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Why Do People Stay Poor? Evidence on Poverty Traps from Rural Bangladesh

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Abstract

There are two broad views as to why people stay poor. One emphasizes differences in fundamentals, such as ability, talent or motivation. The other, poverty traps view, differences in opportunities stemming from differences in wealth. We exploit a large-scale, randomized asset transfer and panel data on 6000 households over an 11 year period to test between these two views. The data supports the poverty traps view - we identify a threshold level of initial assets above which households accumulate assets, take on better occupations and grow out of poverty. The reverse happens for those below the threshold. Structural estimation of an occupational choice model reveals that almost all beneficiaries are misallocated in the work they do at baseline and that the gains arising from eliminating misallocation would far exceed the program costs. Our findings imply that big push policies which transform job opportunities represent a powerful means of addressing the global mass poverty problem.

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