

# Destined for Deprivation: Human Capital Formation and Intergenerational Poverty in Nineteenth-Century England

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A model illustrates the intergenerational transmission of poverty through the effects of shocks to family income on children's general education and health and subsequently on their capacity to work and earn as adults. Evidence for 19th-century Britain shows that being fatherless, and so likely poor, had an adverse effect on children's human capital acquisition. However, policy intervention in the form of the Old Poor Law blocked the transmission of poverty and avoided permanent pauperism. Even at an early stage of development, redistribution emerges as a positive contribution to economic growth, not a luxury that poor countries can ill afford. © 2001 Academic Press

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## INTRODUCTION

Poverty traps pose a severe problem for policy makers. They suggest that poor countries with large pools of nonemployed people cannot simply work their way to prosperity (Sen, 1992; Dasgupta, 1993, 1997). One type of poverty trap, which we label "nutritional," involves combining efficiency wage theories with hysteresis effects of income shocks on physical well-being. Efficiency wage theories suggest that not only will more productive workers obtain higher incomes but also that workers in receipt of higher incomes will be more productive as their higher incomes enable them to acquire human capital, which in this context

means primarily the physical capacity to work. But the relationship between income and the physical capacity to work is probably nonlinear.<sup>1</sup> Large biological maintenance costs mean that physical capacity can remain unaffected by increases in resources at low levels of income. A temporary misfortune may push an individual below a threshold of physical well-being causing persistent impairment to the capacity to work. Any moderate improvement in circumstances cannot reverse the earlier impairment and so cannot enhance productivity (Dasgupta, 1997).<sup>2</sup> Poverty traps thus represent a process characterized by hysteresis. In this case providing the resources to enable the poor to generate sufficient energy to perform even modest amounts of labour requires significant growth and wide-scale redistribution, both very difficult in many contemporary poor countries.

But the problem of overcoming persistent poverty is not confined to low-income countries alone. There is a second kind of poverty trap whereby the consequences of temporary shocks are felt on human capital more generally and not limited to the physical capacity to work. Incorporating education and general training alongside the acquisition of health attributes into the model amplifies the consequences of shocks to income. Examples here might be the termination of an apprenticeship or leaving school and thus forgoing training opportunities.<sup>3</sup> The impact of the shock should therefore be thought of as an “irreversible disinvestment.”<sup>4</sup>

“Nutritional” and “human capital” poverty traps do not just blight the life-chances of individuals in one generation. Our emphasis is on how these mechanisms can mean that temporary shocks to income may extend beyond the individual to the transmission of poverty from one generation to the next.<sup>5</sup> Research in the life sciences has established links between mothers’ health, through the fetal environment to stature, health, and productivity in later life (Barker, 1994; Wadsworth, 1991). A recent U.K. Treasury report (1999) documents the impact of disadvantage in childhood. By just 22 months old, there is a significant differential in educational attainment between advantaged and disadvantaged children, which widens throughout life. Children brought up in poverty earn lower incomes as adults, are more likely to suffer unemployment, and, if female, to become teenage mothers (H. M. Treasury, March 1999). Thus

<sup>1</sup> This feature has occasioned some skepticism (Srinivasan, 1994).

<sup>2</sup> Note that the pool of nonemployed are not inherently the least productive workers. Instead those incapable of work have the same latent characteristics as those found working, and it is this mismatch between inherent skills and work done that creates a potential output gap and implies a jump in the growth rate if the poverty trap can be escaped.

<sup>3</sup> For an overlapping generations model emphasizing the role of education, see Barham *et al.* (1995).

<sup>4</sup> Recent theoretical work on irreversible investment can be applied symmetrically (Dixit and Pindyck, 1994).

<sup>5</sup> For a different model emphasizing similar intergenerational links in labor market participation and human capital acquisition, see Basu (1999).

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