THE PERSISTENCE OF POVERTY

By Charles Karelis ◻ Illustration by Jenny Peterson

THE idea that poverty is persistent is itself persistent. In its earliest versions, the idea was that poverty is part of the natural order. The book of Deuteronomy says, "For the poor shall never cease out of the land" (Deut. 15:11, King James Version). Jesus echoes this when he says, shortly before his death, "For the poor always ye have with you; but me ye have not always" (John 12:8, KJV). Modern writers, too, see poverty as persistent, but not as natural. It strikes them instead as a puzzling anomaly, since now there is enough wealth to go around. Contemporary American writers regularly take society to task over the fact that the U.S. poverty rate has been essentially the same for forty years, despite significant increases in the per capita domestic product.

Why do poor people often stay poor? Among the most important causes are five behaviors or, better, non-behaviors: not working, not finishing school, not saving for a rainy day, not moderating alcohol consumption, and not living within the law. Obviously not all poor people fail to do these things. But poor people fail to do them disproportionately. They account for more than their share of non-workers, non-school finishers, and so on. And this contributes to their poverty.

But this just pushes the question of causation back. Why do poor people fail to do these things to begin with? At first glance it seems positively *irrational* of poor people not to work, not to finish school, and not to moderate alcohol consumption, since the latter interferes with earning. After all, poor people need money the most. And at first glance it seems *irrational* for anyone, rich or poor, not to save and not to live within the law. For a dollar means more to someone when he has fewer dollars than when he has more. So people who smooth consumption over time, transferring dollars from their relatively rich time slices to their relatively poor ones, wring more benefit from their resources than people who let their consumption vary by failing to save and pursuing risky careers.

I want to persuade you that the main accounts of poverty get off on the wrong foot because what appears to be irrational behavior is not; when economic rationality is understood properly, the poverty-linked conduct emerges as being (in general) straightforwardly rational.

A CLOSER LOOK AT THE INEFFICIENCY ARGUMENT

To lay the groundwork for my own theory of poverty, I want to delve more deeply into the conventional argument that the poverty-prolonging and poverty-worsening conduct of the poor is irrational or inefficient. The inefficiency argument assumes that the less of a good one consumes, the greater the satisfaction one gets from a little bit of it. From this premise it is inferred that for those who have very little, additional goods—and the effort needed to get them—should be especially valuable. From the same premise it is also inferred that smoothing consumption over time wrings more satisfaction from a given amount of a good than allowing consumption to vary, for peaks of consumption must add less satisfaction to the satisfaction of average consumption than the corresponding valleys subtract. All this supports the conclusion that poor people who do not work, do not finish school, do not save, do not drink moderately, and do not obey the law waste part of the satisfaction they could derive from their time, energy, money, and other resources.

The argument is persuasive. Its key propositions—that goods, and hence work, are especially valuable to the poor and that consumption smoothing is efficient for all—will strike many readers as commonsensical. The theory in which these particular ideas are embedded, known as marginalism, is the conventional wisdom about satisfaction-efficient allocation. At its core is the idea that resources mean most to those who have least. On this basis it is natural to conclude that poor people stand to benefit especially from working for pay, staying in school, and moderating alcohol consumption, and that, like everybody else, they stand to benefit from saving for a rainy day and living within the law.

I want to contend that the mistake lies in accepting marginalist criteria of efficiency in the first place. Instead of talking about whether the conduct does or does not meet the usual criteria of efficiency, we should be asking whether the usual criteria are the right criteria. I will try to persuade you that marginalism itself is mistaken by presenting reasons to doubt its ultimate premise, the law of diminishing marginal utility, and reasons to accept an alternative. On this basis I will give a new argument for the efficiency of the poverty-linked conduct in question.

LYDIAN PRUDENCE AND ITS PREMISE

I ask you to consider the following passage from Herodotus's *Histories*. In it the fifth century BC historian describes the practices adopted by the Lydian people of Asia Minor in the face of a prolonged famine.

The story is that in the reign of Atys, the son of Manes, the whole of Lydia suffered from a severe famine. For a time the people lingered on as patiently as they could, but later, when there was no improvement, they began to look for something to alleviate their misery. Various expedients were devised—for instance, the invention of dice, knuckle-bones, and ballgames. The way they used these inventions to help them endure their hunger was to eat and play on alternative days—one day playing so continuously that they had no time to think of food, and eating on the next without playing at all. They managed to live like this for eighteen years.

What is significant here? To begin with, like many poor people today, the Lydians allocated their meager resources unevenly between time slices of themselves. If we assume that "severe famine" means a condition in which luxurious consumption cannot be achieved even by saving, their pattern must have been "skimp a little, skimp a lot"—eat no more than enough one day and nothing the next. Further indication of their preference for uneven consumption is the very fact that what they used to distract themselves from hunger were games of dice and similar games.

While uneven consumption is inefficient when judged by modern criteria of economic efficiency, Herodotus's passage gives us reason to wonder whether the Lydians were not being prudent and sensible after all. For one thing, their practices resulted from careful thought about how to minimize misery. Moreover, the passage suggests that the Lydians' strategy was sophisticated as well as deliberate, for they are described as being the inventors of not only gold and silver coinage but retailing. Third, the practices continued for eighteen years—surely enough time for the Lydians to compare the results with those of smoothing consumption over time.

In short, this passage indicates that at least one society in the distant past adopted counter marginalist patterns on the basis of smart, careful thinking, and that it stuck to them in the light of long experience for reasons having nothing to do with atypical preferences.

What assumption might the Lydians have made that would explain their seeing these patterns of consumption as efficient? One possibility is that they assumed the marginal utility of resources at truly insufficient levels of consumption is increasing instead of diminishing. In other words, when there is not enough of a good, equal increases in consumption bring bigger and bigger amounts of relief. Such an assumption is contrary, of course, to the law of diminishing marginal utility, which hypothesizes diminishing marginal utility at low levels of consumption as well as high. But suppose the Lydians were assuming exactly this. It would follow that the benefit of a meager portion is more than twice the benefit of half of it. Therefore, eating half as much every day as the Lydians were in fact eating every other day—which is to say, smoothing consumption—would actually have wasted potential benefit from the food supply. Imputing this assumption to the Lydians makes sense of the pattern they actually adopted.

Furthermore, if marginal utility is increasing at low levels of consumption, then typical people whose consumption is very low will derive very little utility from a bit more consumption. This makes sense of another part of the story. Like many poor people in modem times, it seems that the famine-oppressed Lydians did little work. Rather, they played games "continuously" every other day. We are not told why they did little work. It may have been that farming, fishing, and hunting were simply not worth the effort because of the stinginess of nature in that time and place. But there is another possibility. If marginal utility is increasing amid true scarcity, then perhaps they did little work because, having very little food for whatever reason, marginal increases in their diet were worth little to them, contrary though this idea may be to the law of diminishing marginal utility and contemporary common sense.

So we must still ask: does the marginal utility of consumption rise when goods are truly scarce? Or is human psychology better captured by the law of diminishing marginal utility, which would have it that even amid scarcity a bit of a good is more satisfying when it is one of few bits than when it is one of many? You may be scratching your head at the very idea of increasing marginal utility, so irresistible has the law of diminishing marginal utility come to seem. But let us look more closely.

REPLACING THE LAW OF DIMINISHING MARGINAL UTILITY

I begin by distinguishing three types of goods: relievers, pleasers, and goods that function as relievers at low levels of consumption and pleasers at high levels of consumption.

Relievers

Relievers, such as salves, are goods that reduce pain, unhappiness, or misery. Contrary to the law of diminishing marginal utility, relievers are a major type of good that exhibits increasing (not diminishing) marginal benefit. The benefit of relievers—namely, relief—grows as consumption grows, but the benefit grows faster than the consumption. Equal increases in the consumption of relievers produce ever bigger increases in the relief that is felt by the consumer.

The best evidence of this is common experience. Take the case of burdens—not in the metaphorical sense but in the literal sense of heavy things to be hefted and carried. What then is the marginal benefit of relievers such as help in bearing the burden? In fact it is increasing. To clarify this, let us imagine two scenarios. In the first, you are about to walk up a hill empty handed when you are given five pounds of grain to take with you. The second scenario is identical to the first, except that just before you are given the five pounds of grain to carry, you are given fifty pounds of grain to carry. In other words, the contents of a five-pound sack are simply added to a fifty-pound sack. There can be little doubt that in the second scenario, the five pounds would seem less burdensome than they would seem in the first scenario.

In fact, you might barely notice those five pounds on top of the fifty pounds you are already obliged to carry in this scenario. Probably you would not pay much to have a helper carry just those five pounds for you since you would still have to deal with the fifty-pound burden. But if all but six of the fifty pounds were taken off your hands unexpectedly, being relieved of the five pounds would be a greater benefit, since that would make the difference between a six-pound burden and a one-pound burden. You would likely pay more to have a helper carry the five pounds in this case. As this suggests, the benefit of a certain amount of help in bearing a burden is greater when the burden is less. From here it is a short step to recognizing

THERE IS A CONSTRUCTIVE OPTION: MAKE THE POVERTY-REDUCING BEHAVIORS RATIONAL INSTEAD OF IRRATIONAL FOR THE PEOPLE WHO ARE POOR.

everyday experience, things like desserts and movies. Students readily agree that the third helping of dessert brings less pleasure than the first, and so forth. But the textbooks do not recognize that significant classes of goods are not pleasers (or not pleasers at all levels of consumption—see below), and so they claim far more generality for the law of diminishing marginal utility than they should.

Reliever/Pleasers

The third class of goods, reliever/pleasers, is the most important for understanding poverty. Reliever/pleasers do not fall completely into either of the preceding categories. Rather, they are relievers at low levels of consumption and pleasers at high levels of consumption. Examples include many basic goods—things that benefit virtually all consumers: food, shelter, clothing, transportation, leisure, and opportunities to take part in community life. Characteristic of these goods, besides being generally valued, is that they can be used or consumed at three levels: insufficient levels, where shortfalls make for misery and more consumption makes for relief; sufficient levels, which cause neither misery nor positive pleasure; and above-sufficient levels, where the consumer takes a positive enjoyment or satisfaction from consuming them.

The "dual citizenship" of goods of this third type shows itself in their marginal benefit. They act just like pure relievers when insufficient amounts are being consumed, which is to say, they yield increasing marginal benefit. But they act just like pure pleasers when more than sufficient amounts are being consumed, which is to say, they yield diminishing marginal benefit. The point is a central one. To repeat, the marginal benefit of reliever/pleasers is first rising and then falling. In the insufficient range (where by definition additional quantities bring relief), equal additions to consumption produce bigger and bigger additional benefits, but in the more-than-sufficient range, equal additions produce smaller and smaller additional benefits.

Consider housing. Suppose we take the perspective of a couple whose house has a bedroom for them and one for each of their six children, plus adequate room for entertaining and other functions besides. Clearly they are consuming or using housing in the more-than-sufficient range. Their house is a source of positive experience.

that successive equal lightenings will bring increasing amounts of subjective relief.

In this case, common experience is confirmed by science. In 1834 Ernst Weber established experimentally that a greater absolute change in a stimulus is required to produce a just noticeable difference in our sensory experience when the stimulus is larger to begin with. Further, Weber showed that for each type of stimulus, the percentage change in the stimulus that is required to produce a subjectively perceptible change is a constant fraction.

Moving now from physical to mental relief, we see the same principle in operation. The first scratch sustained by a new car distresses its owner. It is hard to look at the scratch. Each subsequent scratch causes new displeasure, but as the scratches mount up, the new ones add less and less new distress. The seventh may elicit nothing more than an irritated shrug. So the relief that comes from repairing the very first scratch that the car sustained will be greater if the other six are also being fixed than if the other six are not.

Pleasers

These are goods that cause positive experience, as distinct from removing negative experience. Examples might include a glass of wine along with a meal or a portion of ice cream at the end. To lose a pleaser or not to have one is not an evil but only the undoing or absence of a good.

Unlike relievers, pleasers do generally conform to the law of diminishing marginal utility. Virtually all introductory economics textbooks remind students of the psychological impact of successive pleasers that are familiar from

As each child leaves for college (let us say), the amount of space available for the use of the couple goes up by roughly equal amounts, but probably their enjoyment of the house goes up by smaller and smaller amounts. To take a small but representative aspect, the new hobbies that can now be pursued because there are specialized spaces for them (e.g., sewing, exercise, painting, etc.) will themselves yield smaller and smaller amounts of additional pleasure, if only because the more there are, the less attention can be paid to each one.

But now imagine a couple whose dwelling is a one-bedroom house that is barely adequate for themselves. If a child arrives, then, given the crowded conditions, the couple's privacy is much reduced, their peace and quiet is disturbed, and they may have to start sleeping in shifts. Whatever the compensating joys of parenthood may be, there are impressive deteriorations in their physical comfort. By the time child number six arrives, the couple may hardly notice the further deterioration in their situation that occurs as a result. One more loud voice outside the bedroom door will not make much difference. One more child in one's path as one stumbles to the bathroom at night may not add much misery. Accordingly, as the children grow up and move out and space per inhabitant goes up, the first child to leave may not subtract much discomfort from the couple's life. After all, if one more voice outside the bedroom door did not add much discomfort, one fewer should not subtract much discomfort either. But when the sixth child finally moves out, undoing the impressive deterioration created by the first baby, the relief may be enormous. This story pulls together reminders of common experience to show that while the marginal benefit of housing space per inhabitant may be diminishing at high levels, it is rising at low levels.

TOWARD A SOLUTION OF THE PUZZLES

Generally speaking, then, it is the very rationality of the poverty-causing behaviors that explains their persistence—and hence the persistence of individual poverty itself. In that sense, poverty is a self-sustaining condition, not a self-eliminating one. Here is the grain of truth in the ancient idea that poverty is natural.

This may seem to be a counsel of despair or at least of pessimism. But it is not. Natural does not mean ineradicable. There is a constructive option, and that is to make the poverty-reducing behaviors rational instead of irrational for the people who are poor. But how? By making them less poor. The same reasoning that shows that poverty tends to be self-sustaining shows that rising out of poverty, too, is a process with its own momentum.

But it matters a lot how the pump is primed. First, any scheme to make the poor less poor will have a counterproductive impact on motivation if help is made available to those who are not really poor—that is, those who do not suffer from material shortages in the first place, including people who underreport their income to game the system—for the motivation of the recipients will be reduced, and public mistrust of the system will starve it of political support.

Second, the best tactic for delivering the assistance seems to be supplementing market wages through tax breaks for very low-income wage earners. This program combines two enticements to work. Like other schemes for relieving misery, including no-strings handouts, wage supplements for the poor raise (not lower) the felt value of the next misery-relieving dollar. Like the dab of salve that's given to the man with two stings, it makes the marginal impact of the next dab of salve, the one that assuages the last sting, greater. But in addition, wage supplements raise the cost of not working. The greater your net wage, after all, the more you give up by not going to work. So it's a double-barreled antipoverty strategy, not a single-barreled one like straight handouts. Politically, too, wage supplements are more palatable than handouts because wage supplements are justified partly by effort that has already been expended by the recipient, not just by effort that is (supposedly) going to be expended as a result of the assistance. They look reassuringly like a reward and not a piece of social engineering. ESR

ABOUT THE AUTHOR

Charles Karelis is a research professor of philosophy at George Washington University. He was formerly a professor at Williams College, director of the Fund for the Improvement of Postsecondary Education, and president of Colgate University. He has a longstanding interest in public policy and the psychological foundations in microeconomics. Karelis earned his bachelor's degree from Williams College in 1966 and his doctorate in philosophy from Oxford University 1972.

This article is adapted from Karelis' book titled *The Persistence of Poverty: Why the Economics of the Well-Off Can't Help the Poor,* published by Yale University Press in 2007.