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Political Order and Poverty Eradication

Abstract Introducing the concept of viability, this study clarifies that the key to solving the poverty problem is to provide external assistance to nonviable residents. The study then proposes a simple model and explains that 1) although private market mechanisms are efficient for economic growth, public market mechanisms mobilizing societal resources are necessary and effective for poverty eradication; and 2) strong state capacity, competent leadership, and high social trust and support will benefit poverty eradication. The concept of viability and the model was further applied to compare the war on poverty in the US and the poverty alleviation plan in China in the following aspects: background and top design, public versus private market mechanism, leadership, social trust, and achievement. In addition, a cross-country investigation was conducted to obtain preliminary empirical evidence. The findings in this study support the concept and the model, which inspired us to provide some discussions.

Keywords poverty, viability, market mechanism, political order, societal resource

JEL Classification I32

1 Introduction

The United Nations has announced that ending poverty in all its forms is the first goal of the 2030 Agenda for Sustainable Development and further explains that "poverty entails more than the lack of income and productive resources to ensure sustainable livelihoods. Its manifestations include hunger and malnutrition, limited access to education and other basic services, social discrimination and exclusion, as well as the lack of participation in decision-making (United Nations,
Despite the marked progress in reducing poverty over the past few decades, poverty eradication remains a daunting task for all countries. In developed countries such as the United States, President Johnson could not tolerate poverty amid prosperity. Thus, he announced a war on poverty in 1964 and implemented a significant expansion of the scope and scale of anti-poverty programs to help the poor (Brown-Collier, 1998). More than half a century later, the war on poverty remains ongoing. Recently, the Russell Sage Foundation Journal of the Social Sciences contributed a volume to publishing articles that leverage the best theoretical and empirical social science research for implementing a set of novel and potentially transformational policy innovations in poverty eradication for policy makers. The articles span a wide range of policy domains, including cash transfers, employment-related policies, postsecondary education, housing support, food security, family planning, and two-generation, human capital development (Berger, Cancian and Magnuson, 2018). This reflects that the war on poverty is far from being over.

In developing countries such as China, four decades of efforts in the market economy since the country adopted the reform and opening policy have increased China’s share of world GDP from less than 3 percent to 20 percent and increased the real per adult national income by more than seven times. However, income inequality increased substantially, and approximately 100 million Chinese people remained intractably poor by 2012 (Piketty et al., 2019). Such individuals would remain poor, despite the high economic growth in China (Kuhn, 2019a). In 2016, China started a special plan to mobilize the nation’s resources to alleviate intractable poverty by 2020 (Xinhua, 2016; The State Council, 2016). Currently, China’s poverty alleviation is in progress.

From the above observations, it seems that economic growth and the free-market mechanism cannot eliminate poverty. With further observations from Indonesia, India, Brazil, and South Africa, Page and Pande (2018) argue that ending extreme poverty at the earliest in both low-income and high-poverty middle-income countries will require coupling growth with mechanisms to directly redistribute resources to the poor in the forms that they need. However, some economists disagree with these programs, as John Stewart (1978) claims, “...there is conflicting trade-off between the growth rate and equality of income distribution: If income is distributed more equally, aggregate savings and therefore capital formation will fall, and thus growth will be retarded.”
This study explores the determinants of a country’s performance in poverty eradication. To this end, we build a theoretical framework, introduce the concept of viability, divide respondents into viable or nonviable residents, adopt the constructs of societal and individual resources, identify the demand price ratio for each ratio of viable residents to nonviable residents in a country, and set a criterion for poverty eradication. Next, based on our model, we discuss the role of market mechanisms and political order, including state capacity, leadership, and social trust, in the progress of poverty eradication.

The remainder of this paper is organized as follows. Section 2 describes the theoretical framework, including literature review, concept of viability, a simple model, market mechanism and poverty, and political order and poverty. Section 3 reports the application of the model and compares poverty eradication in the US and China, including background and top design, public versus private market mechanisms, leadership, social trust, and achievement. Section 4 presents preliminary empirical evidence from a cross-country snapshot, and Section 5 provides a discussion and concludes the paper.

2 Viability and poverty

2.1 Literature Review

In political and academic circles, there are different views on how to eliminate poverty and whether governments should take responsibility for poverty alleviation. Traditionally, poverty is rationalized on the grounds of personal failure: people are poor because they lack innate intellectual or physical ability or because they lack something nebulous, called moral fiber. Whatever others do for them, their incompetence may make them regress to poverty (Hamilton, 1971). For example, poverty is categorized into voluntary, transient, and chronic poverty (Liu et al., 2019; Duclos et al., 2010; Gasper, 2002).

Regarding policies to ameliorate poverty, there are mainly two routes toward the goal, and the policies adopted by various countries are either along one of these routes or a combination of the two routes (Bhagwati, 1988). The indirect route or growth-oriented route implies concentrating resources to accelerate the growth of income and hence improve the living standards of the poor. In this direction, the most influential view is the poverty reduction strategy papers by the World Bank and the IMF. Craig and Porter (2003) clearly reiterate “global
economic integration first, good governance second, poverty reduction following as a result, underpinned by limited safety nets and human capital development.”

Regarding the priority, Craig and Porter (2003) further argue that “both poverty reduction and social inclusion policy and strategy represent a refinement of the liberal political project, specifically a mode of ‘inclusive’ liberalism, in which the disciplined inclusion of the poor and their places is a central task.” Although the growth-oriented route would push a portion of the poor on in their life, some poor would be left behind, while others would be impoverished even further (Bhagwati, 1988). The direct route implies public provision that covers the minimum needs of education, housing, nutritional supplements, and health, and transfers to finance private expenditures on these and other components of the living standards of the poor. For example, to assist 43.1 million people living in poverty in the US, some political science scholars suggest that policymakers provide a permanent federal job guarantee for all Americans, that is, a program that provides full-time employment for any American over eighteen, offering at least non-poverty wages plus benefits (e.g., Paul et al., 2018). However, public provision necessarily involves the redistribution of income between different groups, which might have a negative impact on economic growth (Stewart, 1978).

As the highest authority in the largest developed country and the largest developing country in the world, President Johnson in the US and President Xi in China realized that the poor and a prosperous market economy coexisted and believed that the government should take measures to help the poor. For the role that governments should play in poverty eradication, President Reagan (1981) said an influential sentence “In this present crisis, government is not the solution to our problem; government is the problem.” Specifically to the poverty problem, President Reagan called for a “war on the War on Poverty” (Rigby, 2019). Therefore, the federal and local governments tried to remediate the deleterious effects of poverty through private market mechanisms (Gotham, 1998), and in policymaking, they emphasized privatization, decentralization, and withdrawal of public resources (Stewart, 1978; Barnekov, Boyle, and Rich, 1989; Akard, 1995; Antonio and Bonanno, 1996). Academically, the free-market ideology pioneered by the University of Chicago economists, such as Gary Becker, Milton Friedman, and George Stigler, provided intellectual justification for Reagan’s policies
A recent study by Chambers et al. (2019) finds that states with more regulations have higher poverty rates, as measured by the FRASE index. The literature reports mixed evidence on the relationship between rural poverty alleviation and entrepreneurship growth in developing countries. For example, agriculture and agribusiness are viewed as key drivers of poverty alleviation in Africa (Van Rooyen, 2014). A positive relationship is found between the quantitative and qualitative growth of entrepreneurship and rural poverty alleviation in China (Naminse et al., 2019). However, entrepreneurship plays little or no role in income distribution and poverty alleviation in Thailand (Yanya, 2013).

2.2 Viability

The poor and rich coexist in this world for intrinsic reasons. For example, the fair competition mechanism in a free market would split the participants or would produce winners and losers, for example in the US labor market (Rodgers, 2019). Some losers, including the poor, may not be qualified or capable of entering new competition at a higher level resulting from the emergence of advanced productivity and new business models (Page and Pande, 2018). In any case, these poor people are also members of society, and they have the right to live decently in society. Solving the problem of poverty is beneficial to economic development and social stability (Morgan and Clark, 1973; Olzak, Shanahan and McEneaney, 1996). Simultaneously, it also reflects the real progress of human beings (Gates, 2008).

To understand the poverty problem, especially the role that governments should play in solving it, the concept of viability must be introduced. A resident is defined as viable if the resident possesses physical capital and human capital that are necessary to operate/survive in a fair, free, and competitive market in a country. Otherwise, the resident is nonviable. Physical capital simply refers to the wealth held by residents. For example, a resident may have physical capital of

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1 Page and Pande (2018) indicate that ending poverty by 2030 in the middle-income countries will require not only economic growth but also redistribution of new domestic resources to the poorest. Here, we also include high-income countries.

2 In this study, resident viability is adapted from the concept of firm viability in Lin and Tan (1999).
more than US$ 5.5 per day, enough physical capital to eat and wear, or adequate physical capital for health services and housing. Human capital comprises natural endowment, educational increment, knowledge from reading, spillovers from colleagues, competitors, and others, as well as working experience and skills (Lucas, 2015; Becker and Woessmann, 2009).

In a country with a fair, free, and competitive market environment, viable residents can not only enjoy a happy life but also accumulate wealth and achieve various goals through their personal efforts. However, non-viable residents could not survive without external assistance. For example, in China, with a developing market economy, 700 million people have been out of poverty and some of them become rich in the free market economy, but many nonviable residents continue to require external assistance. In the US, which has the most developed market economy, the poor in prosperity are waiting for external assistance. Although individual nonviable residents may obtain external assistance from various sources such as charity organizations or charitable individuals, collectively speaking, governments should take the main responsibility of providing support to the poor and coordinate all relief resources from society because governments have the right and power to employ public resources and are most capable of organization and coordination (Page and Pande, 2018).3

2.3 A Simple Model

The existence of nonviable residents indicates that governments should take responsibility for fighting poverty. Next, we build a simple model and use it to qualitatively demonstrate the extent of government involvement (societal resources to be mobilized) in fighting poverty. We begin by defining the concepts of individual and societal resources. Assume that a person’s total capital is the sum of the physical and human capital. Some portion of the total capital is used for personal purposes, or a person disposes this portion of capital to meet personal needs (Capital I). Some portion of the total capital is used for societal purposes, or a person contributes this portion of capital to meet societal needs (Capital II). The individual and societal resources of a country are defined as the

3 Page and Pande (2018) hold the view that in middle-income countries, states should bear most of the responsibility for providing these services to the poor. Here, we also include high-income countries.
composition of every resident’s capital I and capital II in the country, respectively. We adopt the construct from the study by Chwieroth and Walter (2020), apply to the poverty alleviation problem, and map policy solutions to poverty alleviation onto a continuum ranging from no government intervention (pure market) to complete government socialization of all costs of poverty alleviation. In the context of poverty, a country’s individual resources can refer to the number of people below the poverty line or the total money available to meet the personal needs of food or leisure. The societal resources of a country can refer to governments’ efforts to reduce poverty, such as the nationwide deployment of manpower, free workshops on knowledge and skills needed to increase income, and charities or lotteries from NGOs to help people in poverty.

Assume that in an economy, there are two resources, that is, individual and societal resources, and these resources are used to produce the output of lifting people out of poverty so that all people living in a country have enough to eat and wear and adequate education, health services, and housing. Mathematically, we define the input-output function \( f \) of fighting poverty satisfying the Cobb-Douglas function (unit elasticity), which is expressed as follows:

\[
 f(S, I) = S^{1-\alpha} I^\alpha
\]  

where \( \alpha \) belongs to \((0, 1)\), \( I \) represents the input of individual resources, and \( S \) is the input of societal resources. Further, assuming that the standard output of fighting poverty is a constant \( C \), equation (1) becomes the function of an isoquant curve expressed in equation (2):

\[
 S^{1-\alpha} I^\alpha = C.
\]

In Figure 1, the curve IQ represents the isoquant curve of fighting poverty, and each point on the isoquant represents a cost combination of using individual and societal resources to achieve the same output of no poverty. Specifically, Point A is a combination of more cost from individual resources and less cost from societal resources, and it is more likely for Point A to represent a situation with a large ratio of viable residents to nonviable residents. In contrast, Point B is a combination with less cost from individual resources and more cost from societal resources, and it is more likely for Point B to represent a situation with a small ratio of viable residents to nonviable residents.
In general, each ratio of viable to nonviable residents can be mapped to a point on the isoquant curve, and a smaller ratio requires the involvement of a larger amount of societal resources. For each ratio of viable to nonviable residents, we further define the demand price ratio as the slope of \((S, I)\), or the slope of the isoquant’s tangent line at the point. We know that the demand price ratio is unique for each ratio of viable to nonviable residents, and the slope becomes flatter when the amount of societal resources increases. In the terminology of fighting poverty, a small ratio of viable residents to nonviable residents requires the implementation of a policy that mobilizes more societal resources and less individual resources, and vice versa.

Next, we consider the supply cost ratio in a country, which is defined as the slope of the isocost line of the country, or the ratio of the cost of individual resources to societal resources (see Figure 2). In general, the supply cost and demand price ratios are different in any country. For a country, the smaller the difference between the supply and demand price ratios, the better the performance of poverty eradication. In the following sections, we discuss how market mechanisms and political orders, including state capacity, leadership, and social trust, change the supply cost ratio in a country, reduce the difference between the supply cost and demand price ratios, and thus facilitate poverty eradication.
2.4 Market Mechanism and Poverty

The slope of line DD represents the supply cost ratio in an economy. The relationship between market structure and the supply cost ratio can be easily understood. The more the private market mechanism is involved (the less the public mechanism is involved), the more the individual resource would be mobilized (the less the societal resource would be mobilized), the steeper the supply cost ratio would be. Based on our model, in an economy with a large ratio of viable residents to nonviable residents, the demand price ratio would be steeper. Therefore, the supply cost ratio might be steeper, or the policy for fighting poverty should involve more private market mechanisms and less public mechanisms. In contrast, with a small ratio of viable residents to nonviable residents, the demand price ratio is flatter, and the supply cost ratio must be flatter to meet the demand, or the policy for fighting poverty should mobilize more public mechanisms and less private market mechanisms. For example, in Figure 2, the steeper slope of the isocost line FF represents a steeper supply cost ratio relying mainly on the free market mechanism with no/less government involvement and deploying more individual resources and less societal resources. A steeper slope corresponds to a large ratio of viable residents to nonviable residents (point A in Figure 1). In contrast, the less steep slope of the isocost line PP represents a flatter supply cost ratio relying mainly on the public market with more government involvement and mobilizing relatively fewer individual resources and more societal resources. The flatter slope corresponds to a small ratio of viable to nonviable residents (point B in Figure 1).
2.5 Political Order and Poverty

In the language of our model (Figures 1 and 2), a country with severe poverty problems indicates a small ratio of viable residents to nonviable residents with a flatter demand price ratio and a steeper supply cost ratio. Starting from this point, any features of governments or societies that can flatten the supply cost ratio might be considered helpful for poverty eradication, and state capacity, competent leadership, and social trust are potential determinants. First, a country with a high state capacity would have more economic resources to fight poverty or flatten the supply cost ratio by mobilizing more societal than individual resources. For example, poverty relief capital and materials are easier to collect through charity organizations and individuals in rich countries than in poor countries (Page and Pande 2018). Second, when a government decides to mobilize societal resources or to change the supply cost ratio to assist nonviable residents, the success of poverty alleviation is largely determined by the competence of government leadership. It would be easier for a government with competent leadership to pass and enforce the new laws, lead various organizations and officials to flatten the supply cost ratio, and guarantee a successful performance in fighting poverty as a long-term project. Third, the supply cost ratio of a country is determined by social trust or public support to the government. Policy implementation and the effects of policies depend largely on social trust. It should be emphasized that societal resources comprise not only physical capital but also human capital, and we need social consensus, strong social trust, and social support to help fully mobilize social resources.

In summary, the supply cost ratio or the slope of the isocost line in a country with low state capacity, incompetent leadership, or low social trust would be steeper, and consequently the performance in fighting poverty would not be satisfactory, while countries with high state capacity, competent leadership, or high social trust would perform better in poverty eradication.

3 Application of the Model: Fighting Poverty in the US and China

Because of the tremendous differences in the market environment and political order between the US and China, the isocost line and the isoquant curve would not be the same in the two countries. In this section, we apply the model and determinants discussed in Sections 2.4 and 2.5 to each country and show the differences between their supply cost ratio and demand price ratio, or more...
specifically, compare market mechanisms, state capacity, leadership, social trust, and achievement in the poverty eradication process in the two countries. Table 1 provides a summary of the comparisons.

Table 1  A Brief Comparison of the War on Poverty in the US and the Poverty Alleviation in China

<table>
<thead>
<tr>
<th>Background and top design</th>
<th>US War on Poverty</th>
<th>China Poverty Alleviation</th>
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<tbody>
<tr>
<td></td>
<td>Both countries face the poverty problem in the background of high economic growth. Top policy makers in both countries believe that governments are responsible for tackling poverty.</td>
<td>The Chinese government mobilizes various societal resources, uses public mechanisms, and conducts precise and targeted poverty alleviation activities.</td>
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<td>In general, the US government relies on market mechanisms and mobilizes relatively less societal resources for the war on poverty. 1960s–1981: more government intervention and more public mechanisms. 1981-present: gradually more emphasis on private market mechanisms.</td>
<td>China relies on public mechanisms with the government fully mobilizing social resources through the integration of the national and provincial resources and numerous public officials.</td>
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<td>Public versus private market mechanisms</td>
<td>In the 1980s, the unsolved poverty problem in the US was attributable to the US government’s over-involvement, and thus the federal and local governments in the US embraced the ideology of market accommodation in policy making that emphasized privatization, decentralization, and withdrawal of public resources.</td>
<td>The government increases budgetary input, encourages society to assist poverty alleviation, and helps enhance the self-development capacity of poverty-stricken areas. The government sends about 800,000 officials to the frontline on poverty-relief missions.</td>
</tr>
<tr>
<td>Leadership of government</td>
<td>The power of the presidency is constrained by institutional checks and balances. Most presidents faced the opposition from the right and left wings about too much or too little government involvement. To achieve their different political purposes, most of the presidents, the two political parties, and the members of the Congress adopt a symbolic decision-making method.</td>
<td>Chinese constitution adopts the multi-party cooperation and political consultation system under the leadership of the Communist Party of China. In this system, other political parties play a consultant’s role, various parties fully understand their roles, and there are no opposition parties. A leading party with more than 90 million members distributed in various areas and in 4.6 million grassroots organizations.</td>
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(To be continued)
### Social trust

Various programs of the war on poverty are created by people at higher levels, which may seem good but not be realistic to the people at lower levels. In the nine subsequent presidential administrations, each new president provided renewed hope that the federal government could win the war on poverty, developed new proposals, and increased spending on means-tested programs. Theoretically, surrogate legislators can be a voice for the poor and can lay the foundation for policy, but in practice they cannot do so.

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<td>The leading party has made it public that the party represents the interests of most of the Chinese people rather than some groups or classes of people. Policies of poverty alleviation should not just be ideas on paper but should be implemented to reach the poor. A strong and command-down government with great governance capacity coordinates various aspects of the society to implement the plan of poverty alleviation. Various approaches have been adopted to prevent corruption.</td>
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### Achievement

In the 1960s, the poverty rate declined by 10 percent. Since the 1970s, the poverty rate hovered between 12 percent and 16 percent. In summary, over the last half century, poverty seems to have served as a particularly stubborn enemy undermining America's effort to win this war.

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<td>By the end of 2015, China continued to have 55.75 million people below the national poverty line and promised to uplift the economic condition of all its poor people by 2020. The number of people living in poverty was reduced by 12.4 million in 2016, 12.89 million in 2017, 13.86 million in 2018, and 11.09 million in 2019. There were still 5.51 million people living below the line of absolute poverty at the end of 2019.</td>
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### 3.1 Background and Top Design

The war on poverty in the US and poverty alleviation in China are performed in the same background of rapid economic development. Recognizing the contradictory coexistence of poverty and prosperity, the top policymakers in both countries believe that governments are responsible for tackling poverty.

About the background of the war on poverty in the US, Brown-Collier (1998) described, “Johnson's vision was born in a period of increasing economic growth and prosperity. The irony of the poor was that such poverty could exist in the
midst of that prosperity.” President Johnson could not tolerate poverty amid prosperity, so he announced a war against poverty in 1964 and implemented many public projects to help the poor by transferring income to them (Brown-Collier, 1998).

From 1978 to 2015, although China’s share of world GDP increased from less than 3 percent to 20 percent, and the real per adult national income grew by more than seven times, income inequality increased substantially (Piketty et al., 2019). In 1987, China was home to more than one-third of the world’s extreme poor. In contrast, by 2013, its share of the world’s extreme poor had fallen tenfold, to just over 3 percent (Page and Pande, 2018). However, in 2012, there were about 100 million Chinese who were intractably poor, and these people would remain poor, despite the large growth of GDP per capita in China. Hence, in 2013, President Xi proposed the plan of “targeted” or “precision” poverty alleviation (Kuhn, 2019a).

However, policymakers in the two countries have different understandings of poverty and its causes. President Johnson did not allocate special societal resources for the war on poverty; instead, he put it as one aspect in his plan of the Great Society. Brown-Collier (1998) stated that President Johnson “believed that providing equal opportunity and access to education and freedom from discrimination would allow the poor to move out of poverty. When Johnson quickly pushed through his agenda for the Great Society, it was clear that no single policy or program was assumed to solve the problems of poverty in America. Many of the goals and objectives had little to do with specific programs.” To remove extreme poverty, defined as a composite of income poverty, human development poverty, and social exclusion in the US, there is a need for programs with a more specific focus and time-bound action (Sengupta, 2007).

The Chinese government recognized that there were approximately 100 million Chinese people who were intractably poor. Despite the high economic growth in China, these individuals would remain intractably poor (Kuhn, 2019a). President Xi wrote, “I worked hard during the two years in Ningde Prefecture, along with the people and party members there. I always felt a sense of ease. Poverty alleviation is an immense undertaking that requires the efforts of several generations.” (Closer to China 2018). These intractably poor people need external assistance to come out of poverty. Therefore, the Chinese government
has decided to mobilize various societal resources and conduct precise and targeted poverty alleviation activities.

### 3.2 Public Versus Private Market Mechanism

In 1964, President Johnson declared an unconditional war on poverty and proceeded to work with the Congress and his administration to implement a series of cash and in-kind transfers, as well as human capital investments, designed to reduce absolute poverty (Bitler and Karoly, 2015). In the 1980s, the unsolved poverty problem in the US was attributable to the US government’s over-involvement as the root of inefficiency, and the federal and local governments in the US embraced the ideology of market accommodation in policymaking that emphasized privatization, decentralization, and the withdrawal of public resources (Barnekov, Boyle and Rich, 1989; Akard, 1995; Antonio and Bonanno, 1996). In short, the federal and local governments tried to remedy the deleterious effects of poverty through private market mechanisms (Gotham, 1998).

China relies on public mechanisms with the government fully mobilizing social resources through the integration of national and provincial resources and numerous public officials. Premier Li (2019) reports that “We strengthened poverty relief capacity, increased budgetary input, and encouraged society to assist in poverty alleviation. The self-development capacity of poverty-stricken areas was steadily enhanced.” Personnel deployment is unique in China and is considered a key factor in winning the battle of poverty alleviation (Kuhn, 2019b). To conduct targeted poverty alleviation, about 800,000 officials have been sent to the frontline on poverty-relief missions and work in very poor villages, and these officials’ career prospects are linked with poverty-alleviation results (Closer to China 2018).

In fighting poverty, the US relies more on private market mechanisms, while China depends more on public mechanisms. Based on the argument in Section 2.4, the supply cost ratio in China should be closer to the demand price ratio determined by the ratio of viable to nonviable residents.

### 3.3 Leadership

The Chinese Constitution adopts the multi-party cooperation and political
consultation system under the leadership of the Communist Party of China. In this system, other political parties play a consultant role, various parties fully understand the role they should play, and there are no opposition parties. Thus, the leadership of the Chinese government is competent and efficient, and specifically, the policies for poverty alleviation would not be resistant to opposition parties that represent the interests of certain portions of people or organizations.

The competence of leadership in China is also manifested in a leading party with more than 90 million members distributed in various areas and in 4.6 million grassroots organizations. The party has made poverty alleviation a top priority for all members and can mobilize its organizational power and recruit party cadres at all levels, especially at lower levels, which are close to the target poor people (Kuhn, 2019b).

In the US, the power of the presidency is constrained by institutional checks and balances. For example, President Nixon and President Clinton were hindered by active Congresses dominated by the opposition party that shaped and reformed many of the key priorities. Even without the dominance of the opposition party, most presidents faced opposition from both the right and left wings about too much or too little government involvement (Rigby, 2019). In a two-party political system, the actions taken by elected officials on the poverty issue may be far beyond the concern of poverty alleviation. Instead, to achieve their different political purposes, most of the presidents, the two political parties, and members of the Congress adopted a symbolic decision-making method (Rigby, 2019).

Confining our scope to fighting poverty, the leadership in China seems more competent than that in the US; thus, based on our argument in Section 2.5, the supply cost ratio in China is closer to the demand price ratio determined by the ratio of viable to nonviable residents.

### 3.4 Social trust

In China, social trust mainly results from the following aspects: First, the leading party has made it public that the party represents the interests of most of the Chinese people, rather than some groups/classes of people. Second, policies of the poverty alleviation are not just ideas on paper but should be implemented to
reach the poor. A strong and command-down government with great governance capacity coordinates various aspects of society to implement the plan of poverty alleviation. Specifically, targeted poverty alleviation identifies the targets first. For these identified poor people, supportive policies alone are not sufficient to bring them out of poverty, but customized plans and programs and officials’ personal assistance are also necessary (Kuhn, 2019a). A support system has been established for poverty alleviation administrative departments at the county and township levels. Each family has its file listing each member, and the information is updated monthly and sent to Beijing on a regular basis. Superior officials regularly inspect the villages and ask aid recipients about the performance of cadres working in a village, such as whether they visit the poor households every day and what problems they are working on. The satisfaction extent of aid recipients is a crucial indicator of poverty alleviation in China, and cadres can only leave the villages when the poor are satisfied with the cadres or their poverty problems are effectively solved (Kuhn, 2019b).

Third, as many young officials live in very poor places for long periods and deal with large amounts of funding, various approaches have been adopted to prevent corruption. In addition to training and education provided to relevant officials, necessary measures and rules for monitoring their daily work were implemented. For example, every official has a record of their daily work in the village, such as what they did. With strict discipline and legislative rules, 131,000 cases of corruption were disclosed and reported in 2018. China will not allow falsifying data or appropriating funds to undermine its poverty alleviation goals (Kuhn, 2019b).

In the US, after an active period of lawmaking, a number of Acts were introduced, including the Equal Opportunity Act (1964), the Food Stamp Act (1964), the Elementary and Secondary Education Act (ESEA) (1965), the Higher Education Act (HEA) (1965), the Social Security Act (1965), the Housing and Urban Development (HUD) Act (1965), and the Child Nutrition Act (1966), followed by a cascade of programs targeted at low-income families, children, and youth, with the aim of providing basic income support, nutrition support, subsidized or free health care, subsidized housing, education, and job training (Bitler and Karoly, 2015). However, these programs are created by people at higher levels and may seem good, but not be realistic to people at lower levels. As described by Brown-Collier (1998), “There isn’t anyone in this country that
isn't dissatisfied with poverty, high unemployment - concentrated in many cases among minorities - lack of educational opportunity, and related social problems. The question is whether programs designated to help the poor have the unforeseen effect of actually hurting them.” In addition, the policy has unintended consequences: poverty has not improved sufficiently, and means-tested programs may discourage the viable residents’ desire to work (Bitler and Karoly, 2015).

In the nine subsequent presidential administrations, each new president provided renewed hope that the federal government could win the war on poverty, develop new proposals, and increase spending on means-tested programs (Rigby, 2019). However, one of the key challenges to presidents' antipoverty efforts is the difficulty of sustaining attention to any one problem when the presidential agenda is dominated by foreign affairs, economic crises, and other competing domestic priorities (Rigby, 2019).

Theoretically, surrogate legislators can be a voice for the poor and can work to lay the foundation for policies, but in practice they cannot do so. In contrast, members of the House best positioned to pass legislation that addresses the interests of the poor are not necessarily focused on poverty due to their institutional position (Miler, 2018).

Social trust is very important for the adoption and successful implementation of a policy. In this regard, China has performed a little better than the United States. Based on the argument in Section 2.5, the supply cost ratio in China would be closer to the demand price ratio due to their institutional position.

3.5 Achievement

It is difficult to assess the achievement of the war on poverty in the US because of the lack of concrete targets or objectives from the beginning and the long time span of more than half a century. Roughly speaking, in the 1960s, the poverty rate declined by 10 percent (Rigby, 2019); the number of persons living below the poverty level fell from 40 million to 26 million; and the number of households living in substandard housing declined from 8.5 million to 5.7 million (Brown-Collier, 1998). Since the 1970s, the poverty rate has hovered between 12 percent and 16 percent (Berger, Cancian and Magnuson, 2018; Rigby, 2019). Brown-Collier (1998) comments that although the poverty rate has
trended upward since the late 1960s, in the absence of these social programs, the poverty rate might have been much higher. Bitler and Karoly (2015) suggest that the decline in the poverty rate in the past five decades should be noted, but it should also be acknowledged that economic hardship is far from being eliminated, with nearly 50 million people among those officially considered poor as of 2012. In summary, over the last half century, poverty seems to have served as a particularly stubborn enemy undermining America's efforts to win this war (Rigby, 2019). Recently, several studies have reported the assessment of poverty eradication in the US in various periods with various measurements. For example, from 1993 to 2016, the real GDP per capita increased by more than 41% and the deep or extreme poverty also increased substantially (Brady and Parolin 2020); during the 2004–2016 period, poverty in the US was more serious than that in the UK, although the overall income in the US was higher than that in the UK (Wang and Sun, 2020); in the period 1970–2010 and in all metropolitan statistical areas, poverty was a persistent phenomenon (Gayán-Navarro, Sanso-Navarro andSanz-Gracia, 2020).

Regarding China, the 13th Five Year Plan announced that by the end of 2015, China had 55.75 million people below the national poverty line and promised to eradicate poverty by 2020. Based on the official data, the number of people living in poverty was reduced by 12.4 million in 2016 (Li, 2017), 12.89 million in 2017 (Xinhua, 2018), 13.86 million in 2018 (Li, 2019), and 11.09 million in 2019 (Li, 2020). There remained 5.51 million people living below the line of absolute poverty at the end of 2019 (Li, 2020). In 2020, once China successfully controlled the unprecedented outbreak of the COVID-19 epidemic, President Xi urged efforts to overcome the negative impact of the epidemic to ensure that the country could achieve the goal of poverty alleviation, and China accelerated the restoration of poverty alleviation projects (Xinhua, 2020a & b).

Based on the comparison of the results and goals/promises of the war on poverty in the US and poverty alleviation in China, China seems to perform better than the US, which is consistent with the analysis by applying our model in terms of the understanding of viability, market mechanisms, state capacity, leadership, and social trust. However, we must be cautious of this conclusion, as fighting poverty is a long-term project, poverty appears every day, and those who are out of poverty may return to poverty again. In addition to the performance discussed above, China can learn from the experience of poverty eradication in
the US and other countries. For example, it is necessary to establish and improve an effective system of laws and regulations so that the work of poverty alleviation can conform to certain laws in terms of target identification, specific ways of assistance, rights and obligations of staff, scope of authority, code of conduct, evaluation criteria, and methods of rewards and punishments. Poverty alleviation should proceed in accordance with these laws and achieve the objectives in a scientific way.

4 Preliminary Empirical Evidence from a Cross Country Snapshot

The above discussions or arguments indicate that countries with strong state capacity, competent leadership, and high social trust would perform better in fighting poverty. In this section, we use cross-sectional analysis to gain some preliminary insights into the association between country characteristics and country performance in fighting poverty. The regression models are specified as follows:

\[
\ln(\text{poverty}) = \beta_0 + \beta_1 \ln(\text{perGDP}) + \beta_2 \ln(\text{Population}) + \varepsilon
\]

(1)

\[
\ln(\text{poverty}) = \beta_0 + \beta_1 X + \beta_2 \ln(\text{perGDP}) + \beta_3 \ln(\text{Population}) + \varepsilon
\]

(2)

where \(\ln(\text{poverty})\) is the natural logarithm of poverty headcounts at $5.5 a day as of 2016; \(\ln(\text{perGDP})\) is the natural logarithm of GDP per capita as of 2016; \(\ln(\text{population})\) is the natural logarithm of country population as of 2016; and \(X\) is alternatively GovEff (the average score of “government efficiency”) and Trust (the average score of “public trust in politicians”). The data on poverty headcounts, GDP, and population are collected from the World Bank database. We note that the data on poverty headcounts for some countries are available every three years, and the data in 2019 are not yet available. Thus, we use the data in 2016 to maximize the sample size. Correspondingly, the regression analyses also use the 2016 data on the other variables to be consistent.

We use poverty headcounts at $5.5 a day as of 2016 to measure a country’s performance in fighting poverty, and lower headcounts indicate better performance. We use GDP per capita to proxy the overall economic capacity of a country and use equation (1) to test the association between economic capacity and country performance in fighting poverty. To test the association between competent leadership and country performance in fighting poverty in equation (2), we use the average score on “government efficiency” to measure the
competence of leadership. These scores are collected from the Global Competitiveness Index database, and countries with higher scores indicate that leaders or governments are more competent. To test the association between social trust and country performance in fighting poverty in equation (2), we use the average score on “public trust in politicians” to measure social trust and higher scores indicate higher social trust in a country. Table 2 presents the descriptive statistics and data sources for the main variables.

Table 2  The Descriptive Summary Statistics of the Main Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Observations</th>
<th>Mean</th>
<th>Std Dev</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>ln(poverty)</td>
<td>Natural logarithm of poverty headcounts at $5.50 a day (2011 PPP) in 2016</td>
<td>75</td>
<td>18.031</td>
<td>2.783</td>
<td>World Bank, World Development Indicators</td>
</tr>
<tr>
<td>ln(perGDP)</td>
<td>Natural logarithm of gross domestic product per capita in 2016</td>
<td>75</td>
<td>9.147</td>
<td>1.242</td>
<td>World Bank, World Development Indicators</td>
</tr>
<tr>
<td>ln(population)</td>
<td>Natural logarithm of country population in 2016</td>
<td>75</td>
<td>16.259</td>
<td>1.677</td>
<td>World Bank, World Development Indicators</td>
</tr>
</tbody>
</table>

Table 3 reports the estimation results based on the heteroscedasticity consistent standard error. In model 1, the coefficient of $\ln(\text{perGDP})$ is significantly negative at 1% level, which suggests that a higher per capita GDP or strong economic capacity is associated with more poverty reduction. In model 2, the coefficient of $\text{GovEff}$ is significantly negative at 5% level, which suggests that more competent leadership or more efficient government is associated with more poverty reduction.
reduction. In model 3, the coefficient of *Trust* is significantly negative at 1% level, which suggests that higher social trust is associated with more poverty reduction. These results are consistent with the statement at the beginning of this section.

Table 3  Regression Analyses

<table>
<thead>
<tr>
<th>Dependent Variable: ln(poverty)</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intercept</strong></td>
<td>12.087***</td>
<td>11.387***</td>
<td>10.747***</td>
</tr>
<tr>
<td></td>
<td>(8.03)</td>
<td>(7.51)</td>
<td>(7.45)</td>
</tr>
<tr>
<td><strong>GovEff</strong></td>
<td>−0.278**</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(-2.5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Trust</strong></td>
<td></td>
<td>−0.225***</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-2.67)</td>
<td></td>
</tr>
<tr>
<td><strong>ln(perGDP)</strong></td>
<td>−1.321***</td>
<td>−1.237***</td>
<td>−1.202***</td>
</tr>
<tr>
<td></td>
<td>(-14.3)</td>
<td>(-13.55)</td>
<td>(-12.36)</td>
</tr>
<tr>
<td><strong>ln(population)</strong></td>
<td>1.109***</td>
<td>1.164***</td>
<td>1.166***</td>
</tr>
<tr>
<td></td>
<td>(14.79)</td>
<td>(14.98)</td>
<td>(14.76)</td>
</tr>
<tr>
<td>Adj. $R^2$ (%)</td>
<td>86.3</td>
<td>88.5</td>
<td>88.8</td>
</tr>
<tr>
<td>N</td>
<td>75</td>
<td>70</td>
<td>70</td>
</tr>
</tbody>
</table>

Note: Numbers in parentheses represent t-values based on heteroscedasticity-consistent standard errors. Superscripts ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

5 Conclusions

This study introduces the concept of viability and builds a simple model of viability, resources, and poverty eradication. This model shows that there is a corresponding demand price ratio for each ratio of viable to nonviable residents, and there is also a supply cost ratio of individual to societal resources in fighting poverty. We suggest that a country would perform better in fighting poverty when the difference between the demand price ratio and the supply cost ratio is smaller. Further, we hypothesize in our theoretical framework and provide preliminary empirical evidence that a country with strong state capacity, a government with competent leadership, and high social trust would perform
better in poverty eradication. To illustrate the application of our theoretical framework, we also analyze and compare the war on poverty in the US (the largest developed country) and poverty alleviation in China (the largest developing country).

This study aims to enhance the understanding of combatting poverty. First, the market economy effectively helps create wealth and promote economic growth in a country. The growing wealth and developed economy cannot eliminate poverty but inevitably produce poverty. However, social wealth or strong state capacity is helpful in poverty reduction. Second, poverty eradication is a long-term issue faced by all countries, and governments must take responsibility for fighting poverty. As free market mechanisms cannot work well in poverty eradication, programs providing equal opportunities to education, work, and housing, and freedom from discrimination are not sufficient to solve the poverty problem of nonviable residents. More targeted and precise programs are necessary for them to move out of poverty and equip them with necessary physical capital and, especially, human capital to survive in “normal” circumstances. To this end, money alone is proven to be insufficient, and various human capital resources must be mobilized effectively. Third, regarding the academic debate on big or small governments, the answer depends on the circumstances, and there seems to be no universal solution to the debate. For viable residents, a small government that maintains an open, fair, and effective market may be sufficient. However, for nonviable residents, a powerful, competent, and responsible government is necessary. Fourth, poverty eradication requires the mobilization of societal resources. Therefore, high social trust, social consensus, and support from various sectors are vital to the success of poverty eradication.

Finally, the observations in this study may offer some insights into the working methods or approaches regarding poverty eradication. One approach is to proceed from reality, absorb the opinion of the poor, or those who really understand the concerns of the poor, seek truth from facts without being bound by the framework of existing theories or experiences, and fully consider the feasibility and real effects of the policies to be taken. This bottom-up approach may not appeal to some superiors, but it helps to discover the truth of the problems and produce practical and effective policies/solutions to the problems to be solved. The other approach is to start from existing legal provisions and economic principles, seek advice from supervisors and people at higher ranks,
and clarify the potential reactions from various stakeholders. This top-down approach follows the norm of the decision-making process, but sometimes it may not produce the optimal policies or solutions to poverty problems.

Reference


Political Order and Poverty Eradication

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