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"Poverty, Inequality, and Power" by Frank Ackerman

What accounts for the persistence of poverty amidst the affluence of the developed countries, particularly the United States, at the end of the twentieth century? The vast and unequal accumulation of wealth, chronicled in the preceding parts of this book, might seem less problematical if everyone had enough to live in comfort. But that is not the case. Great wealth and great poverty have been created at the same time, in a society that has ample resources to provide a much higher minimum standard of living for all.

Most of this essay focuses on poverty in America and other developed countries, but this is not meant to suggest that the problem is less severe elsewhere. (For a useful international review of poverty research, see Øyen, Miller, and Samad 1996.) Material deprivation has long been the plight of most people in most societies. Yet the causes are to some extent different, and more understandable, in circumstances where the average person is not affluent. In the past, and in developing countries today, the absolute scarcity of resources may be a large part of the explanation of widespread poverty (though this is not the only explanation; unequal distribution of income is common in poor nations as well as rich, as discussed in Part 9). When average incomes are low, the simple prescription of conventional economic theory is at least superficially plausible: economic growth would increase total resources; if the distribution of income becomes no more unequal, then the much-discussed rising tide might indeed lift all boats.

In America today, the rising tide has lifted the average income to a level that is surely sufficient to guarantee material comfort, though not enough to satisfy every new desire emerging from advertising and fashion. Those at upper incomes have done far better, floating away on a sea of ever-greater consumption. It is no longer plausible that further economic growth alone will solve the problems of those who remain anchored at the bottom. Late twentieth-century growth was accompanied by worsening inequality, providing an empirical rebuttal to the rising-tide theory of poverty alleviation. This experience should be an ominous sign for those in Europe and elsewhere contemplating adoption of the US economic model.

Much of the recent US discussion of poverty centers on categories of race, gender, and family structure, which are the subjects of Parts 7 and 8. This essay and the following summaries focus on more general economic theories and analyses of poverty, topics which received little attention from economists in the 1990s. It is far beyond the scope of this essay to provide a complete review of the extensive literature on poverty, much of it found in fields such as sociology and political science. Instead, the goal here is to identify selected topics that are

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relevant to the an understanding of the economics of inequality. We will begin with questions of the definition and significance of poverty and the related concept of social exclusion, then document the extent and effects of poverty, review the changing political economy of poverty, and conclude with comments on the possibilities for effective anti-poverty initiatives (a subject that is examined further in Part 10).

WHAT'S THE PROBLEM?

What exactly is poverty, and why is it a problem? The basic question of the definition of poverty turns out to be surprisingly complex. Poverty in developed countries is not usually a matter of absolute inability to obtain the physiological requirements for survival. As Amartya Sen has pointed out, an income that qualifies as desperate poverty in America can support a princely existence in India. (Conversely, a respected senior professor from a major African university, visiting Boston a few years ago, found in an emergency that he easily qualified for free medical care for the indigent, because his salary – high for his country – was so low in U.S. dollars.)

Therefore, poverty, in any but the poorest countries, must be understood in relative terms. One reason why it costs more to live in a richer country is that daily life is structured so that basic services become more expensive. When most people have cars, then the housing stock, food distribution system, and other aspects of life can be reorganized in ways that require ownership of a car. The private automobile has become a necessity for obtaining food and other basic needs in most of the U.S., unlike India.

Differences in the cost of obtaining the same basic needs, however, account for only a small part of the income gap between America's poor and India's. Our needs themselves are defined in relation to our society and our peers. That is, it takes more goods and services – a higher level of consumption – to escape from poverty when everyone around you is also consuming more. One common approach in international comparisons is to define the poverty line as a fixed percentage, usually 50%, of the per capita median income (adjusted for household size). This acknowledges the relativity of poverty, but in an arbitrary manner: why should 50% of the current median income have the same meaning, in terms of the perceived harm of poverty, in all times and places?

A well-known theoretical treatment of these issues is Sen's analysis of functionings and capabilities (discussed in detail in *Human Well-Being and Economic Goals*.) Individual well-being, according to Sen, cannot be measured in terms of material consumption. Rather, what makes a person well-off is the capability to achieve desirable human functionings. Those functionings include, but are not limited to, physical survival, good health and longevity, and material comfort. Material resources are often required, but may have a variable impact on well-being. For example, different quantities of food are required to achieve the same levels of health and nutrition in different people.

In the first article summarized here, **Brian Nolan and Cristopher Whelan** comment that Sen's work has been influential among theorists, but has had relatively little effect on empirical research. One reason, they suggest, is that desirable functionings and capabilities are often defined in very abstract terms. A widely cited example, originally due to Adam Smith, is "the

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ability to appear in public without shame." It is more expensive to avoid falling shamefully below prevailing standards of appearance in a rich country than in a poor one. Yet shame-free public appearance is an important but vague objective; standard economic data do not make it easy to place a dollar cost on this functioning.

This example comes close to a common definition of poverty, which is used by Nolan and Whelan: poverty is the exclusion from the normal life of society enforced by the lack of material resources. Poverty researchers employing that definition have attempted to measure material deprivation, though they have often been constrained by data limitations. Nolan and Whelan analyze a very detailed survey of Irish households to identify consumption goods that are considered essential by a majority of respondents. They then contrast two alternate definitions of poverty: one based on income alone, and the other including information on deprivation of basic goods. Those experiencing "deprivation poverty" seem poorer and are more likely to suffer from lack of long-term resources, while many of those experiencing "income poverty" have somewhat greater long-term resources but are suffering current labor market setbacks.

In contrast to such careful research methods, official poverty statistics are often defined in an ad hoc manner. U.S. poverty statistics, first calculated in the 1960s, are based on the cost of a low-priced but nutritionally balanced food "basket"; that cost is then multiplied by three since low-income households often spend one-third of their incomes on food. The poverty line is adjusted each year based on changes in the price of the basket of food. Research into alternative poverty measures, conducted by a panel of the National Academy of Sciences, has suggested use of a broader basket of necessities (and a correspondingly lower multiplier), with annual adjustments in proportion to median household spending on necessities, rather than to inflation. (Garner et al, 1998)

The element of social judgment about the definition of poverty, explicit in Nolan and Whelan's research, is still present but implicit in the official statistics. How does one choose the basket of food or other necessities that forms the basis for the poverty line? Once it is chosen, how does the poverty line change over time? The proposal to link future changes to median household spending would formalize the notion that poverty is a social category involving relative position.

Analyzing poverty therefore requires information about popular attitudes toward acceptable patterns of consumption and standards of living, as well as data on incomes and prices. Along these lines, David Miller (1992) discusses survey results on popular views of inequality, relating the findings to philosophical debates on the subject. Americans are more accepting of inequality based on performance, and have more muted class differences in attitudes towards equality, than Europeans. However, the greatest degree of inequality that most Americans would describe as "fair" is far less than what exists today; and many favor some form of minimum income guarantee.

UNDERSTANDING EXCLUSION

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American and European discussions of poverty and inequality have diverged in many respects. One major difference is the emergence in Europe of the concept of "exclusion," now widely used to describe the plight of those at the bottom of society. In contemporary European parlance, the problem is not simply that some people are poor; more broadly speaking, those at the bottom are suffering from exclusion from normal membership in society. The term has become so popular that it risks becoming a buzzword devoid of content, prompting several attempts to provide rigorous definitions of exclusion.

Hillary Silver (1995) offers three paradigms of exclusion, each of which is the negation of an ideal of inclusion. The *solidarity* paradigm of republicanism (of the traditional French, not the contemporary American, variety) upholds the ideal of moral and social inclusion through community solidarity; exclusion here means social isolation. The *specialization* paradigm of liberalism and market economics offers the ideal of inclusion through free association and the development of valuable, specialized skills; exclusion in this case usually reflects economic discrimination. The *monopoly* paradigm of bureaucratic society offers status and other rewards to those who are inside powerful institutions, with the ideal of social democratic citizenship and rights extending inclusion to all. Exclusion in these terms reflects the incompleteness of social democracy, or the political failure to extend the rights of citizens to outsiders.

In short, permuting the classic French slogan to match Silver's list, the three ideals of inclusion are roughly fraternity, liberty, and equality. The three corresponding failures are social or moral exclusion, economic exclusion, and political exclusion. For a related discussion of the varieties of exclusion, see Strobel 1996.

Ajit Bhalla and Frederic Lapeyre survey the various meanings of exclusion, noting the close relationship of the concept to Sen's theories of poverty and to the definition of poverty used by Nolan and Whelan, among many others. Nolan and Whelan, in fact, suggest that poverty means the same thing as exclusion from society due to lack of economic resources. On this interpretation, poverty is a narrower category because it omits cases in which the grounds for exclusion are non-economic. Acknowledging the multiple dimensions of the problem, Bhalla and Lapeyre call for separate economic, social, and political indicators of inclusion or exclusion. They also highlight the problem of those who are only temporarily or precariously included in society – for instance, workers who are employed in unstable jobs.

THE EXTENT OF POVERTY IN AMERICA

Meanwhile in America, poverty, as traditionally defined, remains a pressing concern. Despite the economic growth of the 1980s and 1990s, the officially reported poverty rate has climbed up from the all-time low of 11%, achieved in the 1970s. The poverty line is remarkably low: it is an annual income of only $16,276 (or $313 per week) for a family of four in 1997, and equivalent amounts for other household sizes. As shown in Table 5.1, more than 13% of Americans fell below that level in 1997, including about one out of every nine whites and more than one out of every four African-Americans and Hispanics. The situation is even worse for children under eighteen, with one-fifth of the total – almost one-sixth of white children, and more than one-third of African-American and Hispanic children – living in households below the poverty line.

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Table V.1. The Extent of Poverty in American, 1959–1997

	Percent of Population Below the Poverty Line All ages			
	Total	White	Black	Hispanic
1959	22.4%	18.1%	55.1%	NA
1967	14.2	11.0	39.3	NA
1973	11.1	8.4	31.4	21.9%
1979	11.7	9.0	31.0	21.8
1989	12.8	10.0	30.7	26.2
1997	13.3	11.0	26.5	27.1
	Children under 18			
	Total	White	Black	Hispanic
1979	16.4%	11.8%	41.2%	28.0%
1989	19.6	14.8	43.7	36.2
1997	19.9	16.1	37.2	36.8

Source: Tables 6.2, 6.3, pages 280–281 in Lawrence Mishel, Jared Bernstein, and John Schmitt, *The State of Working America, 1998–1999*. Ithaca, N.Y.: Cornell University Press, 1999.

While it is hard enough to imagine maintaining a family of four on a grand total of $313 per week, the problems of poverty extend far beyond the mere lack of money. The poorest people have the worst health (Krieger and Fee 1994). Environmentally damaging facilities are much more likely to be located in poor neighborhoods (see Been summary in Part 7). Both poverty and income inequality are strongly, positively correlated with a community's rate of violent crime, with some evidence that the economic variables are more closely linked to homicide than to robbery (Hsieh and Pugh 1993).

As **Douglas Massey** observes, the poor are increasingly likely to be located in predominantly poor neighborhoods. Residential segregation by class, as well as race, is now on the rise, with more and more people living in economically homogeneous communities. In the past, the long post-World War II economic expansion led to some increase in economic integration of neighborhoods, a trend that reversed itself in the 1970s.

Today, in Massey's global view, there is a rapid trend toward urbanization in developed and developing countries alike, combined with a narrowing of the avenues to upward mobility within the cities. The result is that those who are newly arrived at the bottom of the urban economy will probably stay at the bottom. These new arrivals will often find themselves stuck in the worst of neighborhoods, facing multiple social problems that all too frequently accompany urban poverty. (For related discussion of the sociology of urban poverty, see Part 7.)

EXCUSES FOR POVERTY: A RETROSPECTIVE

Public policy toward the poor, and the conventional wisdom about the causes of poverty, have undergone dramatic shifts over time. In a 1993 update to their earlier work,

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Frances Fox Piven and Richard Cloward relate the changing attitudes toward welfare to the threat of civil unrest on the one hand, and the goal of creating a low-wage labor force on the other hand.

Poverty fell rapidly in the economic expansion of the 1960s and early 1970s, as seen in Table 5.1. It was a time when liberal optimism prevailed, and the extension of civil rights to all was high on the national agenda. Michael Harrington's much-discussed book, *The Other America*, drew attention to the persistence of poverty in the early 1960s. The War on Poverty, an ambitious-sounding federal program, appeared to commit the nation to finding a solution to the problem. However, the War on Poverty should not be credited with most of the gains of the era. Far more important factors were operating at the same time: the expansion of Social Security and Medicare payments slashed the rates of poverty among the elderly; and the booming labor market continued to draw impoverished rural Southerners (many of them African-Americans) into better-paying Northern jobs.

Unfortunately it was not obvious at the time, particularly to the poor, that poverty was being reduced at a record-breaking rate. By the end of the 1960s, the movement for civil rights had fragmented into disorganization and impatience, while urban riots underscored the urgency of the problems of poverty. The official response, still relatively generous (particularly by more recent standards), was to expand welfare and other payments to the poor. Then, when the economic crisis and structural changes of the 1970s led to a decline in low-skilled employment, the result was a burgeoning welfare population and rising welfare costs.

The dominant corporate response to the crisis of the 1970s, as discussed in Parts 1 and 4, relied on cutting labor costs to restore profitability and competitiveness. Lowering labor costs required cutbacks in welfare, unemployment compensation, and other non-wage sources of income that were available to potential low-wage workers. In concert with this strategic shift, there was a change in the public discourse about poverty. Concern about the plight of "the other America", or about racism and poverty as causes of urban violence, gave way to critiques of affirmative action, advocacy of "benign neglect," and discovery of the "culture of poverty" and the supposed long-term pathology of the black family. Research on that pathology had seemed less urgent in the years when large numbers of black workers were needed to make automobiles and steel.

(The ever-popular idea that there are multiple generations of welfare-dependent families, who have passed on a culture of dependency from mother to daughter, seems to date from this era. It is hard to reconcile the image of long-term welfare dependency with the broad facts of economic history. Many African-American families experienced three distinct economic environments in the course of the twentieth century: they were initially employed in Southern agriculture, moved north for industrial employment around mid-century, and then were trapped in long-term unemployment or underemployment in the last quarter of the century. They may have been poor in all three stages, though somewhat less so in the second. However, it is only the last stage that undermines the traditional economic role of the male breadwinner and promotes welfare dependency. A stereotypical family that lost its connection to the industrial

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economy in the 1970s and became reliant on welfare would barely have had time to start a second welfare generation before the federal government put an end to "welfare as we know it.")

With the election of Ronald Reagan in 1980, the attacks on labor and the poor reached their peak. This was the time of the most rapid increases in inequality, as shown in Part 1. The combination of tax cuts for the rich and a massive military build-up left far too little funding for numerous civilian government functions. New justifications were needed for the curtailment of all remaining charitable impulses and the elimination of the surviving programs that benefitted the poor. Moving beyond the benign neglect and "culture of poverty" theories of the 1970s, the conservative theorists of the 1980s hypothesized that useful government intervention was in general impossible. Instead, there was a revival of genetic interpretations of inequality, an ancient and discredited form of pseudo-scientific prejudice (see the discussion of *The Bell Curve*, the best-known work of the new genetic theorists, in Part 7.) Repressive responses to crime grew rapidly, replacing other policies that once hoped to address the root causes of crime -- and indeed, replacing many social programs in federal and state government budgets.

In the 1990s, the growth of inequality slowed down, and even reversed late in the decade. But the government was trapped by the debt and deficits created in the 1980s, and by the anti-government, anti-egalitarian ideology that had become hegemonic in policy-making circles. A Democratic administration, pursing policies that would have been advocated only by Republicans a generation earlier, put an end to welfare and made only marginal changes in other programs for the poor, while maintaining the fundamental Reagan-era commitments to low taxes and high military spending. With those commitments in place, it does not matter whether the president wishes he could help the poor – since he has ensured that he cannot afford to. Despite occasional calls for a renewed conversation about race in America, there is a great silence about the poor, who will, under current policies, always be with us.

POLICIES AND POSSIBILITIES

What can and should be done about poverty? The starting point is the recognition that growth does not automatically bring an end to poverty. Nor is there a fixed trade-off between equality and efficiency. Industrial countries at similar levels of development have very different degrees of equality, and very different policies toward the poor. A nation's political and institutional framework, and the choices made about public policy, evidently have a substantial impact. As **Chris Tilly and Randy Albelda** explain in the final summary in this section, an adequate understanding of income inequality and potential policy responses requires not only insights from a variety of economic theories, but also a broadened perspective on the role of institutions such as class, family, and the state. Our discussion of these topics continues throughout the later parts of this book, ending with a focus on the role of the state and the significance of public sector activism in Part 10.

Throughout most of history, and in much of the world today, poverty (at least by contemporary developed-world standards) has been the inescapable fate of the majority. Today, in the midst of affluence, the persistence of poverty is a result of the political and economic strategies that society adopts, the shape of the wage structure, and the extent of the public sector

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programs that buffer those in need. Looking at America in the Depression, Franklin D. Roosevelt saw "one-third of a nation ill-housed, ill-clad, ill-nourished,"[1] and attempted to respond with numerous initiatives large and small. More than fifty years later, according to Piven and Cloward, a reasonable standard of poverty (which they set at about 150% of the official poverty line) found a quarter of the nation still in need. The subtle critiques and budgetary constraints that inhibit anti-poverty programs today should be measured against a moral standard articulated by FDR: "Better the occasional faults of a government that lives in a spirit of charity than the consistent omissions of a government frozen in the ice of its own indifference."[2]

Notes

1. As quoted in Albelda, Folbre, et al. (1996), p.103.
2. Ackerman (1984), p.99.

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