Book Review - Charles Karelis, *The Persistence of Poverty: Why the Economics of the Well-off Can't Help the Poor* (2007)

By Kenly Greer Fenio[*]

[Charles Karelis, *The Persistence of Poverty: Why the Economics of the Well-Off Can't Help the Poor*, New Haven and London: Yale University Press, 2007, ISBN 978-0-300-12090-5, pp. 209]

Charles Karelis, research professor of philosophy at The George Washington University, has concocted a concise challenge to traditional economic theory concerning why individuals remain poor: it is not due to the individual's participation in irrational behavior (too often the sine qua non of the development industry), but rather, because poverty reducing behavior itself is perceived as sub-optimal when presented with other alternatives. He hypothesizes that marginal utility rises amid scarcity [1] by identifying five activities that the poorest of individuals avoid doing: engaging in salaried work (what matters is whether someone works and how much (s)he works), remaining in school (those from a poor family are more likely to drop out of high school and thus more likely to be poor later on), saving for a rainy day, drinking in moderation (the poor binge drink more on days that they drink than the non-poor), and living within the law (versus engaging in risky illegal behavior).

Poverty, defined as occurring in a given time and place, concerns unmet resource needs. Thus, context and culture matter: "the poverty line for a particular society will be that level of consumption below which needs that are typically considered basic in that society are unmet".[2] One obvious question that arises here is whether or not poverty can be objective across time and era? Certainly, one could argue, that if it changes one's health, puts one at risk or changes the life span because of a lack of access to health resources, this may serve as an objective indicator? But he

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[1] CHARLES KARELIS, THE PERSISTENCE OF POVERTY: WHY THE ECONOMICS OF THE WELL-OFF CAN'T HELP THE POOR (2007), 157.

[2] *Id.* at 8.

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argues that income cannot be a determinant because it doesn't fit the reality of varying situations. He thoughtfully (and, might I add fruitfully) moves past identifying the aforementioned five behaviors that sustain poverty to ask first, how some have actually arrived at such a point; and second, how the direction leading to this fork in the road can be changed via policy to alter outcomes. In other words, How do "societies balance respect for market-determined allocation with the principle of allocating goods according to need"?[3]

Working against the popular theory of marginalism (resources will mean the most to those who have the least), he argues that the criteria are all wrong and economic theory has missed the boat (or in this case, perhaps a whole cruiseline) because it hasn't questioned the basic assumptions of this. At its foundation, in the law of diminishing marginal utility, the assumption is that positive experience grows as consumption grows, albeit at a rate slower than such consumption. In other words "the less of a good one consumes, the greater the satisfaction one derives from a little bit of it".[4] The third ice cream after dinner, he tells us, gives us a great deal less pleasure than the first.

Yet what occurs when put in place of a 'pleaser' is a 'reliever'?: a law of increasing marginal utility. Found in yet another daily example of his, paying off a stack of ten household bills, payment of the first will give little relief while the last will give a great deal; the same thing happens with a bunch of dishes, applying dabs of salve to bee stings, grading a stack of mid-terms, writing dissertation chapters. The point is that the law of diminishing marginal utility has usually been applied to pleasers, and thus it has historically held more weight as a general theory than it really ought to. But simply distinguishing relievers and pleasers is not enough for Karelis; to understand poverty we must remember that something can serve as both: a reliever at a low level of consumption and a pleaser at the high level. Thus, reliever/pleasers "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".[5]

Furthermore, "one person's 'reliever level' income is another person's 'pleaser level' income"[6] and thus those with the same income easily can and do act quite

[3] *Id.* xiii

[4] *Id.* at 51.

[5] *Id.* at 74-75.

[6] *Id.* at 113

differently. And because this is an argument that travels out of the realm of economic theory, it proposes new implications for political activity: those who are less oppressed will fight back while the truly wretched won't, since the latter group has become so saturated with problems that yet another one makes little substantial difference. So the very poor become less likely to exert themselves for financial gain than the poor-but-not-very-poor, specifically because they are so impoverished and there is such a multitude of problems that an hour of salaried work makes little difference in true relief. Thus, poor individuals engage in the big five poverty-sustaining activities because they are in fact rational. Motivating them into a long term savings plan requires that consumption smoothing is efficient; currently not the case for the most destitute. Simply put, the poorest need quick returns, and those who are so poor will act differently than those who are only somewhat poor.

Although he doesn't discuss it, this argument parallels the old question of whether or not avoiding pain and problems is as rational as seeking out pleasure and satisfaction. This is certainly a relevant question in any debate on poverty. Karelis demonstrates that these are not as similar as we may have expected in the past. While economic theory has traditionally defined poverty-sustaining behavior as irrational behavior, access to fewer resources realistically translates more definitively into a bigger barrel of problems. After all, why bother to resolve one bee sting when you have all the rest still keeping you in pain?

While this is an argument built upon the foundation of the United States as the case study, where poverty is less extreme than in, say, African countries, his case may indeed falter when he argues that those in America have different motivations than Africans in life or death extremes. Clearly, it applies only to those above a survival motivated, subsistence based consumption. Yet not all Africans are living at the brink of economic disaster and given the power of kinship relations and the dearth of women's rights (albeit Western defined) in developing regions, it remains unclear as to how this holds up when packing it up and traveling with it across developing regions. Where, specifically, is the evidence that this works? Yet at the same time, this might serve as a basis for explaining why those most poor (e.g. Africans) seem less likely to pull themselves out of poverty in comparison with those not-so-poor (e.g. Asians), although structural and institutional variables inevitably cannot be eradicated as quickly as this theory might require.

Throughout, various popular theoretical explanations are discussed and discarded, and in the opinion of this reviewer, the least satisfying discussion is that concerning akrasia (failure to enact one's preferences or a weakness of the will). I would argue that preference formation may or may not stem from relationships of power, depending on the culture in which one is a part; the possibility that genuine, potentially violent coercion is involved may render activity based on true preferences potentially impossible. He discards too the argument that limited opportunities (e.g. an inability to find work) is a salient factor in the case of the US (although to his credit he does say this may be more applicable elsewhere) and it thus remains unclear how such coercive power would specifically fit in here. If he perceives an inability to find work as insubstantial enough to serve as a realistic obstacle, where fits the patriarchal desire of some men to keep their women at home in the domestic realm? Certainly this is changing within poor families, but it does still exist, and many women are saddled with impoverished conditions combined with a high number of offspring. We must remember that 'restricted opportunity' includes a wide gamut of potential blockades, both tangible and psychological, and is not defined solely as the inability to find work. While remaining unconvinced that these theories he discards can in fact be eradicated so quickly, I do agree that many are often deficient in their ability to serve as optimal general theories, so we're back to the idea than none of these seem quite ready to travel across continents…yet.

So what's the point in all of this? The goal is to make poverty reducing behavior, well, rational. The broader question is how policymakers can change the poverty-sustaining behavior. Culture is also included; two groups might be equally poor but some will take lower paying jobs to get ahead because they came from a more impoverished community (demonstrating increasing marginal utility), while others will not. So although it's relative, he argues it is still generalizable because cultural differences impact the way that income is perceived and thus affect behavior. Although he doesn't draw the parallel, here his debate concerning 'hardnosed' versus 'bleeding heart' tactics on offering help to non-workers is much like the broader international debates concerning the usefulness of aid to impoverished countries, a practice that often makes some less likely to help themselves as they sit back and wait for handouts in donor saturated countries. (To this, he would argue the opposite occurs within the US, citing the success of the Earned Income Tax Credit as proof.) His conclusion centers on several policy recommendations: targeting low income students with job specific (instead of career path) education programs, inverse tax incentives for saving and bulk payouts of e.g. Social Security. Most believable (and likely to occur) are the prescriptions for deterring crime: raise the odds of punishment, make sentences longer, and improve salaries to create incentives. To be certain, this research caters to those with varying backgrounds in economic theory and is simple enough for the university undergraduate to comprehend, in part because his argument incorporates real-life scenarios that are relevant to the task at hand. His is an informal yet still scholarly style of writing that makes what can otherwise stand as esoteric economic jargon an easy read. Those with greater knowledge of economic theory will also appreciate his provocative yet well thought out argument (which even includes a section on questions that attempt to discount his theory).