

Absolute poverty, relative deprivation and social exclusion⁽¹⁾

by François Bourignon⁽²⁾

The title of this session, “Inclusion, Structural Inequality and Poverty: Interplay of Economic and Social Forces”, clearly is an invitation to establish a bridge between a somewhat standard economic approach to poverty and inequality and a more sociological view at the relationship between these concepts and the notion of social inclusion. I am not sure that a hardcore economist is the best person to build such a bridge. But, we must start somewhere and a strict economic perspective may be as efficient a point of departure as a more multidisciplinary approach.

Starting from the general concept of poverty, I would like to develop here three basic ideas which I believe permit identifying some of the links between poverty and inequality on the economic side, and the concept of social inclusion, on the sociological side. They also point to research directions which have not yet been fully explored with enough care by economists as well as a new way of looking at policy issues in the field of poverty. The first idea refers to the distinction to be made between the concepts of ‘absolute’ and ‘relative’ poverty, which I will also often refer to in what follows as ‘physical’ and ‘social’ poverty or still ‘relative deprivation’. The second has to do with the duration of, and possibly intergenerational, endurance of poverty: that is, the lack of social mobility. The last point is concerned with the direct and indirect cost of relative poverty and low social mobility and the way these two phenomena, acting together, may be responsible for absolute poverty in developing countries.

1. Absolute poverty or social deprivation: food vs. linen shirt

There has been a long debate in economics about whether income or consumption poverty lines should be defined in absolute or relative terms. Most international organizations define the poverty line in an absolute way as the level of income necessary for people to buy the goods necessary to their survival. For instance the ‘1 dollar a day’ line - at 1985 purchasing power parity- has been extensively used ever since the 1990 World Development Report as the ‘extreme’ poverty line in studies of the extent of poverty, its socio-demographic profile and its evolution in the world and in specific countries. Other analysts prefer defining the poverty line in relative terms as some proportion of the mean or the median income in the country under analysis. With such a definition some authors prefer then to refer to ‘relative deprivation’ rather than poverty. However, no such semantic precaution is taken when the European Commission defines the European poor as all people whose consumption expenditures or income falls below 50 per cent of the mean in the country where they live.

These two concepts are far from equivalent. Even though they may well coincide at some point of time in a particular country, there is no reason they should continuously do so. Should we prefer one to the other? The debate on this issue has been going on for very long among economists – see for instance Atkinson (1998) or Ravallion (1992). It is not settled. However, there does not seem to be any strong reason why it should be settled in favor of one or the other alternative. Absolute and relative poverty concepts are simply aimed at describing and analyzing different issues. Physical poverty is about mere survival, that is the capacity to buy food and all the goods necessary for the fulfillment of basic physical needs. Relative poverty or social deprivation is about not being like others. This is the ‘linen shirt’ argument that Sen (1983) borrowed from Adam Smith. In 18th century England, a peasant unable to afford wearing a linen shirt would not participate to social events in his village, even though he and his family might not be undernourished. In this sense, poverty arises any time an individual cannot afford

doing, or 'functioning' in the words of Sen as 'most' people do in the society he/she is living in. Social poverty or relative deprivation thus describes a social phenomenon which may be considered as very close to the more modern concept of 'social exclusion'. By contrast, somebody who is physically or 'absolutely' poor may not be socially excluded if most people he/she knows share the same condition.

The two concepts are not exclusive. They simply describe different conditions and may in some instances call for different policies. If physical poverty is very widespread in a country, as it is the case in the poorest developing countries, growth-enhancing policies must probably be given high priority. If physical poverty is less important but if social poverty and therefore 'social exclusion' is found to be excessive, then redistribution policies, or possibly growth-cum-redistribution policies are called for.

The development literature generally takes either one or the other point of view but rarely both. In particular, relative poverty is often found to be related to or synonymous of 'inequality' and therefore of no primary relevance for 'actual', that is 'absolute' poverty issues and policy. I do not see any reason why both concepts should not be considered simultaneously. There are countries in Africa and Asia where the dominant problem is absolute poverty and where social exclusion or relative deprivation is presently of lesser importance. But there are countries where both physical and social poverty are of concern, as in many parts of Latin America. Too much priority given in the past to absolute poverty over relative deprivation, or equivalently social exclusion, may have contributed in some cases to inadequate policies. It is important to reestablish some parity between both points of view in all cases where this is justified.(3)

2. The dynamics of poverty: social exclusion as permanent poverty

Poverty, absolute or relative, would not be a problem if it were known to be purely transitory, that is limited for all poor to very short periods of time. This means that the previous definition of physical poverty and social deprivation are insufficient. They must be made dynamic. In such a perspective, the link between poverty analysis and the concept of social exclusion appears still more clearly.

With an temporal definition absolute poverty would correspond to a situation where an individual would remain permanently, or at least for a very long time, below some physical poverty line. This might be for two reasons: limited income mobility and slow economic growth making more distant the prospect for poor people to cross the poverty line. It may be shown that such defining absolute poverty in terms of duration- i.e. how many people are below the poverty line and for how long - is not independent from the initial importance of relative deprivation, or more generally of inequality. Kakwani (1993) and Chen and Ravallion (1998) noted that under the assumption of a constant distribution of relative incomes and a constant rate of growth it would take more time to eradicate absolute poverty in a more in-egalitarian economy than in an economy with less relative deprivation.

Taking a temporal point of view has more far-reaching consequences for social poverty. Permanent relative poverty is a situation where some individuals in society have simply no chance of ever having an income larger than some limited proportion of the mean or median income of society. They are trapped in a low relative income position. The word 'chance' used here may be given different meanings. It is unlikely that somebody may be structurally unlucky by drawing systematically bad numbers in a lottery. In other words, the point is not that some people in society are systematically affected by negative productivity shocks. The lack of chance behind the relative poverty trap may be due to less efforts being made to obtain what would be socially considered a more or less decent level of income. More importantly, however, it may result from a structural lack of opportunities. Even if individuals caught in a low relative income trap were making all possible efforts they would be unable to reduce the distance from typical living standard – median or mean – in the society they live in. In the terms of Sen, their

capability set is simply not broad enough to permit them catching up. In that sense they truly are 'socially excluded'. They are not excluded because they cannot do today what other people usually do. They are excluded because there is no way they will ever be above the corresponding relative income poverty line no matter how much work or efforts they put into it. This will generally be because they inherited an unfavorable combination of skills. In some cases, this will be because they belong to some specific social group defined by race or ethnic origin that is discriminated against. But it will more often be because they were simply born from poor parents and due to several market imperfections, most noticeably credit-market imperfections, they did not have the same opportunities as children born in other social classes. The economic reasons for such a persistence of relative poverty, or more generally for the reproduction of inequalities, have received very much attention by economists over the last 10 years or so.⁽⁴⁾

Policy issues related to this dynamic definition of poverty and/or social exclusion are not necessarily the same as those alluded to above in connection with instantaneous absolute or relative poverty, that is economic growth and redistribution of current income. The problem is first to identify why getting out of relative poverty is dynamically so difficult. Is it because of discrimination in the labor market, imperfections of the credit market, residential segregation, ...? It is also conceivable that these traps act as a strong disincentive for more efforts to be made to increase one's income in formal activities. Overall, policies to be considered in this context should be aimed at correcting the way factor markets work – especially the imperfections of the credit market and possible discrimination on the labor market. They could also be aimed at facilitating social inclusion through the formal labor market.

3. Two-way causality: relative poverty is inefficient and may cause absolute poverty

An important contribution of the recent economic literature has been to show that poverty and distribution issues were not pure distributional problems, that is the problem of how to divide a cake of given size. There are many reasons to believe that, on the contrary, the size of the cake depends precisely on the way it is divided in society. This implies that a society with little relative poverty and social exclusion could be more efficient and therefore more able to avoid absolute poverty than a more inegalitarian society. I shall give in what follows three examples of economic mechanisms which may lie behind such a relationship. Two of them also provide illustrations of dynamic poverty traps of the type discussed above.

The mechanism which received most attention to date is linked with the imperfection of the capital market – see for instance Bardhan, Bowles and Gintis (1999) and Piketty (1999). Because of asymmetric information poor people cannot borrow from formal financial intermediaries even though they may have investment projects with expected rates of return higher than in the rest of the economy. As the cost of these projects as well as the collateral requirements on the credit market are likely to increase with the level of development of the economy, too much inequality in the relative distribution of wealth is thus responsible for socially profitable projects not being undertaken and consequently relatively deprived people remaining poor possibly both in absolute and relative terms. The initial distribution of wealth is creating permanent poverty and social exclusion. As very well illustrated in a model by Galor and Zeira (1993), it may be the case that that poor people facing such a credit market imperfection will never be able to accumulate enough collateral to get beyond it or will simply find it too hard to do so.

A second mechanism is provided by the theory of self-fulfilling expectational equilibria in the theory of labor-market discrimination. In a world where it is held that members of a given class make little efforts at work and where individual performances are not observable, there is no incentive for these people to make more efforts and to be more productive than what is expected. They would not get any reward for such efforts since they are paid on the basis of their class origin – assuming of course that it is

observable. This certainly is quite an inefficient outcome. It would clearly be in the interest of discriminated workers to make more efforts and to receive a higher wage.⁽⁵⁾ If relative poverty or social exclusion is taken as some kind of stigma by potential employers and if it is readily observable then the same argument would apply to the poor as to racial or gender discrimination. Social exclusion and long-run unemployment in some European countries might be analyzed very well in the same way – see Atkinson (1998).

A third illustration of the efficiency cost of relative poverty and the self-reinforcing effects of social exclusion is provided by the economic theory of crime. An almost zero probability of getting out of relative poverty through legal activities may make it rational for some individuals to get into illegal activities. If this criminal behavior has negative consequences on the welfare of the rest of the population, for instance through robberies, then the direct efficiency cost of excessive relative poverty is pretty clear. It is not less so when this behavior leads to more public expenditures on police and security rather than on hospitals and schools which could precisely help alleviating permanently absolute poverty.

This possible complementarity of economic efficiency and equity illustrated by the preceding examples open new grounds for economic analysis and economic policy. These examples also provide interesting links between economics and a more sociological approach to poverty issues. The same is true of the argument in favor of apprehending poverty issues in a relative and inter-temporal context. Most of these questions are of importance in both developed and developing countries. However, the pressure of absolute poverty makes the preceding arguments more relevant in the context of economic development.

Notes

- 1) Paper prepared for the Workshop on the World Development Report organized by the DES, Berlin, villa Borsig, February 2-3, 1999.
- 2) Delta and Ehes, Paris
- 3) A systematic attempt at taking into account simultaneous both concepts may be found in Atkinson and Bourguignon (1999).
- 4) See below, section 3.
- 5) See Coate and Loury (1993) for an analysis of the role of policy in such a situation.

References

- Atkinson, A. (1998), *Poverty in Europe*, Blackwell
- Atkinson, A. and F. Bourguignon (1999), *Poverty and Inclusion from a World Perspective*, Paper presented at the World Bank Conference on Development, June, Paris.
- Bardhan, P., S. Bowles and H. Gintis (1999), *Wealth Inequality, Wealth Constraints and Economic Performances*, in A. Atkinson and F. Bourguignon (eds), *Handbook of Income Distribution*, Elsevier, forthcoming
- Coate, S. and G. Loury (1993), *Will Affirmative Action Policy Eliminate Negative Stereotypes*, *American Economic Review*, 43(5), 1220-1240
- Galor, O. and J. Zeira (1993), *Income Distribution and Macroeconomics*, *Review of Economic Studies*, 60, 35-52
- Kakwani, N. (1993), *Poverty and Economic Growth with an Application to Cote d'Ivoire*, *Review of Income and Wealth*, 39(2), 121-139.
- Piketty, T. (1999) *Theories of Persistent Inequality and Intergenerational Mobility*, in A. Atkinson and F. Bourguignon (eds), *Handbook of Income Distribution*, Elsevier, forthcoming
- Ravallion, M. (1992), *Poverty Comparisons: a Guide to Concepts and Methods*, *Fundamentals of Pure and Applied Economics*, 56, Harwood Academic Publishers
- Sen, A. (1983), *Poor, relatively speaking*, *Oxford Economic Papers*, 35, 153-69