

Book Review:
POVERTY TRAPS edited by Samuel Bowles, Steven N. Durlauf and Karla Hoff

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In Horatio Alger's first novel *Ragged Dick* (1868), the eponymous hero is a penniless shoeshiner who, after a chance encounter with the nephew of a wealthy businessman, pulls himself out of poverty through hard work, saving, and studying. The common theme of this and numerous other rags-to-riches tales is that individuals can escape poverty largely through their own effort. As the nephew Frank tells Dick, "there've been a great many boys begin as low down as you, Dick, that have grown up respectable and honored. But they had to work pretty hard for it".

The editors of *Poverty Traps* note that this 'achievement model of income determination', in which an individual's socioeconomic prospects are largely under his or her own control, is the conventional view of poverty that is supported by traditional competitive economic theory, and that also underlies much public debate on poverty. However, the lack of convergence of incomes across countries and the persistence of poverty across generations within countries has led to increasing interest in mechanisms that give rise to poverty traps. The three parts of this book draw on work by economists, economic historians and sociologists to provide an excellent and informative examination of three broad explanations of how a country or social group might be trapped in poverty - critical thresholds, dysfunctional institutions, and neighborhood effects.

The first part of the book - on *threshold effects* - consists of a single chapter by Costas Azariadis, entitled "The Theory of Poverty Traps: What have we learned?".

Unfortunately the answer to this question has changed rapidly since this chapter was first written, as new empirical work has attempted to test for both the overall presence of poverty traps (e.g. Lokshin and Ravallion 2004, Lybbert et al. 2004, Antman and McKenzie 2006) and for specific mechanisms underlying poverty traps (e.g. Raddatz and Kraay 2005, Adato, Carter and May 2006, McKenzie and Woodruff 2006) leaving the author's conclusion that "theorists seem to have gotten ahead of the empiricists" feeling already dated. As it stands, the chapter's reliance on cross-country stylized facts and focus on household and government impatience (along with incomplete markets) as generating poverty traps seems a weak platform from which to persuade the reader of the need for "massive scale" unorthodox policies or a "Marshall Plan for Africa" (p. 36-37).

The second part of the book covers four chapters which highlight the role of *dysfunctional institutions* in generating and perpetuating poverty. The most convincing evidence that institutions matter is found in Stanley Engerman and Kenneth Sokoloff's chapter summarizing the findings of their joint research on the origins of inequality in the Americas. They detail how resource endowments at the onset of colonization dictated the mode of agricultural production in the Americas and hence the initial level of inequality. They then trace the effects of initial inequality on the development of institutions, such as voting rights, schooling, and investments in public infrastructure, which would offer relatively equal access to economic opportunities in years to come. The evidence is rich and fascinating, and draws attention to the need to consider the interaction between the distribution of wealth and political power when understanding why reforms that can enhance long-term growth may not be made.

A second highlight in this second part of the book is a chapter by Karla Hoff and Arijit Sen, which considers the possibility that the kin system can act as a poverty trap. Extended family networks have long been studied and admired in development economics for their ability to help members smooth shocks and overcome the absence of formal institutions. Hoff and Sen however suggest the possibility that this comes at some cost during modernization. For example, demands for in-kind transfers such as providing jobs and allowing kin members to share homes reduce the incentive of kin members to join the modern economy while they make it more attractive to kin members to sever kin group affiliation once they migrate to the modern sector. A concern that expanding market opportunities may lead members to sever kin ties can lead the kin system to erect exit barriers, even when such behavior is welfare-reducing in the aggregate. That the kin group may outlast its usefulness and become a poverty trap is a possibility that need not occur. In other contexts, the kin system may actually spur entrepreneurship. The chapter sets out the theoretical conditions needed for the kin institution to trap individuals, which should provide a solid basis for empirical work seeking to test this proposition.

The final part of the book shows that poverty can persist not just at the individual level, but at the level of a neighborhood or group. A comprehensive and extremely readable chapter by Steven Durlauf summarizes the various mechanisms through which group-level influences can affect individual poverty, discusses the challenges involved in trying to empirically identify these influences, and highlights some implications for policy. This would be an excellent chapter to assign for an advanced undergraduate or graduate-level course. An important potential cause of poverty traps in this framework are social interaction effects, such as role model effects and peer effects. Individuals may

remain trapped in poverty because they don't have successful role models to imitate or the support of peers. Even Dick, Horatio Alger's rags-to-riches prototype, needed interaction with someone outside of his peer group to provide initial guidance and to encourage him with stories of others who had made it out of poverty.

The penultimate chapter by sociologists Robert Sampson and Jeffrey Morenoff presents rich evidence from the city of Chicago, showing very high levels of persistence of poverty among poor and black neighborhoods over a twenty year period. They present data from a detailed socio-demographic survey which they use to try to explain why poverty persists. They find that poor communities in which poverty increased had low levels of collective efficacy, measured by the shared trust and willingness of members to intervene in situations that affect the social order and sustainability of their communities, and high levels of cynicism about the legitimacy of law and social norms. In these circumstances initial poverty can deepen and reinforce itself over time.

One notable feature of part three of the book is that none of the evidence presented on the importance of neighborhood effects for explaining poverty comes from developing countries. There does exist aggregate evidence that poverty is also concentrated geographically in developing countries (e.g. Jalan and Ravallion, 2002). Hopefully the U.S.-based sociological work presented here can serve as inspiration for more detailed study into the mechanisms underlying neighborhood poverty traps in other countries.

In Alger's novel, within a year Ragged Dick becomes Richard Hunter, Esq., "a young gentleman on the way to fame and fortune". The contents of *Poverty Traps* suggest that more than "pluck and luck" may be needed to move many of the world's

poor onto a similar track, and provides a sound starting point from which the profession can work towards determining the policies needed to do so.

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