

Inequality and Poverty: Analysis and Policy

Eight lecture: Theories of poverty and inequality: an overview

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Course web page: <http://rszarf.ips.uw.edu.pl/inequality/>

Lecture topics

1. Economic theoretical frameworks and theories in explanations of poverty
2. Cycle of deprivation (disadvantage), intergenerational transmission of poverty and the impact of poverty on family
3. Three families of causal theories of poverty
4. Human capital theory with Bourdieu's contribution and other economic factors
5. Extension of the Origin – Education – Destination (OED) triangle
6. Complex models of multiple factors and mechanisms influencing economic inequality
7. Research results for many different equalising and dis-equalising economic and other factors
8. Summary

Theories of Poverty

Six economic theoretical frameworks to explain poverty

„Different views about the underlying causes of poverty lead to very different policy choices.

The policy choices that emerge out of these six different theoretical perspectives range:

- **from expanding markets as fully as possible, to limiting markets and constraining their behaviour;**
- **from providing immediate and generous assistance to the poor to avoiding short-term assistance as much as possible and focusing on longer-term development assistance only.**

Theoretical framework 1: *Poverty is due to economic underdevelopment; that is, poverty occurs in the absence of effectively functioning markets.*

Theoretical framework 2: *Poverty occurs because some individuals within market economies are either unprepared or unable to participate in them productively.*

Theoretical framework 3: *The market is inherently dysfunctional and creates poverty.*

Theoretical framework 4: *Poverty is due to social and political processes that occur outside the market.*

Theoretical framework 5: *“It’s their own fault;” Poverty is the result of individual behavioral characteristics and choices.*

Theoretical framework 6: *Poverty is caused by efforts to alleviate poverty.*

Five theories of poverty with causes and causal mechanisms

Theory	What causes Poverty?	How does it work?
1. Individual	Individual laziness, bad choice, incompetence, inherent disabilities	Competition rewards winners and punishes those who do not work hard and make bad choices
2. Cultural	Subculture adopts values that are non-productive and are contrary to norms of success	Use community to the advantage of the poor; value diverse cultures, acculturation, and community building; alternative socialization through forming new peer groups
3. Political-economic structure	Systematic barriers prevent poor from access and accomplishment in key social institutions including jobs, education, housing, health care, safety, political representation, etc.	Selection criteria directly or indirectly exclude some groups of persons based on inappropriate criteria
4. Geographic	Social advantages and disadvantages concentrate in separate areas	Agglomeration, distance, economies of scale, and resource distributions reinforce differences
5. Cumulative and cyclical	Spirals of poverty, problems for individuals (earnings, housing, health, education, self confidence) are interdependent and strongly linked to community deficiencies (loss of business and jobs, inadequate schools, inability to provide social services), etc.	Factors interact in complex ways. Community level crises lead to Individual crises and vice versa, and each cumulate to cause spirals of poverty

The concept of **cycle of deprivation** (UK, 70ties of 20th century): an example of politically influential theory of persistent poverty (Intergenerational Transmission of Poverty)

It seems that perhaps much deprivation and maladjustment persists from generation to generation through what I have called a 'cycle of deprivation'. Parents who themselves were deprived in one or more ways in childhood, become in turn the parents of another generation of deprived children.

– Joseph, 1972, cited in Jordan, 1974

See historical development of this idea [Sociological Perspectives on Poverty, JFR 2015](#)

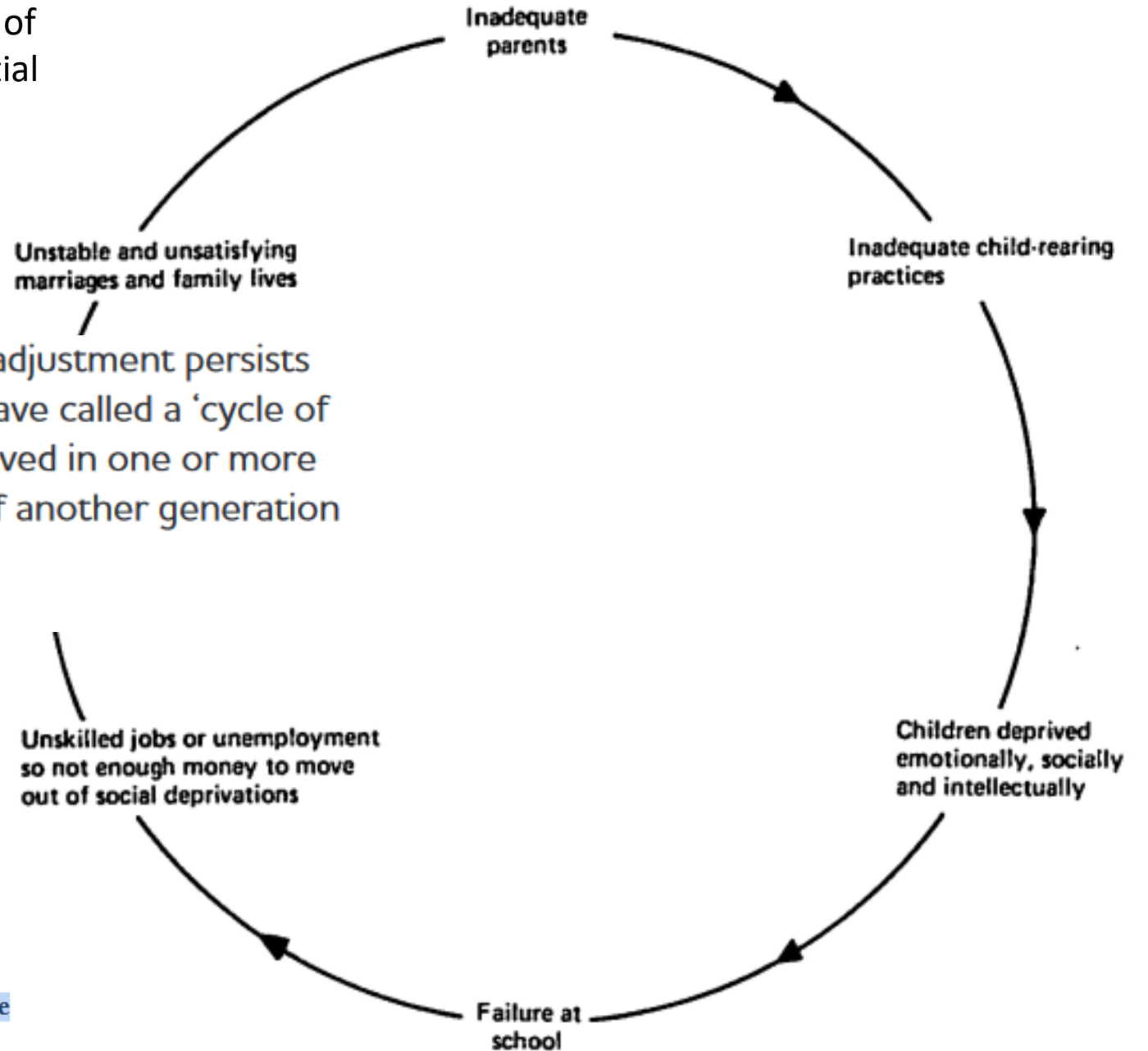
The idea of the cycle in the EU soft law

COMMISSION RECOMMENDATION

of 20 February 2013

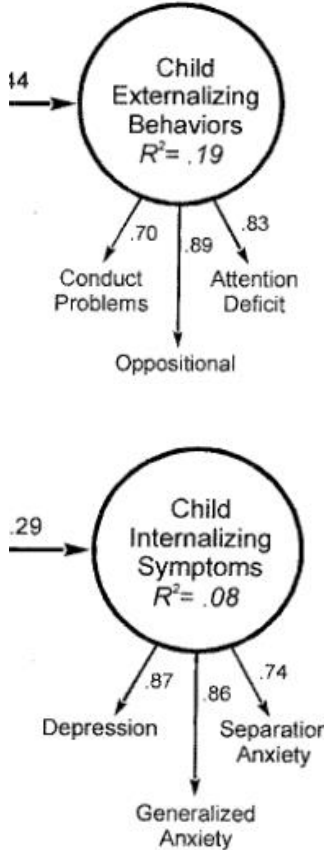
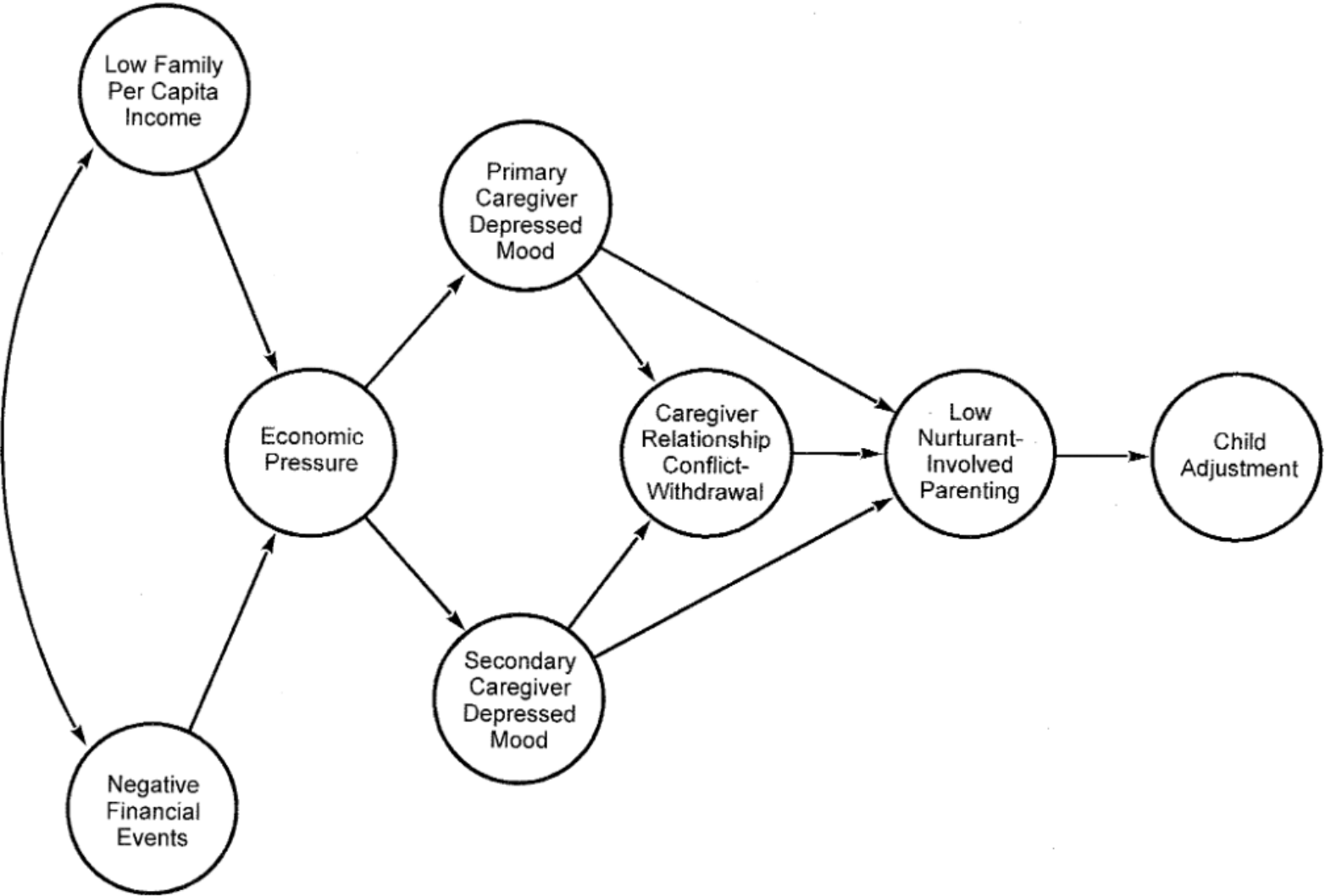
Investing in children: breaking the cycle of disadvantage

(2013/112/EU)



R. Holman, *Poverty: Explanation of Social Deprivation*, 1978

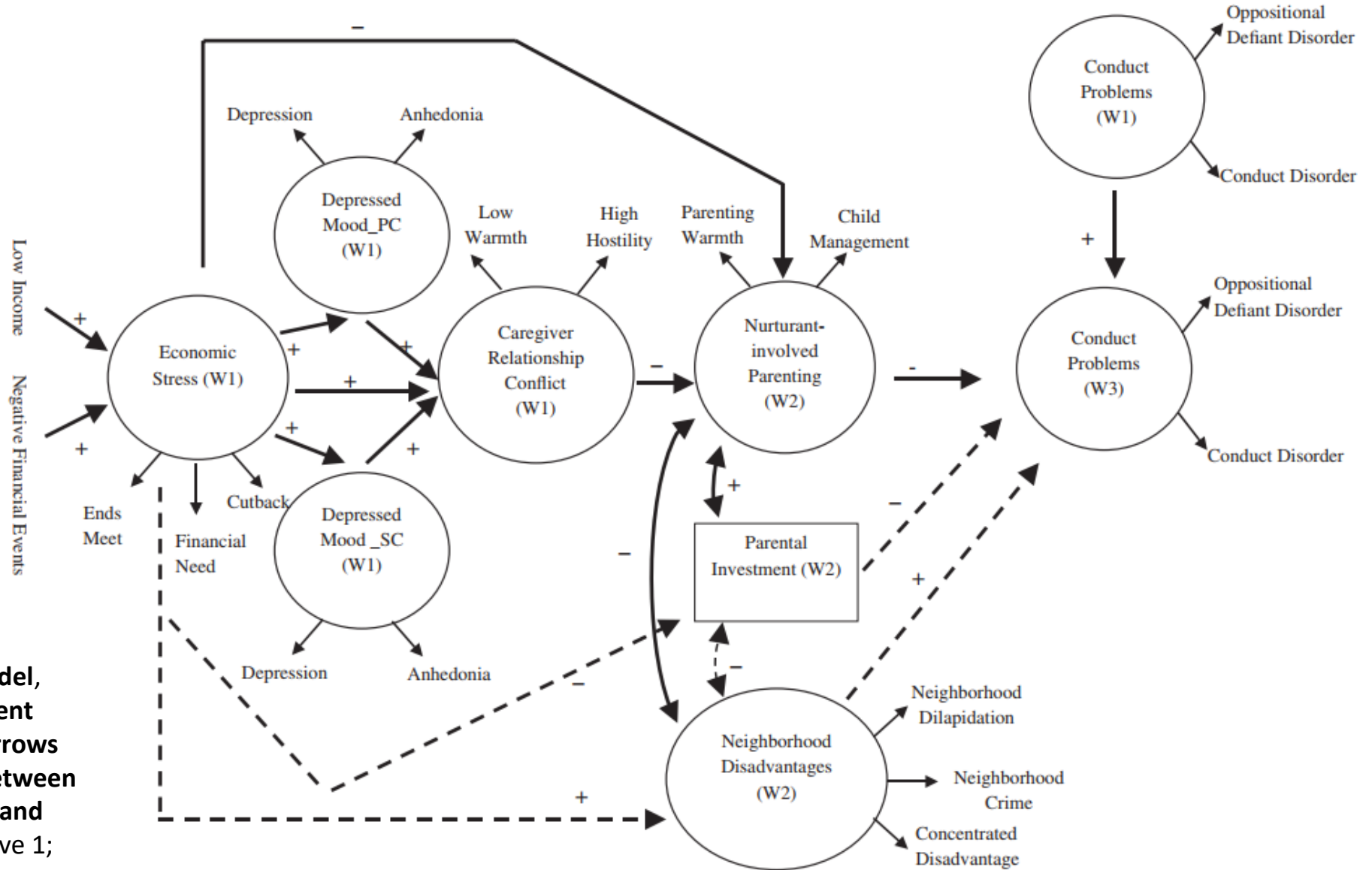
...but what is the impact of poverty on family: Family Stress Model



Rand D. Conger et al., Economic Pressure in African American Families: A Replication and Extension of the Family Stress Model, *Developmental Psychology*, 2002

Family Stress Model with Family Investment Model

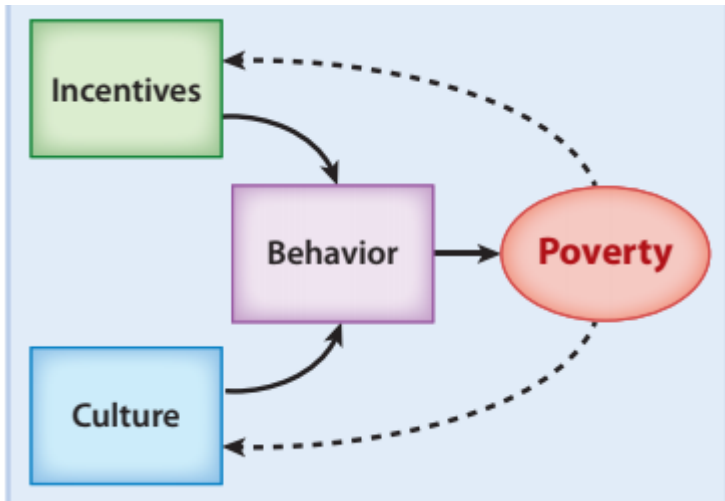
Family Investment Model „is based on **economic investment theory**, asserts that **parents with more economic resources are able to make greater investments in the development of their offspring**, whereas parents with limited economic resources must focus on more immediate material needs”



„Solid lines depict the family stress model, dashed lines depict the family investment model, and curved lines with double arrows represent hypothesized correlations between variables from the family stress model and the family investment model. W1 = Wave 1; W2 = Wave 2; W3 = Wave 3; PC = primary caregiver; SC = secondary caregiver”

Three families of causal theories of poverty

BEHAVIOURAL THEORIES



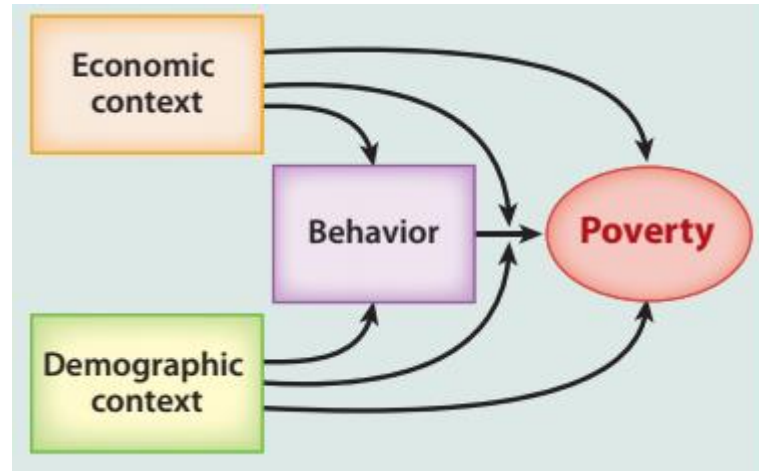
„the poor are poor because **they engage in counterproductive, poverty-increasing behavior or risks** like single motherhood or unemployment”

Incentives – „rational responses of goal-oriented individuals that result in problematic behavior”

Culture – „schemas and repertoires that guide the poor’s behavior” (culture of poverty)

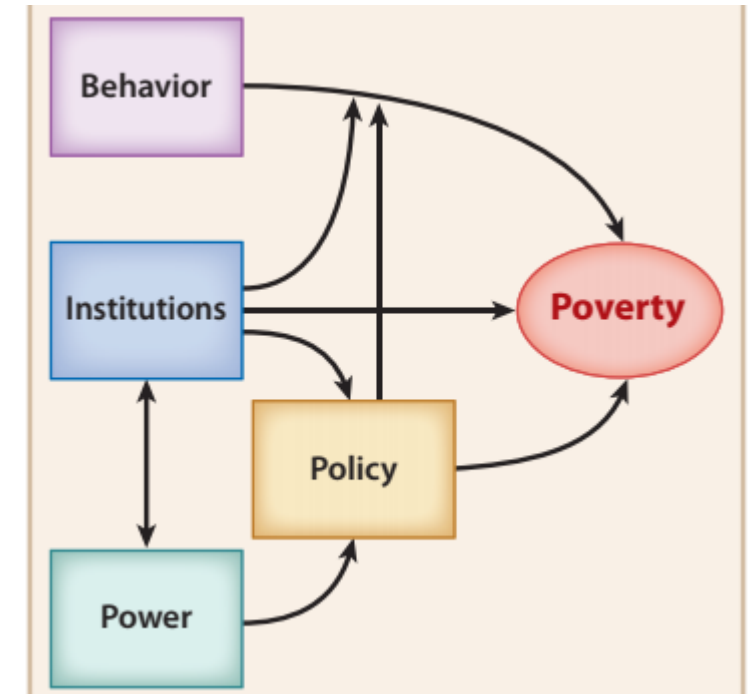
„Poverty imposes a **cognitive burden, present bias, and stress, which then encourages poverty-perpetuating behavior**, such as lower educational attainment”

STRUCTURAL THEORIES



- „**Economic context** typically includes economic growth and development, industrialization and deindustrialization, and spatial and skills mismatches.
- **Demographic context** usually includes neighborhood disadvantage, age/sex composition, residential segregation, urbanization, and demographic transitions”

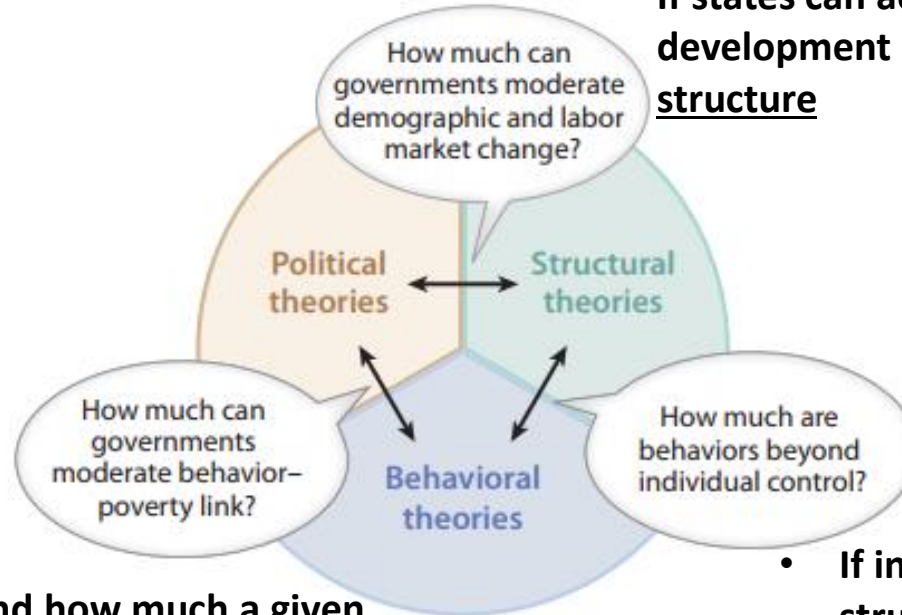
POLITICAL THEORIES



„generic mechanisms for how states shape poverty: (a) **organizing the distribution of resources** (e.g., taxes and transfers, often called redistribution), (b) **insuring against risks**, (c) **investing in capabilities** (e.g., early childhood education and health services), (d) **allocating opportunities** (e.g., public employment), (e) **socializing normative expectations**, and (f) **disciplining the poor**”

Key conceptual questions for distinguishing between the three major theories of the causes of poverty

- If states cannot manage to reduce poverty in the face of **deindustrialization or absent economic development**, for example, **structure matters more than politics**
- If states can accomplish low poverty regardless of economic development or demographic change, **politics matter more than structure**



- If states can choose whether and how much a given individual characteristic, such as single motherhood, is associated with poverty, this supports **political over behavioral explanations**.
- If risks like unemployment trigger poverty regardless of the social policy and institutional context, this **favors behavioral explanations over political explanations**

- If individuals lack agency in the face of overwhelming structural changes such as economic development, **structure is more important than behavior**.
- If individuals exert great control on whether they are poor even in structurally disadvantaged contexts, **behavioral explanations remain essential** despite the relevance of structural factors

Economic factors in explanations of inequality

There are two separate strands in the literature about inequality and poverty explanations

EXPLANATION OF DISTRIBUTION OF INCOME (OR OTHER VARIABLE IMPORTANT IN LIFE) IN SOCIETY

- **Explanations of distributions of what is important in life and life chances within societies**
- The main question is **why some people are much richer than others, why some are much poorer than others in particular dimension (most often income and wealth)?**
- One popular explanation for economic inequality is that **humans with higher human capital (e.g. skills) has a higher incomes and wealth** (there is a positive correlation between human capital and economic variables)

[For a review in economics see: *Inequality of what among whom? Rival conceptions of distribution in the 20th century* 2005 \(R.S. Goldfarb, T.C. Leonard\).](#)

[Input of sociology to explanations \(marriage behavior and women's employment\): G. Esping-Andersen, *Sociological Explanations of Changing Income Distributions*, 2007](#)

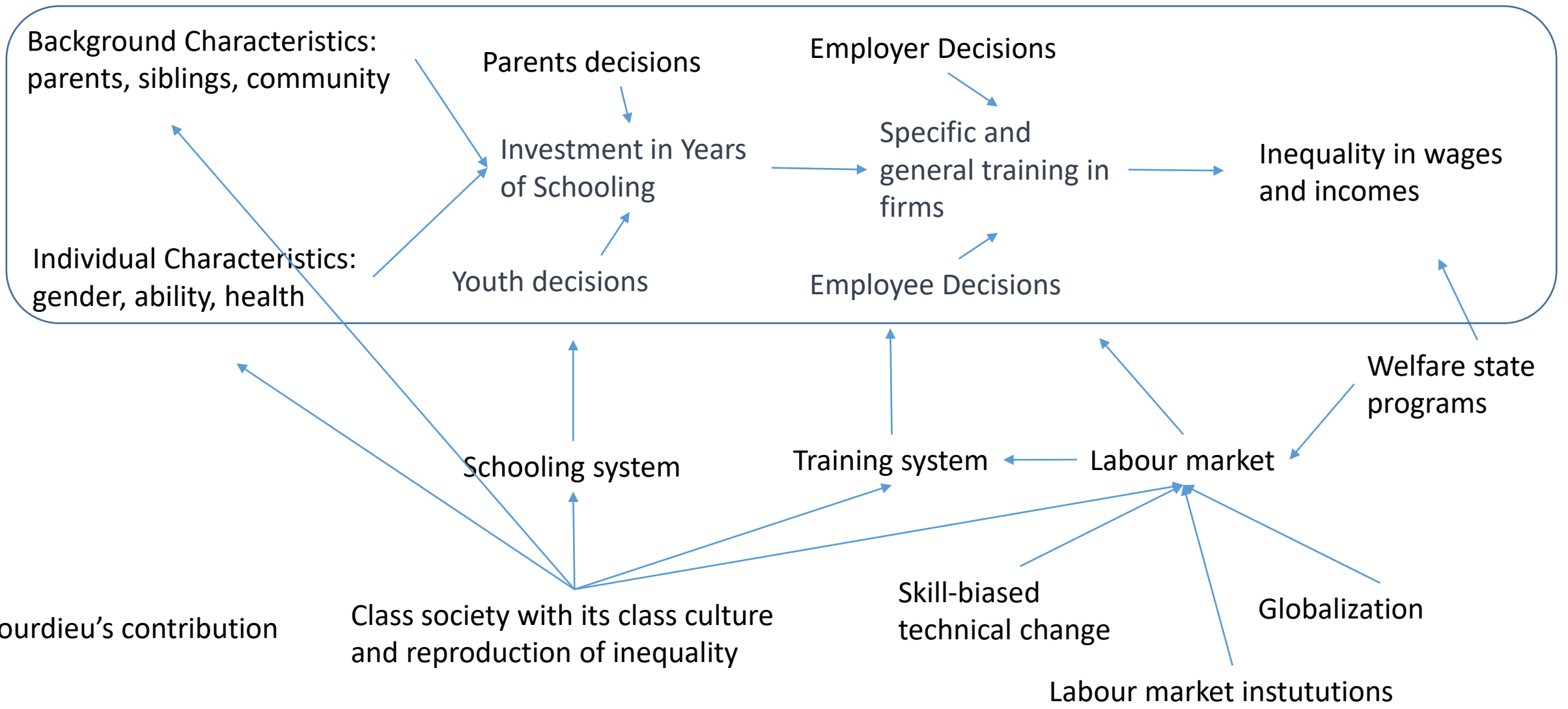
EXPLANATION OF THE RELATIONSHIP BETWEEN AVERAGE INCOME AND INEQUALITY

- Explanations of a relationship between average income and the level of inequality in societies in longer period
- The main question is **why in some period in time there was a positive correlation (average income goes up, inequality goes up) and in other period there was a negative correlation (average income goes up, inequality goes down)?**
- First explanation was proposed by **Simon Kuznets** (two sector model)

This is for the next lecture

Economic sources of inequality with Bourdieu's contribution

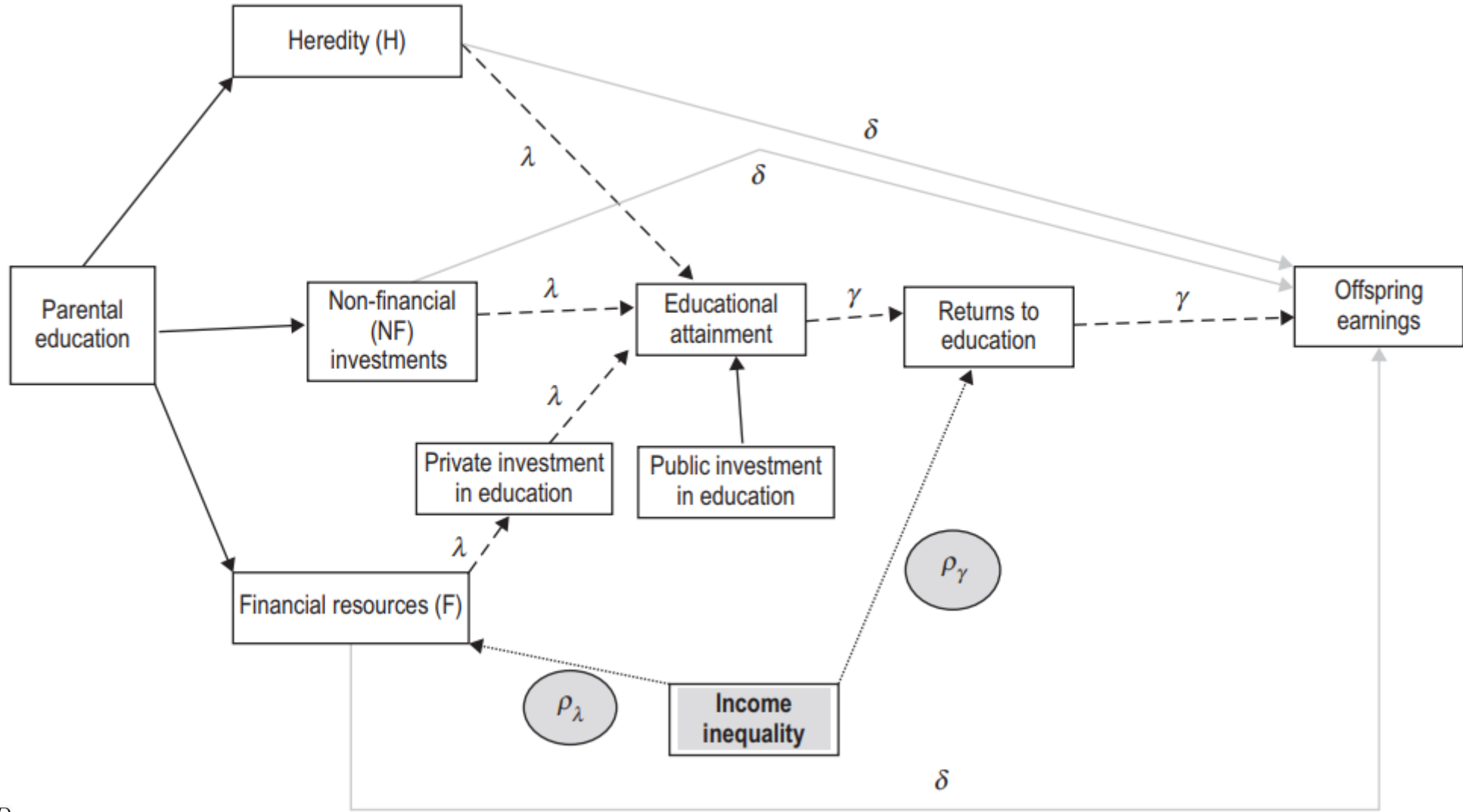
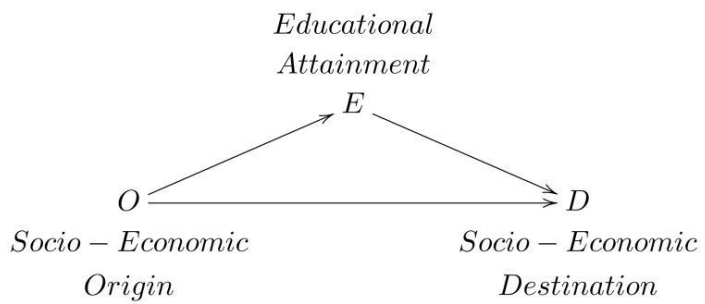
Education and skill formation process in schooling system and in the job training



„The link between parental education and offspring’s earnings can be separated into two components:

- the part working through offspring’s educational attainment (dashed arrows)
- the part that is not (solid gray arrows)”

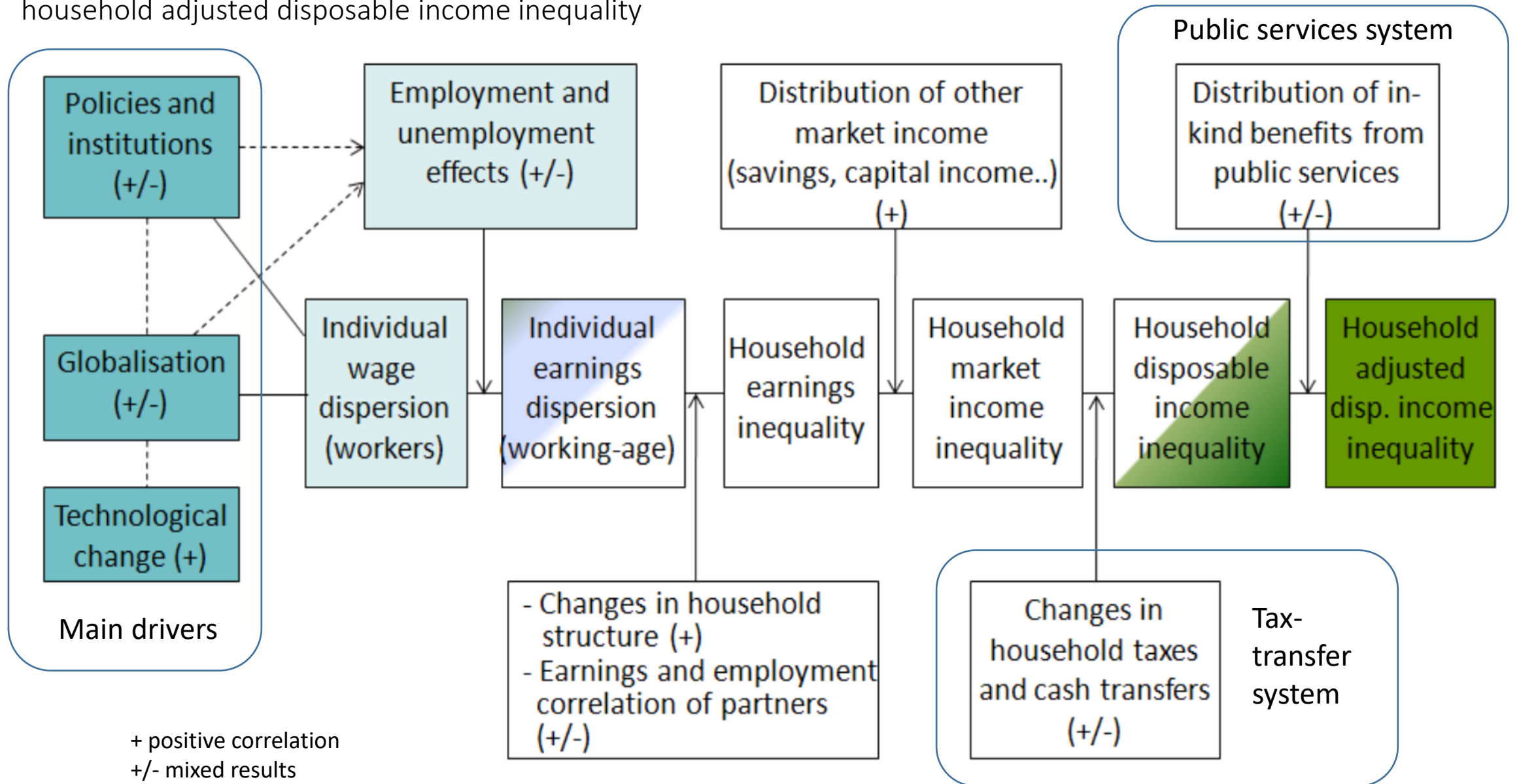
One may view this as an extension of the **Origin – Education – Destination (OED) triangle** that has a long tradition in social stratification research”



„H indicates a **heredity pathway**. NF indicates a **nonfinancial pathway**. F indicates a **financial pathway**. λ is the estimated link between parental education and offspring’s educational attainment. γ is the estimated link between offspring’s educational attainment and the returns to education. ρ_λ and ρ_γ refer to the correlation between these factors and income inequality”

[John Jerrim Lindsey Macmillan, Income Inequality, Intergenerational Mobility, and the Great Gatsby Curve: Is Education the Key?, Social Forces, 2015](#)

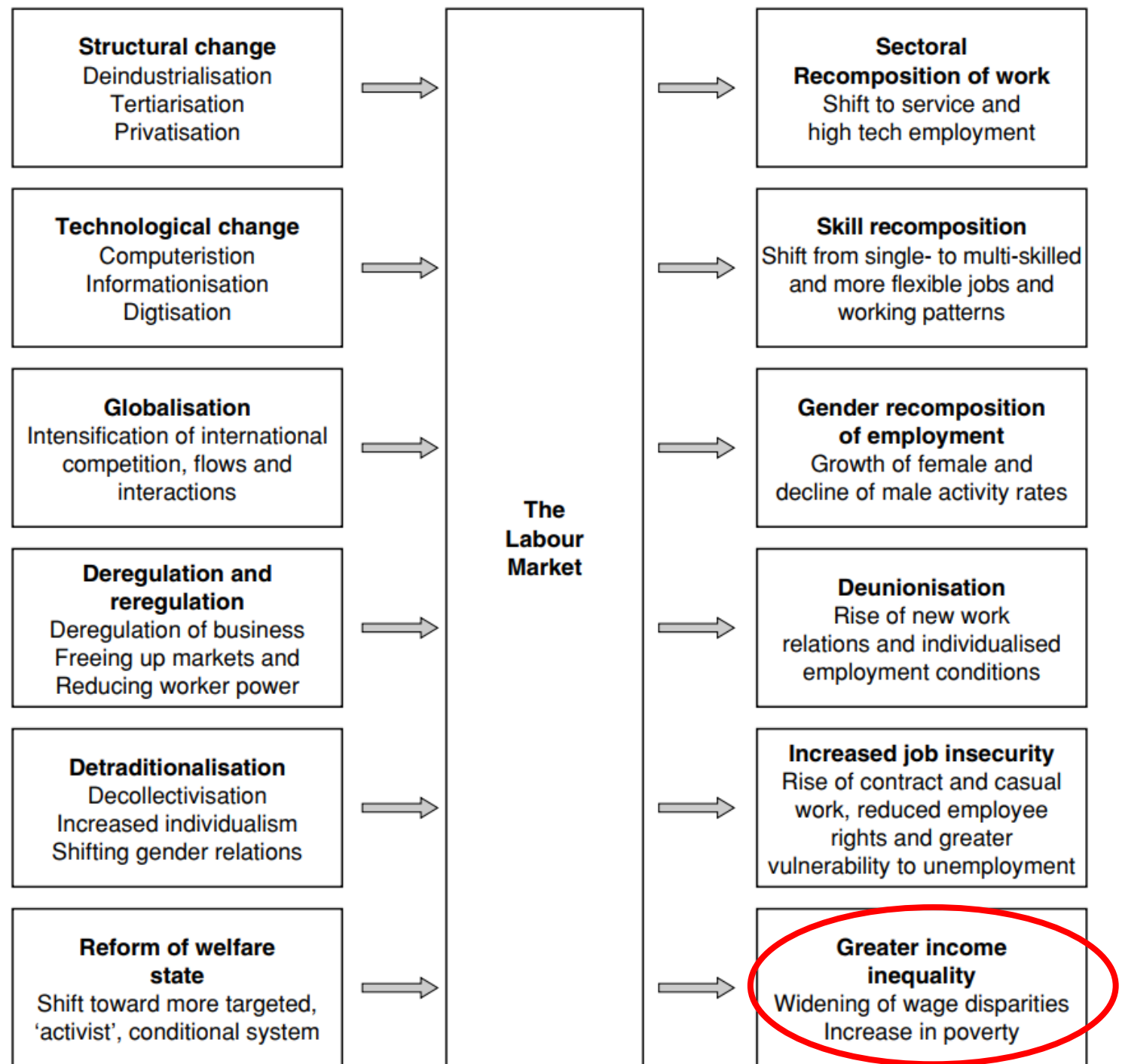
Explaining change from policies and institutions, globalization and technological change to household adjusted disposable income inequality



Inequality as an effect of several key trends and their impact on the labour market

- „There is now widespread agreement that over the past two decades [80ties and 90ties] or so **the world of work in advanced economies has been undergoing an accelerating process of transformation.**
- Since the end of the 1970s, a number of **intersecting economic, technological, social and political developments** have been gathering momentum which **have already had profound effects on the nature, organisation and allocation of work**”

Peter Sunley et al., *Putting Workfare in Place: Local Labour Markets and the New Deal*, 2006



Research results for many different equalising and dis-equalising factors

Globalisation

- Trade openness: largely reported insignificant
- **Financial openness**: insignificant or (sometimes) **dis-equalising**
- Inward FDI: inconclusive
- Outsourcing: inconclusive
- **Technological change**: **dis-equalising** (especially at the upper part of the distribution)

Labour institutions and regulations

- **Unionization (coverage, density) and wage coordination**: largely equalising, rarely insignificant
 - **EPL**: equalising
 - Minimum wages: (modestly) equalising
 - **UB replacement rate**: equalising, rarely insignificant
 - Tax wedge: inconclusive
- Employment effects tend to off-set inequality effects, except for EPL

Political processes

- **Inequality**: the structure of it matters (via the position of the pivotal voter)
- **Voter turnout**: significant, equalising especially if low income voters are mobilized
- **Partisanship**: equalising for Left cabinet seats
- Indirect effects (via institution formation and redistribution): sizeable but direction is inconclusive

Macro-economic structure

- Evidence on inequality / development relationship: inconclusive, including for enlarged country sample
- Industry sector dualism: generally not confirmed but there may be issues of knowledge sector dualism and bias
- **Unemployment**: **dis-equalising**

INEQUALITY

Demographic and societal structure

- **Education**: largely reported equalising
- **Assortative mating**: **dis-equalising**
- **Female employment**: equalising
- **Single headed households**: **dis-equalising**
- Age composition: inconclusive
- Migration: inconclusive

REDISTRIBUTION

- **Tax/transfer systems**: equalising, with great country variation
- **Reduction in redistributive effectiveness**: **dis-equalising** (since 1990s)
- **Cash transfers** generally have larger equalising impact than income taxes (except decomposition calculations)
- 2nd order effects (disincentives) offset but do not outweigh 1st,-order redistributive effects

FDI – Foreign Direct Investment
EPL – Employment Protection Legislation
UB – Unemployment Benefits

[Forster and Toth \(2015\)](#), in: *Handbook of Income Distribution* (eds. Atkinson and Bourguignon), chapter 19 (p. 1804)

What we have learnt? Summary

1. There are several lists of theories explaining poverty e.g. individual, cultural, economic and political structure, geographical, cumulative and cyclical
2. Cycle of deprivation (disadvantage) is an explanation of intergenerational transmission of poverty, but we have more developed frameworks: Family Stress Model and Family Investment Model
3. David Brady proposed three families of causal theories of poverty: behavioural, structural, political
4. There are two strands of literature with explanations of inequality: 1) explanations of distribution of income or wealth in a society e.g. human capital as determining factor; 2) explanations of the relationship between income inequality and average income in long-term perspective
5. There are many economic explanations of sources of inequality e.g. theory of human capital with Bourdieu's contribution and other economic factors influencing labour market and distribution of wages and incomes
6. The Origin-Education-Destination (OED) triangle may be extended into three pathways: heredity, non-financial investments and financial investments
7. There are several wider processes of economic and social changes impacting labour market and increasing inequality e.g. changing structure of the economy, technological progress, globalization, deregulation and more individualisation
8. In empirical research there is mixture of results confirming of equalising and dis-equalising impact of many different economic, social and political factors