at times look ridiculous, e. g. regulating ownership of a TV-set, or the number of pairs of shoes, etc. These issues arise because the practical line is tricky. E. g. why should somebody own a 10,000 US$ TV-cum-music-set, if his rent is covered by his hard-working neighbors (through the social transfer system)? In most high-income-countries, some kind of TV is counted as essential. It is observed that low-income-people in high-income-countries (such as social-transfer-recipients) spend significantly more time in front of the same than others. Any conclusions from that observation have not been studied empirically for cause and effect. More importantly, low income in high-income countries is significantly and directly correlated with low command of immaterial assets, i. e. information and skills. Recent research has fed a lot of skepticism about their ability to accumulate such assets by a relevant degree. Research about social mobility suggests that they often pass on their fate of lack of information and skills to their children, together with the habit of spending a lifetime in front of a social-transfer-paid TV-set. There is a challenge to get the static and dynamic effects and incentives of social transfers right; the same holds true for development policies (which happen to be paid for by the same people).

Box 1: Microfinance and Poverty

Microfinance is the provision of financial services on a small scale to target groups excluded by formal banks. The initial focus of Microfinance was on credit; through group lending it became possible to offer loan sizes of as low as 22 US$ (e. g. Uganda). Since the mid-1990ties, there has been a growing interest in and funding for microfinance (Schmidt 2006). Alongside came rising attention for and research into "microtising" of other financial services, particularly savings and insurance (Morduch 2006, Kilibo/Schmidt 2005). By client numbers, the demand for savings is much higher than the demand for loans; however protagonists of a "credit-led" approach take this as an indicator of lack of credit supply.

Any financial service is derivative from real-sector activity, e. g. credit to buy a hoe, or seedlings, or a juice press, and savings from selling off harvested fruits, and insurance against the harvest failing to materialise. Where such activity does not present itself because of lack of opportunity – which is usually due to a blend of lack of physical and immaterial assets and unfavorable habitat structures – financial services may not make much of a difference. That is unless physical and immaterial assets or easing of the habitat structure (e. g. irrigation, or a quality-road to the next trading centre) are provided first. However, others argue that provision of micro-credit will unleash the dormant potential and thus lead to creation of assets (e. g. Yunus 1998).

Evaluations and impact studies of Microfinance suggest that

- All Microfinance clients are capable to save and grateful for any opportunity to do so at reasonable conditions.
- Microfinance clients diversify their risks and thus reduce vulnerability to external shocks, in particular they are able to provide more regular and more years of schooling to more of their children, and they are better capable financially and knowledge-wise to handle health care.
- Many Microfinance clients have been able to grow their businesses and assets.
- Female Microfinance clients tend to have strengthened their say in family decisions, in particular regarding schooling and marriage of daughters.

However, apart from often weak empirical foundations of these impacts, microfinance has been critized for wanting results with regard to overcoming lack of assets and lack of income security.

Some argue that microfinance rather turns informal financial services into formal ones, instead of expanding immaterial assets, i. e. creating new client-relationships with banks (Osterhoot 2006). Findings from India support that view; they indicate that moneylender and microfinance portfolios do not replace but rather supplement each other (Titus 2008).

Also, it has been observed that microfinance rarely creates the steady income stream from employment. Microfinance tends to make self-employment more feasible, but that self-employment usually does emerge from lack of alternative, and it does not create jobs for others than the business owner. Surowiecki (2008) concludes that "thinking that everyone is, and should be, an entrepreneur leads us to underrate the virtues of larger businesses and of the income that a steady job can provide. To be sure, for some people the best route out of poverty will be a bank loan. But for most it's going to be something much simpler: a regular paycheck."

5 The second institution of poverty: Lack of accountability

The human is a social animal. They live in groups, the family being the nucleus group. Everyday many, maybe all, affairs are framed by the institutions of the group. This includes transactions between individuals; a fact that is sometimes consciously and sometimes unconsciously overlooked by economic models. Property rights for acquiring assets are but one example.

Think of a number of affairs that more obviously step beyond the individual sphere. These concern health care, education, local government. Governance determines how decisions are derived at about provision and pricing, access and use, expansion and maintenance of health care, education and local government infrastructures.

Local government here represents a set of various rules that govern living closely together, such as roads, noise, wastage, water and sanitation, maybe public transport, communication networks. In practice, local governments differ greatly from country to country as well as within countries in their scope and organizational hierarchies. E. g. medium-size towns may be responsible for water and sanitation infrastructure, while small towns are catered for by the district.[6] However, local government here is not limited to the state's administration. It includes all rules and organizations that are relevant for framing of the infrastructure services in question. In many cases, national and international development agencies are deeply involved; or the service has been privatized to national or international companies. Before anything else, the rules for living closely together are made and implemented by families. In many communities the lines between formal local government, private business and family are thin indeed.

All modern economies and societies rely on principal-agent systems. That is, agents are appointed to act on behalf of principals; e. g. boards on behalf of shareholders, management on behalf of boards; parents on behalf of their offspring, clan heads on behalf of their kin, local councils on behalf of local populations; local administration on behalf of local councils; national parliaments or presidents on behalf of nations; ministerial bureaucracies on behalf of parliaments and presidents; and so on.

Inherent to principal-agent systems is a degree of freedom for the agent. On a scale from zero to ten the degree of freedom cannot be zero, because then the agent would be redundant; and it cannot be ten, because then the principal would be redundant. In between, governance determines if decisions are autocratic, top-down, exclusive (i. e. closer to ten), or if they are democratic, bottom-up, inclusive (i. e. closer to zero). Different authors tend to favor one over the other; usually, the former kind of decisions are argued to be faster while the latter are argued to be fairer. It is hold here that both perspectives are probably biased. Rather, the reference should be accountability. Accountability is defined by the principle of "triple congruence" (Grossekettler 1991). That is (i) congruence of the group of recipients and the group of providers of a transaction, (ii) congruence of those tapped on by a decision and those making a decision and (iii) selection from within the electorate both those executing and monitoring respectively.

Poverty emerges where provision and pricing, access and use, expansion and maintenance of health care, education and local government infrastructures are decided with disregard of triple congruence. Decisions about these areas shape the opportunities and incentives for investment and innovation that an economy provides. If some groups within the economy are excluded from these decisions, "log-in" effects are likely:

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[6] Historically, government "a la Francaise" used to be highly centralized with limited scope at the lower level, while the same level enjoyed a comparatively wide scope under government "British style". Since the 1980ties, "decentralisation" has been an important trend in French government, and since the 1990ties decentralization has been promoted by international development agencies in many low-income-countries.

Expanding participation in the decision making is likely to result in adjustment of earlier decisions; such adjustments are likely to be costly to the current decision makers; thus they will resist both expanding participation in decision making and adjusting the course of their earlier decisions. All through human history, this log-in effect had to be overcome by the excluded subjects raising the cost of maintaining the status quo, i. e. putting up a good fight. This holds true, by varying manifestations and degrees, for abandoning apartheid in South Africa in the 1990ties, for suffrage to women in the early 20th century; for representation to male citizen by various degrees in Europe and America; for expanding Roman citizenship to all people of the Empire[7], all the way back to the Jewish exodus from Egypt.

On the one hand, many regions of the world are trapped in violent disputes over decision making, and the more violent the dispute grows, the higher the prize of compromise; so the disputants continue dragging each other downwards. This appears to have been part of the decades-long conflict in Northern Ireland, and to be part of the case between Israel and Palestine today, and behind the ethnically loaded conflicts in many countries of Sub-Sahara Africa. It can be argued that the rampant poverty of the people of Northern Korea is based on the lack of accountability of their national leadership; outside Northern Korea, many fear that this leadership would be willing to drag down any other nation if only they get hands on the means to do so. On the other hand, many regions of the world are trapped in a social fabric that suppresses any claim for accountability, and though no open violence is observed, the peace is rather sleaze – a profound discouragement of initiative, experiment and change, because all of them potentially undermine the status quo. Thus, accountability of governance is quite straightly related to the macro-level conditions of peace *and* law and order discussed in section 3 above.

In low-income countries, daily laborers, both rural and urban, are probably the most disadvantaged when it comes to making their voice heard and to claiming accountability about public goods. They have little to no spare time to engage in such issues, because when they are not working, they are on the look-out for work. As a group, it is hard for them to accumulate clout for collective bargaining or claiming accountability, because of their precarious situation, which is often paired with seasonal or temporary migration within countries (e. g. from rural to urban locations) or even across borders. As migrants, their status is regularly informal or formally illegal.

Smallholder farmers and slum dwellers who have at least a formally recognized residential status are slightly less vulnerable. However, if their income streams are

[7] Here, the motivation was rather to motivate the subjects to put up a fight against the empire breaking up. A long the same line, expansion of citizenship in the French and British empires (e. g. election of Senegalese representative to the Assemble national as early as 1848 – at first from realm of the French settler, though. The first African deputy was elected in 1914) can be observed.

volatile and unreliable, or if they face emergencies like medical expenses or rising school fees, they often slide into a debt trap which may end with their formally or factually loosing their property of land or plot. Comparable to daily laborers, such threats limit their capacity for collective bargaining or claiming accountability, if the bargaining partner or the accountable party is intermingled with the creditors. This is often the case; it is particularly weakening if the community leaders are corrupt, i. e. cover up dysfunctional provision of health care or education or local government services by preventing their flock from claiming accountability. If the vicious circle outlined in the previous section – low access to material and immaterial assets results in lack of opportunity to emancipate from the pre-dominant social network results in low access to material and immaterial assets – comes into play, community leaders are likely to go unchallenged.

In high-income-countries, labor unions and leftist parties and church activists were for a century-odd, with its peak in the 1960ties and 70ties, at the forefront of claiming from the providers of health care, education and other infrastructures accountability for poorer strata of society. Those strata became over the same time-period equal to urban, industrial workers. At the same time, economic growth provided everybody with rising incomes, expanding physical assets, ever expanding information and skills, and – in combination with urbanization – alternative choices of social networks. Hence, the people of these countries enjoyed a virtuous circle of diminishing poverty at a large scale. Since the 1980ties, though, poorer strata of the economy find themselves in employment and income situations that resemble those of the poor in low-income-countries, though the degree of vulnerability is much less existential. Spreading service-jobs tend to be less stable, and the job holders are less well organized, scarcely unionized, and they feel that their interests and claims for accountability are no longer met by the governance structures available. This has given rise to left-rhetoric movements, e. g. the globalization critics, and to the revival of leftist parties, e. g. the former communist party in Germany.

Box 2: Germany's Labor Market Reform

The labor market reform in Germany was born out of persistent high unemployment rates which were characteristic of most countries of continental Europe in the 1980ties and 1990ties. In Germany, a nexus of rules provided employees with 60% (67% for parents of under-age children) of their last salary for up to 32 months and with 53 % (57%) unlimited thereafter. Also, the social security system offered an option to access early-pension from the age of 55 (regular pension-entry-age was 65). This was fundamentally changed in 2004/05, when the option to access early-pension was cut off (subsequently, the regular pension-entry-age was raised to 67). Unemployment compensation was limited to 12 months (18 months over the age of 55), and thereafter basic social transfer. This transfer is only provided if not any other job is available; and if no assets to live off are owned neither by the person nor by near relatives, i. e. children or parents (see e. g. Economist 2003).

The latter rule stirred huge political turmoil. Many people felt that it was unreasonable to effectively demand liquidation of all significant properties for two reasons: On the one hand, a life-long-employment record would be dishonored by a few years of unemployment at the end of the career and condemn the concerned person to indecent living conditions at old-age. On the other hand, people were demanded to increase their private provisions for old age (life and pension insurance), yet in case of unemployment the concerned person would be "punished" for doing so, compared to somebody who did not. Altogether, the new rules were felt to give strong disincentives for the accumulation of physical assets during the employment career. Some also argued that the rule to take up any other job put skill levels at risk, as e. g. somebody with an academic qualification might fall out of that line of occupation if employed in a low-skill-job for a while.

Furthermore, the policy change had not been put before the electorate; rather, the new policy was perceived as a fundamental change of political direction. Thus, the ruling center-left parties faced a dramatic drop of popularity and membership and lost a long series of regional – and eventually national – polls. Parallel, a newly formed "Left" expanded their share in votes and parliamentary seats. It was able to draw on a newly emerging network of activists who come from a low-income-background, e. g. unemployment benefits or other social transfers. Latest data show that poverty is more persistent than ever in Germany, and that unemployment is its core cause (Bundesregierung 2005). The left party argues that the labor market reforms are key to this trend; liberals, on the other hand, argue that the labor market reform creates incentives to create jobs. Whichever point of view finds support, the governance structures in Germany – elected representatives at various levels of government, political parties, civil society organizations and trade unions – have provided ample opportunity to voice them and to successfully claim accountability for the policies made.

6 The third institution of poverty: Habitat structures

Among the four institutions of poverty, habitat structure looks like the odd one out. Moreover, if any odd-one is to be considered, wouldn't there be more obvious candidates than habitat structures? Think of gender, or minorities, or being African.

It is not denied here that being female, or being minority, or being African are relevant features of poverty. Indeed, in most low-income-countries poverty is a deed of women. They eat less, work more, and are more often victim of violence, and nearly exclusively of sexual harassment; baby-girls are more likely to die than baby-boys (see e. g. Sen 2000). Being born as a woman increases your chance of being poor significantly (the picture looks different for recent generations in high income countries). According cases can be made for minorities, or Africans. In fact, if you are born as a female into a minority group family in Africa,[8] and you make it anywhere outside the poverty statistics (setting aside the case of being deliberately overlooked), you are the odd one out.

Therefore, it is undeniable that the construction of sex-based roles and perceptions called gender is an important institution of either poverty or wealth. It is herein that the difference between the institution “gender” and the institutions “lack of assets”, “lack of accountability” and “lack of income security” lies. The latter constitute poverty “in their own right”, and they are potentially quantitative. The relationship between gender and poverty is of qualitative nature, and gender is not as such prone to poverty or wealth. Rather, certain versions of it are, if they discriminate against one gender to accumulate assets, claim accountability and secure their income stream. Thus, gender is rather an indicator of the other three. The same holds true for being part of a minority, or being African. Consider this argument being made 20 years ago; obviously, "being Chinese" would have offered itself because it was a strong indicator of "lack of assets", "lack of accountability" and "lack of income security". However, this is no longer the case (for assets and income security, mainly).

Hence, whereas the gender (or minority, or African)-poverty relationship can be overwhelmingly explained by assets, accountability and income security, the habitat-poverty relationship can not. E. g. villagers might command a mix of assets (land, social network, some machinery), and might enjoy full accountability over the governance of their lives, and might have a stable income stream (say 3 harvests a year), and may still be poor. They are poor because their spatial distribution is unfavorable. They live far away from relevant centers, or the connection is barred by unwelcoming landscape, such as mountains, or sea, or desert, or swamp. Sometimes, they are barred by unwelcoming people, like marauding bandits, or just country borders.

Spatial economic models (and in the case of country borders, also trade models) subsume such conditions under transportation costs. They can demonstrate – not very surprisingly – that rising transportation costs limit transaction volumes. Transportation costs are distributed quite unevenly in space, as are landscapes and country borders.

Economic integration then describes efforts to level transportation costs for a given space, say a country or a region. Economic integration is driven by technology,

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[8] This is not a fully precise statement, insofar as there are a number of minority groups in Africa who are doing quite well, examples are Asians in East Africa, Lebanese and Mauritanians in Western Africa, Boers in South Africa. Thus, a more precise statement would be "…into a minority tribe family…"; however, the concept of tribes and ethnic groups in Africa is questionable – constructed – and best avoided.

administration and participation.[9] Habitat structures are such spatial conditions that, for a given period, cannot be altered by measures of economic integration.

The empirical record about habitat structures and poverty are mixed. On the one hand, authors like Collier (2007) and Sachs (2005) argue that unfavorable geography, in particular landlocked countries and tropic-disease-prone climates, are relevant drivers of poverty. By the same token, regional integration like the European Union and comparable efforts all around the world are accounted for expanded flows of goods, services and investment,[10] which are likely to decrease poverty. On the other hand, most recent empirical research dismisses geographic factors as drivers economic growth – here a proxy for decreasing poverty – and points to the institutional setting (Acemoglu/Johnson/Robinson 2006, Rodrik/Subramanian/Trebbi 2002). I. e., they argue that "habitat structures" are indeed the odd one out, and that altering institutions to overcome lack of assets, governance and income security explains poverty exhaustively.

In the light of the research on the role of urbanization and the first industrial revolution (see section 2), it is suggested here the effect of habitat structures on poverty is not yet adequately described. Further research should fill in, e. g. by creating better understanding of population density and structure trajectories, and infrastructure cost relative to other cost factors, and the poverty-effects of migration.

[9] Technology meant in a broad sense; that includes any new form of labor division. Deepening of labor division is driven by bigger units with more persons among which labor can be divided. Specialized functions like trade, finance and the like demand a minimum feasible size of the unit, i. e. a minimum number of persons involved. E. g. mobile phones have reduced "transportation costs", as their networks reach areas that where hitherto not served by landline phones. Administration in a broad sense includes any kind of infrastructure good. Those are goods that lower the cost of repeating a transaction. These are obvious infrastructure goods like roads, and security on the roads, but also overhead functions of corporations (e. g. accounting department) and the provision of legal framework (e. g. property rights). Local government is an attempt to make infrastructure equally available in all parts of a given space. However, the challenge lies in finance: While sparsely populated areas have high infrastructure-costs per head, the tax-volume is usually relatively low (because there are fewer taxpayers). Hence a claim for inter-spatial transfers of resources. Participation is the degree of say people have in governing their affairs. It was already pointed out in the previous section that local government is also an attempt to make the decision about infrastructure equally available in all parts of a given space. As such, it aims at preventing, or, in the case of regional collaboration of countries, reducing man-made barriers that add to transportation costs (Schmidt 2005).

[10] In fact, there is a vast economic literature studying such phenomena, and the findings differ; a good empirically based starter would be e. g. Frankel (1997).

7 The forth institution of poverty: Lack of income security

In capitalist economies it is often assumed that income defines personality. Low income equals low consumption, low savings, but also low market-value, perceived low success, ambition, resulting in low self-esteem.

These properties of aggregate income levels – high or low – may or may not be hold to be accurate. The present concern is to make a case that the aggregate level of income is not primarily relevant to creating poverty. As has been argued before, income is only one out of four drivers of poverty. People may have a low income, but if they own the land they live on, or can rely on a social network that backs them up, and if they have a say in governing the public goods of their interest, and if they live in favorably dense settlements, they may not be called poor.

People need a reasonable degree of perspective about their income, both in the short run – what will I earn tomorrow and the day after tomorrow? – and in the medium run – what will I earn in the next 6 to 12 months? People who can be sure of their income in the short run can free their mind for the medium perspective and beyond. If income is volatile, savings will be volatile as well. Everybody saves, regardless of income level (see box 1). If income volatility is severe, times of low or zero income will eat up savings; and re-building the stock needs time. From this it appears obvious that income volatility cripples not only the (temporary) capacity but also the (permanent) motivation to save. Furthermore, people who have to move places seasonably are subject to higher costs of savings products; most pointedly, informal savings are often lost. Research indicates that 10-20% of a year's informal savings are lost. The major threat is fire.

Only if people are able to make reasonable predictions about their medium term income will they start to take medium term risks – like saving up or down (i. e. taking a credit) for a vehicle, or farming machinery, or better housing. If they are not able to do so, they are more likely to repair to short-term investment, e. g. an extensive contribution to a family members wedding, or to less productive, more liquid investment, e. g. jewellery. Lack of income security makes poverty, because it reflects heavily on savings; it hampers asset building not only with regard to the savings channel but also with regard to social networks, including most significantly insurance. Last but not least, the vulnerability of volatile and unpredictable income streams undermines the opportunities of making their voice heard in governing public affairs.

Both in low-and high-income-countries, public service employment, or other office jobs, doubtlessly offers higher aggregate income levels than occupations like shoe cobbling, or construction work, or carrying goods around. But particularly in low-income-countries, the difference is not in pay-per-day. It is in paid-days-per-month. Public servants and office workers are salary-earners, and those salaries ensured not only for the current month but for many months to come, because public servants are not laid off easily, if at all. Quite opposed to that, the before mentioned occupations are practically always contracted on a day-laborer basis. Industrialization and forging of more capital-intensive enterprises and strong accountability of governance had changed that in high-income countries. However automated production eventually eliminated most low-skill labor; the jobs of comparable skill-levels that emerged in service-industries or the "shadow economy" carry the day-laborer-risks again. The laborer can never be sure if, and where, and sometimes for how much she will work the following day. Many occupations go through bad seasons, e. g. construction in India's coastal state of Goa is halted in the monsoon season (June to September); construction in Germany is halted in the winter season (November to February). The overwhelming majority of Goa's construction workers are migrants from neighboring Maharashtra who have to leave Goa during the monsoon season; the overwhelming majority of construction workers in Germany live on unemployment benefits, sometimes (combined with) shadow economy activities in winter.

So insecurity of the income stream often brings about insecurity of the whereabouts. Moreover, each day laborer alone bears the risk of their falling sick, or their dear falling sick, or the risk of their having an accident, or of their dear having an accident. One should think that people in that line of employment have a very tight insurance cover. But that is not so. In Germany, for example, shadow workers' accidents would fall out of the health insurance, however, as practically everybody is health-insured, it is "only" an issue of disguising a work-accident as a private one. In low-income-countries, most day laborers do not have any insurance at all. On the one hand, insurance do not know where to find them, let alone phone them. On the other hand, their employers do not feel strongly about covering them, even if a country has laws in that regard; be it India or any West-European country. The moment the day-laborer falls sick, her income drops to zero, yet the need for liquidity peaks; only savings or a social network can cushion the fall. However, the savings will only be capable to cover so many emergencies; after that, only social network will help. But how strong can the social network be of somebody who has to roam the country in hunt of a day's work? Maybe that is a reason why the Maharati construction workers bring their women and children to Goa.[11]

Box 3: The Indian Rural Employment Guarantee Act

"The Rural Employment Guarantee Act, which India's parliament passed in 2005 […] is designed to cover the entire country by 2009.

The law is significant because it distinguishes India's approach to poverty very clearly from that of neighbouring China, which has preferred to create jobs indirectly by stimulating high (public

[11] Another is the reportedly high quality of Goa's schools compared to other Indian states – so there is an asset aspect, too.

and private) investment in the economy. [India's prime minister Manmohan] Singh's government has not followed this path. The new law gives one hundred days of manual labour in the countryside to anyone who wants it. Since payment is at the minimum wage, which varies from as little as fifty rupees a day in some states to eighty rupees in others (between one and two dollars), it is assumed only the really desperate will take the jobs. In the jargon, the programme is 'self-selecting'. Payment can be in a mixture of cash and food. The work is almost entirely physical consisting of the type of manual labour India's poor have been requisitioned to do for thousands of years: filling in pot-holes, digging landfills, mending river embankments, and clearing irrigation channels.

Judging by the results of previous schemes, notably the food-for-work programme, which successfully prevented famine in post-colonial India, the quality of the work is not the priority. […] it promises no investment in upgrading the skills of the people it is designed to help. Nor does it invest in genuine rural infrastructure, such as all-weather roads, proper electricity supply or new agricultural technologies.

[…] When the law was proposed in 2004, it was dismissed by many Indian and international economists as an expensive way of doing nothing to address the perennial condition of India's poor – their consignment to manual labour at miserably low levels of productivity. Yet, India's parliament passed the bill unanimously. Many skeptics believe this rare display of consensus was prompted by the opportunity for all parties to siphon off a new source of public funds. One Indian commentator even suggested the law should be renamed the Corruption Guarantee Act. It is hard to see how a scheme that requires the poor to provide twelve or more hours of back-breaking physical labour each day for just a couple of dollars will transform their conditions. If you wander around India's provincial capitals, […] you will […] see gangs of twenty or thirty labourers, squatting in rows on their haunches, moving gradually forward in a line, plucking the lawns with their bare hands. Inside the buildings there will be dozens of sweepers […]. Is this about employment? Or is it about reminding the sweeper and those for whom she sweeps who possesses status in society and who does not?"

Source: Luce (2006, pp. 201-203/205-206).

8 Conclusion

For the student and the policy-maker concerned about poverty, it is very important to study the case-based literature which looks at the poor individual (see references given in the introduction). It provides insight into the reality of living a life of high risk, where severe blows are possible at any moment without much chance to see them coming; of living back-and-mind-breaking hardship most of time, with rare moments of reflection, recreation and joy.

Equally important for successful interventions is the understanding of the dynamics of poverty. Individual-case-documentation often does not elaborate on the change of poverty over time. But also quantitative research has scarcely addressed the causes and drivers of poverty over time (Mokherjee 2006).

Institutions shape the incentives and opportunities people find and create. The institutions of poverty discourage accumulations of assets, disable accountability of governance, and dilute potential. Lack of assets, accountability and income predictability are not only expression of poverty; they also set the incentives for the future, most notably succeeding generations. Thus, lack of assets, accountability and income predictability have a strong tendency to reiterate themselves over time. Furthermore, they re-enforce each other. Many scholars tend to identify their "favorite", and there are many academic debates if lack of assets or lack of accountability or habitat structures or income predictability is the most important one. This is rather beside the point. All four institutions have to be analyzed concurrently; their relative weight as determinants of poverty persistence is situation-specific, i. e. differs from region to region, country to country, and social set-up to social-set-up.

Note that income predictability – volatility over a given period, probability of a given income at a given point in time – is different from aggregate income levels. The latter is a rather crude though widespread cumulative ex-post-indicator of all four institutions of poverty. It does not allow for disentangling them analytically.

Some may argue that the remarks of this paper are not new, others may feel that as a heuristic approach they lack theoretical clout. Both views are accurate. Poverty is not new; and nothing terribly new has been said about it for a long time.[12] The failure of social sciences to develop a consistent and empirically conclusive theory of poverty is striking. They might be excused on the grounds of a missing grand theory of social and economic change; in such a theory, persistence would just connote a low degree of change.

However, the policy maker is not concerned with grand theory, particularly with grand theory which has not yet come to exist. The policy maker is well advised to draw on a fairly balanced and volume-wise manageable account of experiences and observations. Surely, heuristics embed the a-priory choice of the author which as such is subjective. But then, all reason is based on a-priori-assumptions.

It is in the eye of the beholder, i. e. the reader, to judge if this paper presents a fairly balanced and volume-wise manageable account of experience; if it does, it provides a sound basis to enter into the discourse about making policies that diminish persistency of poverty within countries.

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[12] Indeed it might be of interest to trace scholarly thought about poverty. Aristotle was one of the first documented scholars to discuss economy theoretically, which as an anti-thesis includes poverty (bad economy equals poverty).

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