

# Relevance of Social Sciences and Humanities to Global Problems

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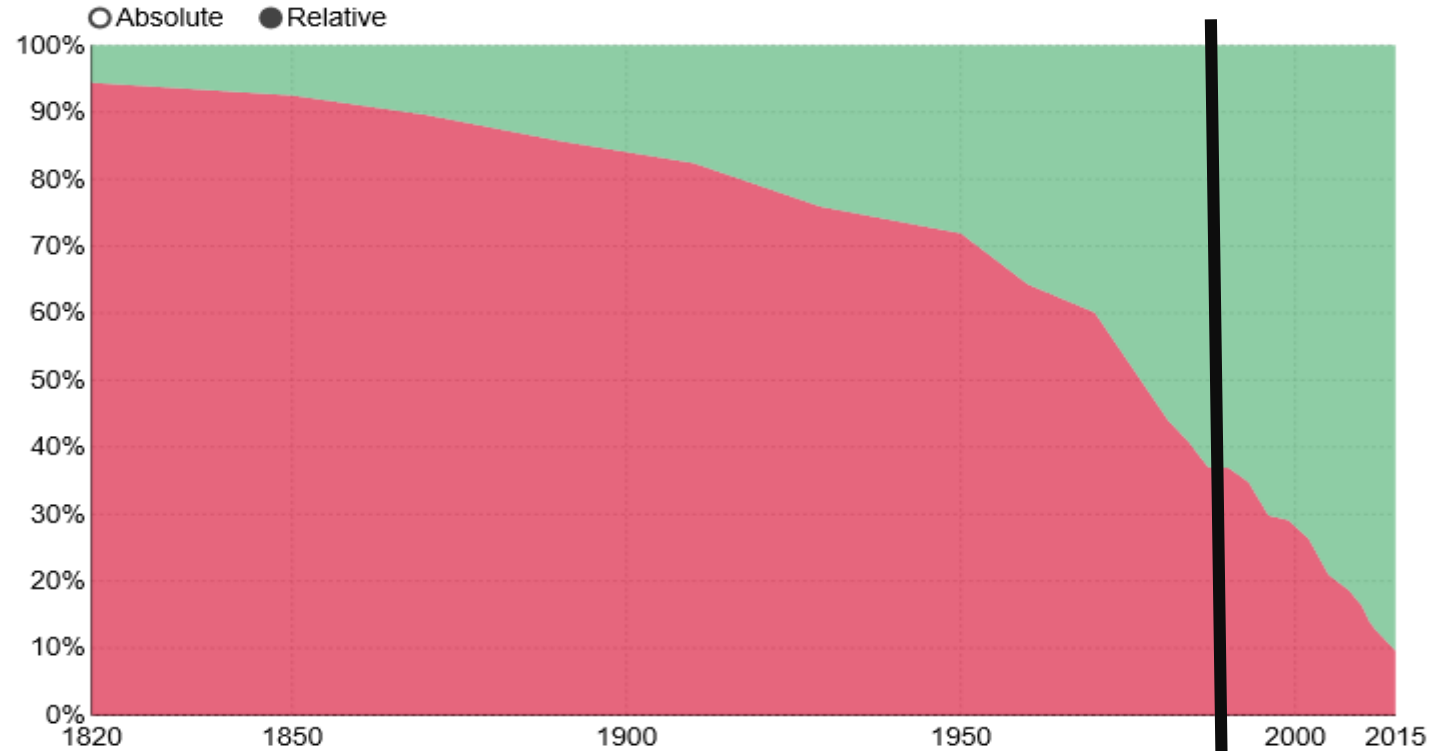
*University of Peradeniya, 28 July 2017*



# World population living in extreme poverty

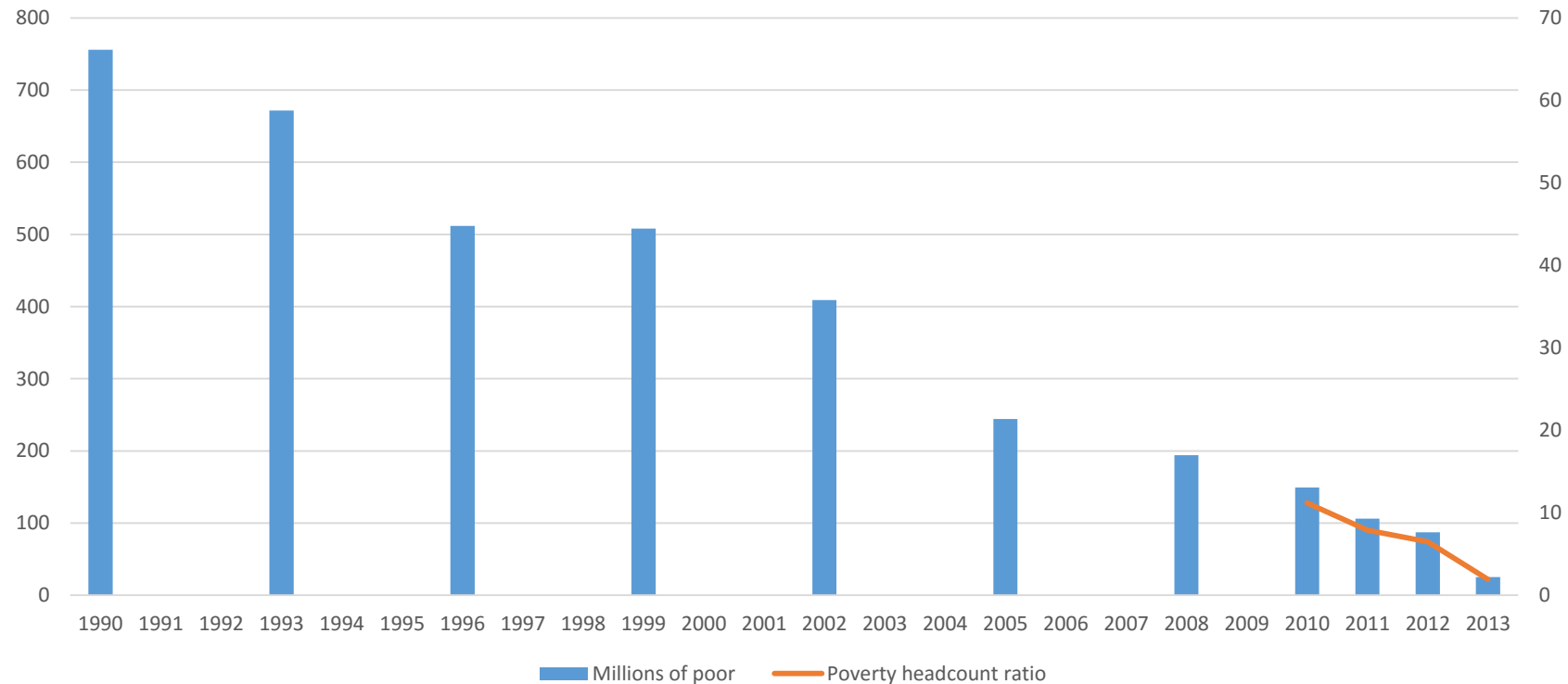
Share of people living in extreme poverty

Share of people not in extreme poverty

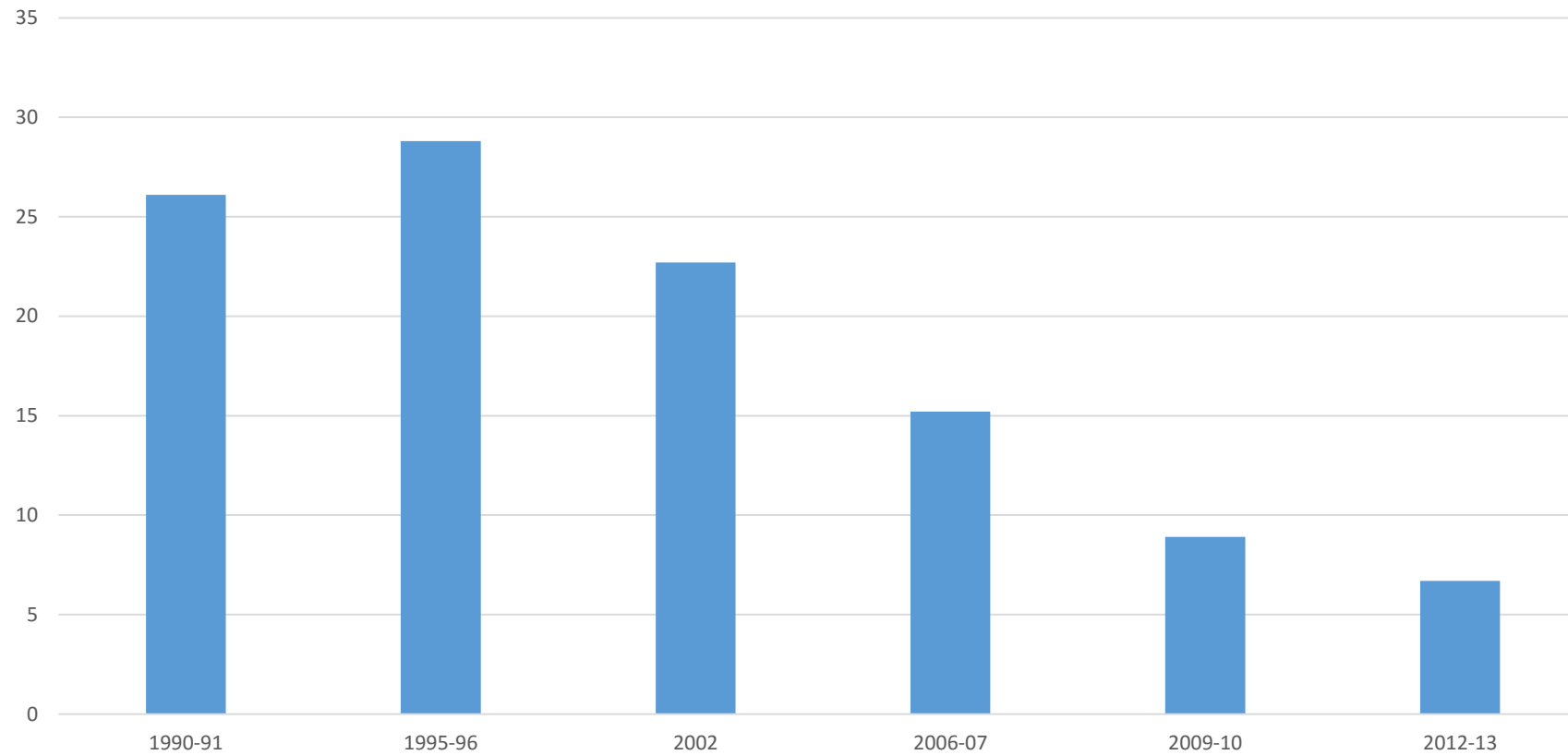


Source: World Poverty in absolute numbers (Max Roser based on World Bank and Bourguignon and Morrisson (2002))

# Poverty in China (those below USD 1.90), 1990-2013



# Poverty in Sri Lanka as % (less than USD 1.50/day): From high of 28.8% in 1996 to low of 6.7% in 2012



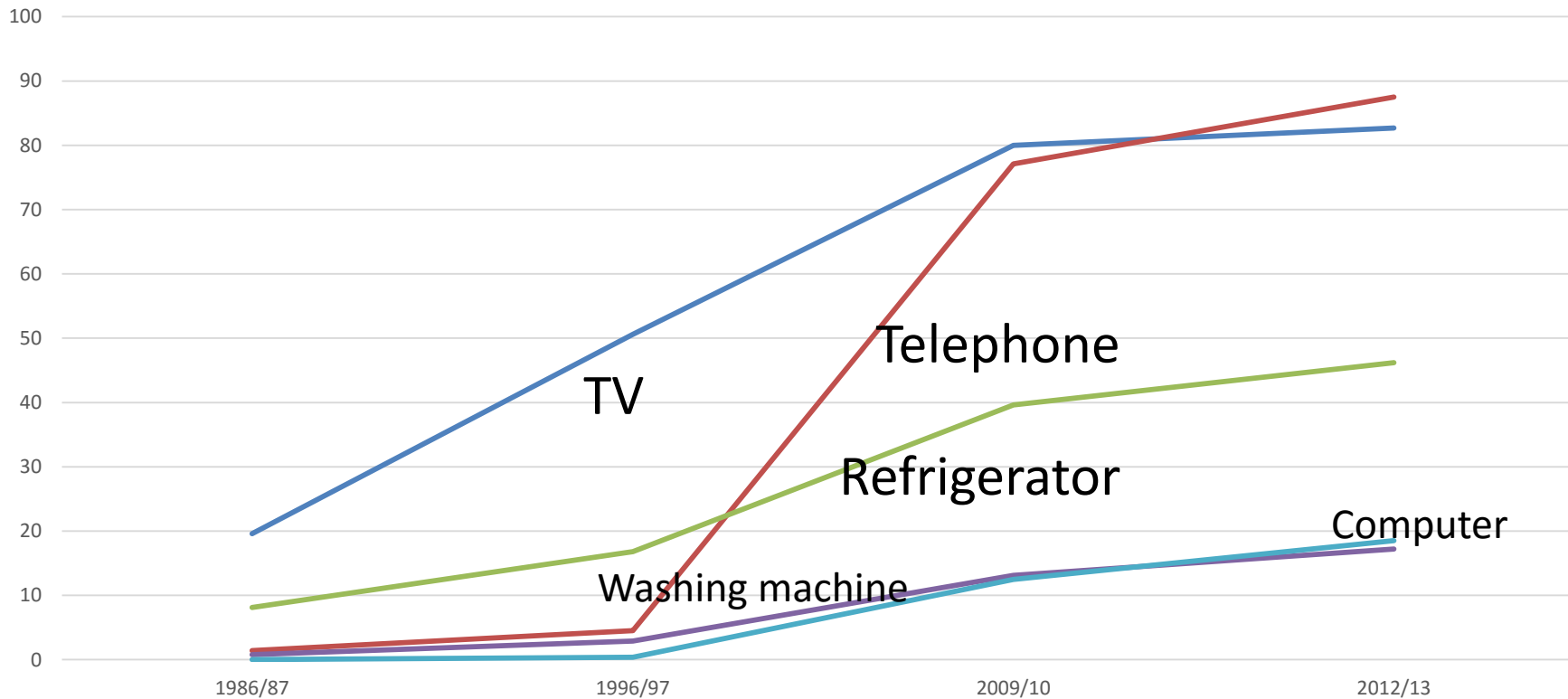
# Engel's Law: The poor spend more on food

- In 1980-81, an average household spent 65% of its total expenditures on food
- By 2012-13 the ratio was reversed: only 37.8% was spent on food
- THE ENGEL COEFFICIENT is the proportion of family income that is spent on food. It received its name in honor of German statistician Ernst Engel (1821-96).
- In a famous study using the budget data of 153 Belgian families, Engel found that the lower a family's income, the greater is the proportion of it spent on food. Later studies have confirmed this empirical regularity, which has been called Engel's Law. According to H. S. Houthakker (1957), **"of all the empirical regularities observed in economic data, Engel's Law is probably the best established."**
- Engel's Law is a ceteris paribus relationship. That is, it holds when prices and preferences are kept constant. An alternative way to enunciate Engel's Law is by saying that the income elasticity of the demand of food is smaller than one.

Household assets: Refrigerators > sewing machines; Phones > TV > radio by 2012-13

	1986/87	1996/97	2009/10	2012/13
Radio	67.1	73.6	75.4	71.4
TV	19.6	50.6	80	82.7
Telephone	1.4	4.5	77.1	87.5
Motorcycle	5.3	12	25.8	30.3
Car/van	3	3.4	5.6	7
Refrigerator	8.1	16.8	39.6	46.2
Sewing machine	37.2	41.2	42.7	41.9
Washing machine	0.8	2.9	13.1	17.2
Computer	0	0.4	12.5	18.5

Same data, over time. Given demand stimulation in 2015, everything should have risen further



# Use of social science in 1977-78 reforms

- No precedent other than Chile
- Dr Lal Jayawardena was Secretary of Treasury at the outset
- Basic expertise was supplied by Anoop Singh of IMF and Sarwar Lateef of World Bank
- Concerned with possibility of IMF riots, a study by leading nutritionist Dr Brighty de Mel was commissioned
  - Based on Consumer Finance Surveys, she showed that calorie and protein consumption of the bottom half of the population had dropped below the minimum levels of 2,200 calories and 40 grams of protein
- As a result, resources were allocated for targeted food subsidies



15,500 MT and in 1970 this declined to 6,050 MT, a decrease of more than 60 per cent. The reduction of imports of pulses and fish, the principal protein staples of Sri Lanka, was initiated in 1972–73 concurrent with the world slump in grain production, and was an effort to conserve hard currencies for the purchase of wheat and rice, the prices of which achieved an all time high in that period.

	<i>Food Balance Sheet—G/CAPUT/DAY</i>						
	1969	1970	1971	1972	1973	1974	1975
1. Dried and salted fish	9.32	8.63	8.63	8.74	4.55	4.85	4.69
2. Pulses	18.52	16.20	7.91	7.32	3.97	2.15	5.4
Total of 1 and 2	27.84	24.83	16.54	16.06	8.52	7.00	10.09
3. Whole milk powder	2.55	2.74	2.22	1.40	2.14	1.89	2.32
Total of 1, 2 and 3	30.39	27.57	18.76	17.46	10.66	8.89	12.41

Since then the ban has continued in effect as a means of stimulating domestic protein production. Although indigenous production of pulses and fish has increased, protein availabilities continue to lag behind national requirements. (All foods are produced locally

# China's reforms starting in 1977-78: Different use of ideas

- In July 1977, the State Planning Commission recommended study tours to foreign countries for “investigatory work”
  - Yugoslavia and Romania
  - France, Germany, Switzerland, Denmark and Belgium
  - Japan and US (Deng Xiaoping himself)
- Contacts initiated with World Bank (Edwin Lim) in mid-1979
- In October 1979, Lawrence Klein, Dwight Perkins, Lawrence Lau, Irma Adelman & Kenneth Arrow travelled across China, talking economics
- April 1980, World Bank President McNamara visits China and is told by Deng: “We are very poor. We have lost touch with the world. We need the World Bank to catch up.”
- May 1980, China rejoins World Bank

# China's use of ideas

- 1,000 page report prepared by World Bank and Chinese economist released in 1983
- Lectures in China
  - Milton Friedman
  - Ota Sik
  - Janos Kornai
  - James Tobin et al.
- 1985: Full week on a river cruise ship: S.S. Bashan

## **Bashan Boat Conference**

Convened at request of Premier Zhao Ziyang on ship cruising on Yangtze so that “senior government officials and economists would be available fully for a week and not be interrupted by their normal responsibilities”

# Results of the reforms that started in 1977-78

- China has eradicated poverty in cities (by the government's official definition) and reduced the number of rural people below the official poverty line of 2,300 Yuan a year at 2010 prices from **775 million in 1980 to 43 million in 2016**.
- According to the Household Income and Expenditure Survey (HIES), **Sri Lanka's poverty head count was 6.7 percent in 2012-13. In 1990-91 it was 26.1 percent**; in 1995-96 it was 28.8 percent (an increase over the previous survey). By 2002, it had decreased to 22.7 percent.

# What remains

- Are the most difficult cases
- What can social science offer?