

Poverty, Resource Equality and Social Policies

The economics of poverty in developed (rich) societies suffers from two major shortcomings. First, the normative theory of poverty measurement is not well connected to the other fields of welfare economics. Second, poverty is always defined in the narrow terms of deprivation, lack of resources, etc. This proposal aims at revisiting the economics of poverty by using recent advances in welfare economics and behavioral economics to solve those two shortcomings.

Topic 1: Poverty and Welfare economics

To recall, welfare economics is that part of normative economics that is interested in more than efficiency. If one restricts her/his attention to efficiency, then a recommendation to change a situation a into a situation b only follows from all relevant parties preferring b to a . Welfare economists deal with the conditions under which it is possible to recommend, say, b over a even if some parties prefer b whereas others prefer a . That requires justifying ways of trading off between the gains of some agents and the losses of others.

Individual preferences are key ingredients in welfare economics, if not *the* key ingredients. Indeed, efficiency remains one of the norms that policy recommendations try to follow, and, moreover, all major notions of individual

welfare are consistent with how individuals themselves rank the different alternatives.

The theory of poverty measurement is disconnected from the other fields of welfare economics, as it does not take preferences into account. This comes from the fact that individuals are characterized by a **one-dimensional parameter** (income) in Sen (1976)'s seminal contribution, which paved the way to the subsequent literature (this literature is surveyed in Zheng (1997)). With only one dimension, assuming that more is better is enough to make preferences irrelevant.

It was soon realized, however, that poverty is a **multi-dimensional phenomenon** (see, for instance, Ravallion (1996)). Individual preferences over the different components of one agent's situation are, therefore, a natural ingredient to take account of (a low housing quality has a more drastic impact on the standard of living of someone who hardly substitutes other goods for housing quality). Researchers decided to ignore preferences, nonetheless, and faced the difficult problem of aggregating deprivation in different dimensions, that is, of comparing an agent poor in only one dimension with another agent poor in only another dimension?

Equality of opportunities

Welfare economics, on the other hand, ignored poverty, in the sense that **reducing poverty has never been analysed as a specific ethical value** that ought to be part of a general theory of social welfare. The literature on social

welfare functionals, for instance, which social choice theorists call the theory of welfarism (see, for instance, the survey by d'Aspremont Gevers (2002)), or the theory of fair allocation (surveyed, for instance, by Moulin Thomson (1997) or Maniquet (1999)) never included in their framework the requirement that some welfare or satisfaction level could be unacceptably low.

Optimal taxation theory has never been developed in models including a poverty line under which it is unacceptable to let agents live (see Diamond (1998) for a recent update of optimal taxation theory). Some authors, however, have followed an objective of maximizing the minimal income (see, for instance, Boadway Jacquet (2008)). It is clear that the resulting taxation scheme is the most favourable to poor agents. The drawback of that approach, nonetheless, is that it does not allow us to combine poverty reduction with other desirable ethical objectives.

In the last two decades, a new approach to social welfare has been developed, based on theories of **equality of opportunities** (the literature is surveyed in Fleurbaey Maniquet (2009)). The key idea underlying that approach is that inequalities are not necessarily unjust. An intervention in the allocation of resources by a public authority is justified only if it equalises the quantity of **internal and external resources** to which agents have access to pursue their own view of what is good for them. As a consequence, inequalities resulting from differences in agents' preferences may be acceptable. According to that

approach, if an agent “chooses” to live below the poverty line, social welfare may not be affected.

Objectives

The first objective of this research is to include economic poverty theory into a larger theory of social welfare and make theories of social welfare based on equality of opportunities incorporate the ethical value of poverty reduction.

Poverty Measurement

The first task consists in **adding preferences in the framework of poverty measurement theory**. The immediate interest of doing so is that the dimension aggregation problem is solved: agents evaluate the different components of their situation by themselves, using their preferences.

Having preferences in the framework, however, raises new difficulties. First, it becomes natural to take Pareto efficiency considerations into account: if all the poor agents find themselves better-off, why should society claim that poverty has increased? With Pareto efficiency in the picture, however, it is no longer clear how to conclude that a given agent is poorer than another one: the classical theory based on the concept of **majorisation**, following the idea that progressive transfers among poor individuals decrease poverty (see, for instance, Tsui (2002)), does no longer apply. The approach that we recently developed with Marc Fleurbaey (see Fleurbaey and Maniquet (2010))

should be adapted to the poverty measurement framework. That approach is based on notions of progressive transfers that are compatible with Pareto efficiency considerations.

It is worthwhile recalling here that one of the major results presented in Fleurbaey Maniquet (2010) is that social welfare must be defined as a **maximin** function of some individual well-being index. To recall, maximin aggregators are those that give absolute priority to the worst-off agents: between two resource allocations, the one that is socially preferred is the one in which the lower well-being index is larger. Of course, the individual well-being index need not be the income, and is typically different from income (though it includes it). Yet, the above approach can be seen as providing an ethical foundation to the focus on the well-being of poor people in the definition and application of notions of social welfare.

This part of the research should lead to the definition of **new poverty indices** that take preferences into account. These indices will then be applied to **estimate the evolution of poverty in different contexts**. That requires using data bases that contain information on the different dimensions of poverty (the basic ones being income, housing and health), and information on preferences. The latter may come from choices or from survey questions on subjective satisfaction.

Equality of opportunities

The second task consists in revisiting optimal income taxation by adding **poverty reduction** among the planner's

objectives. That requires, first, to study possible definitions of the planner's objective that combine poverty reduction with the objective of letting people responsible for their choices. There is a clear tension between these two ethical principles. A first step consists in identifying the possible coherent compromises between these two principles and justify different **social welfare functions** consistent with these compromises. A second step consists in analysing the **optimal taxation** schemes that result from the maximisation of social welfare when information asymmetry constraints are taken into account.

This part of the research should lead to the definition of **criteria that can be used to evaluate taxation schemes** (labour income taxation, commodity taxation, welfare benefits, health care systems, the funding of schooling system, etc.). These criteria will then be applied to evaluate current taxation schemes and **propose fiscal reforms**.

Topic 2: A non-materialistic Definition of Persistent Poverty

The second major shortcoming of the economics of poverty is related to its **definition** of poverty. Poverty, indeed, is typically defined in terms of deprivation, lack of income, or lack of some material resources. A lot has been recently learnt about the lives of poor agents in terms of material conditions (see, for instance, Banerjee Duflo (2007)). This is not sufficient, though.

The puzzle of Persistent Poverty

A conceptual point may be useful. Researchers often distinguish between two populations of poor people. The first population is composed of households whose standard of living varies, and who, as a function of external circumstances (such as unemployment or illness), temporarily experience a situation of poverty. The second population is composed of households who persistently experience poor conditions of living. Some researchers call it extreme poverty, chronic poverty, others hardcore poverty, etc. The part of this proposal presented above is mostly relevant for the first population. The part of this proposal presented below is mostly relevant for the second population.

One of the main scientific puzzles regarding extreme poverty is that it seems to be **persistent** even in developed societies having implemented policies dedicated to eradicate it. The World Bank, in the World Development Report 2004, gathered analysis aiming at understanding why extreme poverty is so difficult to eradicate. The main conclusion of the report, entitled “Making services work for poor people,” is that services designed to help poor people escape from poverty typically fail the poor. In some cases, the poor people are simply not reached by the policy. In other cases, the quantity and/or quality of the service is lower when addressed to poor people than when addressed to other people. Understanding what is wrong with anti-poverty policies remains a key question of the economics of poverty.

The Need for new Evidences

On the other hand, several researchers studying extreme poverty have concluded that **statistical surveys** fail to reach these people (see, for instance, Despouy (1996) or Pogge and Reddy (2010)). The main reason is that homeless people, nomads, inhabitants of shanty towns are typically not contacted by the surveyors and inevitably underrepresented in such surveys.

That does not mean, fortunately, that nothing is known about that population. One source of information is composed of **family monographs** written by volunteers of the International Movement ATD Fourth World. Some of these monographs have been published, some others are accessible from the staff of that Movement. They are summarized in publications dedicated to the scientific community or to a general audience. The following paragraphs heavily draws from Godinot and Wodon (2006), gathering chapters written by researchers, ATD Movement staff members, and containing testimonies by volunteers and poor people themselves. Here are three quotations that allow us to enrich our definition of poverty.

Joseph Wresinsky, founder of ATD Fourth World, has spent about forty years among extremely poor families. In a speech at UNESCO, he said: “Those who think that human beings reduced to total poverty are apathetic and consequently don’t think, that they retreat into dependency or the simple struggles to survive day to day, make a serious mistake. They ignore the **strategies of self-defence** that the poor create to escape the influence of

those on whom they are dependent. They protect their own existence, which they carefully hide behind the “life” that they spread out like a curtain and “play” to **create an illusion** for the external observer” (Wresinsky (2006, p 17)).

Godinot is the representative of ATD Fourth World to the International Financial Institutions. Analyzing the relationship between poor families and social service providers, he writes:

“[Extreme poverty is] the **failure in the relationship** of two people who have the same goals but whose relationship is distorted by shame on the one hand and blame on the other” (Godinot (2006, p 27)).

A delegate at an International Orientation Committee of ATD Fourth World in 2003, quoted in Godinot (2006), said “[Poor people] **refuse to be treated as if they were nothing**. They refuse to accept that they cannot be good parents for their own children, that they have nothing to offer them, and that they are in fact considered a threat to them.” We could add a lot of similar quotations.

The point of view that we take here is that **the classical definition of poverty** in terms of deprivation and lack of resources **needs to be enriched** by looking 1) at the relationship between poor people and those with whom they interact, whom they depend on, and 2) at the fight of the former to build their own identity and to escape the identity that the latter build for them.

The second objective of this research proposal is to provide **models of poverty** that come closer to how poor people and those who accompany them define poverty, and to use these models to explore the mechanisms that could **explain** why policies fail to reach the poor and why poverty is so persistent in rich economies.

Recent developments in **behavioural economics** provide tools that can be used to pursue this objective. Two main streams of the literature are particularly relevant for our problem, identity economics and the theory of other-regarding preferences.

Summary

In summary, this research proposal and its possible implications can be presented as follows. There are two parts and three main topics.

In the first part, the objective is to reconcile classical poverty measurement theory and general welfare economics. That requires

1- to introduce preferences in poverty measures if the research is successful, then it will show how the evolution of poverty can be measured in a way that is compatible with how poor agents themselves assess the evolution of their welfare;

2- to introduce poverty reduction as an ethical norm in the theory of social welfare based on equality of opportunities,

and to derive criteria that can be used in an optimal taxation framework (topic 2); if the research is successful, then it will show how fiscal reforms need to be implemented to obtain a taxation system more in line with the ethical objectives of reducing poverty and equalizing opportunities.

In the second part, the objective is to develop models of behavior of extremely poor agents that are more in line with how these agents themselves define what being poor means and use these models to better understand why poverty is so persistent in rich societies. This requires modeling the interactions between extremely poor agents and the other agents they depend on, and understanding how social identity and/or feelings of self-esteem, shame, blame, etc., are created through these interactions; if the research is successful, then conditions under which anti-poverty policies are more likely to be successful will be identified.

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