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Conclusion

Between Altruism and the Market: an Economist’s View of the Fight Against Poverty

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It is no easy task to conclude this special issue of FACTS Reports, given the sheer breadth and diversity of the analyses it contains. One would need in-depth knowledge of a whole range of fields—anthropology, sociology, history, law, management, economics—to adequately identify all of the lessons that can be drawn from these papers.

Let me, then, stay with my own field of competence, and offer a conclusion from the standpoint of an economist.

The fight against poverty is, admittedly, an area where economists have every reason to be modest. The results of the actions undertaken by public and private agencies to reduce poverty using economic instruments designed to increase the incomes of the poor have fallen well short of our aspirations. Moreover, and more fundamentally, economic theory based on the principle of individual rationality is not well suited to the logic of altruism that to a large extent underpins these poverty reduction initiatives.

The standard economic approach relies on economic actors exercising their individual freedom to pursue wealth, which, according to the founding principles set out by Adam Smith, also furthers the collective welfare. But the exercise of any freedom is associated with duties, and the exercise of these duties—the rich toward the poor—is a key element in the fight against poverty (Kourilsky, in this volume). Following on from this logic, and looking at roles of the firms in society, it can be argued that their primary responsibilities, i.e. their economic and financial responsibilities to their shareholders, are not incompatible with their social responsibilities to their employees, and their wider societal and environmental responsibilities (Renouard, in this volume).

As these points of view suggest, the strictly economic approach is arguably not the right one to meet the challenges of the fight against poverty. One may then want to turn to an alternative approach, such as anthropology (Marie, in this volume). Economic theory does, however, enable us to construct lines of reasoning pointing to the conclusion that it can be in the interest of the rich to help the poor, because of the many interdependencies that characterize the life of the community, at whatever scale—local or global—the community is defined. Seen from this angle, the implementation of poverty reduction initiatives is not always a manifestation of altruism, but rather the result of economic calculation. Such initiatives cannot, however, be purely individual; they need coordination mechanisms to be put in place, which are, to a large extent, the basis for public action in many areas.

One area very familiar to specialists in the fight against poverty is that of official development aid, which funds many public or private anti-poverty projects in developing countries. It is an undeniable fact that official development assistance is, in certain circumstances, motivated by altruistic goals of fighting poverty. One could cite the example of the aid given to international organizations like the UNDP. And indeed the aid agencies say just that in their policy statements, which seek to present official development assistance as a disinterested action in favor of underprivileged nations. But looking beyond this discourse, studies by many economists suggest that official development aid is not necessarily motivated by altruism. It is often underpinned by objectives related to the production of global public goods (Severino, in this volume), or even sometimes by mere political or commercial objectives specific to the donor countries (Berthélemy, 2006). These lines of reasoning present the fight against poverty as a kind of secondary objective, through which other issues are being addressed, and there is, in that case, precious little chance that the actions undertaken will prove totally effective in reducing poverty (Alesina & Dollar, 2000). We should therefore not be surprised if—as regularly asserted in debates on the effectiveness of official development assistance—international anti-poverty policies are only partly successful in achieving their aim. Kerouedan (in this volume) provides a relevant example, in her discussion of aid to Africa in the health sector.

Equally, it is worth asking whether instruments like official development assistance are really best suited to dealing with these problems. The idea of giving fresh impetus to official development assistance in order to help poor countries, for
example, to participate in the actions required to slow down
climate change clearly stems from good intentions, but surely
the first question to ask is: What are the best instruments for
combating global warming? As it happens, priority assis-
tance should probably be given—as indeed it is under the UN
Clean Development Mechanism—to the large emerging coun-
tries which are also large potential polluters, rather than to
countries that are really in need but whose contribution to
greenhouse gas emissions is only marginal. Or again, inject-
ing official development aid to satisfy the commercial inter-
est of major national corporations, as happens in the case of
tied aid, is not necessarily the most appropriate way to re-

turn to the demands of any particular pressure group.

Likewise, at a more microeconomic level, in private anti-
poverty initiatives, one might ask how much is down to al-
truism and how much is down to economic calculation. In
social business, for example, what proportion is altruistic
action and what proportion an attempt to create and capture
new markets? There is doubtless no single answer to this
question, and several of the papers in this special issue cite
examples of how social entrepreneurs, driven by a sense of
social responsibility, have helped to reduce poverty. These
experiences should, however, be analyzed with some cau-
tion. Some of the advocates of the “base of the pyramid”
approach have observed, after ten years of experience, that
the approach does not work well when it takes enterprise
leaders too far away from their core business (Simanis &
Milstein, in this volume). According to Abraham (in this
volume), the social lens should belong to the investor,
 whose role is to identify promising investment projects
that would serve the needs of the poor, and not to the entre-
preneur, whose role is to implement efficiently these proj-
ects. It seems preferable therefore to bank on joint ventures
between profit-seeking private companies and not-for-
profit organizations, where each party brings in its own par-
ticular abilities (Yunus, Sibieu & Lesueur, and Thieme &
DeKoszmoszvsky, in this volume). More generally, alliance-
building enables private firms and non-profit actors to trans-
flect each other and mutually reinforce their efforts to
reduce poverty (Lemoine & Carré, in this volume).

We should be wary, however, of a vision that portrays busi-
ness and the market—driven by the quest for profit—on one
side, and non-profit organizations, of exemplary altruism, on
the other. When non-governmental organizations mobilize to
help the poor, they do so, in many cases, out of altruism, but
in other cases they do so for other motives, such as using
humanitarian actions as a means of proselytizing deprived
populations. In such cases, poverty reduction is, once again,
only a secondary objective, facilitating the achievement of
other objectives that are not necessarily altruistic.

To round off this analysis of the role that the altruistic goal
of helping the poor can play in poverty reduction strategies,
it is worth reiterating a simple rule about matching instru-
ments to objectives. This rule, which economists ascribe to
Tinbergen, is that there must be one policy tool for each
policy target, and vice versa. If we have two targets, such as
satisfying particular interests, or the goals of an interest
group, and also helping the poor, then we must assign a
different tool to each target.

This rule may seem simplistic and therefore ill suited to the
complexity of the modern world, but it has the merit of em-
phasizing the need to impose strict requirements of efficiency
on anti-poverty actions. This efficiency requirement cannot be
ignored, even in the context of genuinely disinterested ac-
tions; ignoring it would render such actions partially futile, or
even would frustrate them. The propensity for altruism is not
in infinitely elastic, and the resources that can be drawn upon
to reduce poverty will inevitably tend to diminish if the expected
results are not forthcoming. This problem will be all too famil-

iar to those who study public opinion on development aid.

In this vein, if we are serious about improving the effec-
tiveness of the fight against poverty, we would do well to
supplement the Tinbergen rule with another basic economic
rule, the rule of specificity, which is useful for studying the
formulation of public economic policies. This rule states
that, to be truly efficient, the chosen instruments must di-
rectly address the root causes of the problem, not its indirect
causes. This makes it essential to understand the origins and
dynamics of poverty in order to be able to use the available
resources as efficiently as possible, in the longer term. The
production and dissemination of knowledge about poverty
must therefore be seen as a central part of the initiatives re-
quired to fight poverty efficiently and effectively.

Take, for example, social protection programs. Currently,
the prevailing logic, as observed notably at the World Bank,
is to develop social protection in three dimensions: pre-
vention, protection and promotion. This logic is based on a
specific analysis of poverty, according to which transferring
income or other resources to the poor is not sufficient to fight
poverty effectively. There are phenomena such as poverty
taps (Barrett, Carter & Ikegami, 2008), into which people
fall unless prevention mechanisms are put in place. These
poverty traps are characterized as states of stable equilibrium
from which it is particularly difficult to exit once one has
fallen into them. For example, as studied by Dalsace, Vincent,
Berger & Dalens (in this volume), there are penalties of pov-
erty, through which the poor pay goods that they consume at
a higher price than non-poor people, which immiserize them
further and contribute to prevent them from escaping poverty.
As a consequence of poverty trap phenomena, it often costs
more to get someone out of poverty ex post than to imple-
ment ex ante prevention against the risks associated with life
events that can reduce people to poverty. This prevention
policy is made all the more necessary that the incomes of the
poor are characterized by great variability and unpredictabil-
ity (Morduch, in this volume). In parallel, promotion initia-
tives must be envisaged, to enable those of the poor who have
the potential to do so to escape from poverty in a sustainable
way, thanks to the aid they are given initially. To be effective,
this exit from poverty must be accompanied by a change of
state, by which those leaving poverty behind regain their
ability to meet their own needs without depending on aid. In
a market economy, this principle demands that the exit from
poverty must be accompanied by the reintegration of the for-
merly poor into normal market relations, from which they are
usually excluded (Fontaine, in this volume).

If we adopt this poverty-trap analysis, it becomes clear that
without a detailed understanding of how and why people fall
into the poverty trap, it is impossible to fight poverty effectively. There are probably multiple factors at work, which may to a large extent reflect the concept of loss of capabilities.

Pushing this logic to its extreme, it could also be argued that social protection programs should start by targeting those of the poor who have the best chance of bouncing back and escaping the poverty trap forever, thanks to the aid they receive; this would free up resources to provide longer-term support for the most deprived. This type of targeting might be unacceptable on moral grounds, because it might mean helping the less needy among the poor, but raising the possibility at least has the merit of showing that it needs to be discussed when implementing social protection programs. More generally, it is essential for the long-term viability of all anti-poverty actions, including social protection programs, that they take into account the cost-effectiveness ratio of the various potential alternatives.

Likewise, conditional cash transfer programs—the best-known being Mexico’s Progresa program and Brazil’s Bolsa Familia program—are founded on the idea that simply transferring income to the poor is not effective, and that it needs to be backed up, firstly, by strong incentives to acquire the necessary capabilities to get out of poverty, notably through education and health, and secondly, by conducting complementary actions aimed at extracting the poor from the situation of vulnerability in which they start out (Mourão & Macedo de Jesus, in this volume). Unless we can restore capabilities of the poor and reduce their vulnerability, any poverty reduction program based on transfers will be ineffective; the transfers will simply have to continue for an indefinite duration, and the resulting costs would escalate out of control.

Economic research on poverty, and on development economics in general, can probably help to improve the cost-effectiveness ratio of poverty reduction programs, as the previous examples suggest. In this special issue, we are presented with other examples, thanks to papers that help us get a better grasp on the very definition of the word poverty, showing that it has multiple facets, beyond poverty in terms of absolute income (Damon, and Supiot, in this volume). But economic research can offer only partial responses to the challenge of poverty, and the fight against poverty is so urgent that we simply do not have time to wait for economic research to come up with all the answers. Moreover, as in all the social sciences, the object of study of poverty research evolves over time, entailing a constant reassessment of our knowledge. We must therefore be pragmatic in designing processes that have a realistic chance of helping to foster greater effectiveness in the fight against poverty. On first analysis, from an economist’s standpoint, the method that springs to mind is to introduce the market economy principles into the formulation of altruistic actions. This special issue provides many examples, both historic and present-day, of just such a combination. Social entrepreneurship is a case in point. We also see it when large private foundations support anti-poverty actions while requiring that they be designed and conducted according to the same principles of efficiency and effectiveness that hold sway in their parent companies. GAVI and other actions supported by the Gates Foundation are good examples.

It would be naïve, however, to think that the market, or that private enterprise, inherently knows how to identify the most efficient or effective solutions. In the economic theory of markets, one can reasonably postulate that a firm that is less well managed will eventually disappear, as it will make losses due to competitive pressure and will end up losing its capacity to invest, or even its capital. There is therefore a kind of natural selection at work: according to this analysis, the market tends toward greater efficiency. But even in a market economy this outcome has its limits, as attested by the many dysfunctions on display in the financial sphere, where the herd behaviors ultimately prevail, leading to the crises we see around us, and impeding the efficiency of the economic system.

If we are looking to the market to make altruistic actions more effective, we are even more likely to be disappointed. Almost by definition, the law of natural selection does not operate in this context: an altruistic enterprise can survive even if it loses money, because it sources its funding from disinterested donations. One might argue that making different anti-poverty actions would compete for donations would incentivize them to achieve a better cost-effectiveness ratio. But a world where anti-poverty actions were always in competition would probably lead, also, to bad incentives. Actors would lose sight of the initial objectives—helping the poor—instead seeking only to maintain the long-term viability of their projects, and focusing on actions with instant visibility. Taking a dispassionate look around the world of NGOs currently active in the development field, it seems we are not a million miles from that situation already.

Without minimizing the contribution of market economics to the search for greater efficiency and effectiveness in poverty reduction projects, we must therefore find alternative, or complementary, ways to elicit the most effective actions. The FACTS initiative has clearly identified one such technique: disseminating a maximum of information about good and bad practices, and leveraging a peer review mechanism to promote the former at the expense of the latter (Kourilsky, in this volume). This approach, which seeks to introduce the methods of the experimental sciences into ground-level projects, already has a counterpart in development economics research, where studies drawing on randomized trials contribute, alongside more analytical work, to the task of identifying anti-poverty actions that are likely to yield results, as illustrated in this volume by Bates, Glennerster, Gumede & Duflo, who show that asking the poor to pay even a minimal price for health or education services might be counterproductive.

Of course, such an approach can only bear fruit over the longer term, but the same is true of the natural selection mechanisms of the market economy. Moreover, this approach has the merit of being consistent, in its philosophy, with the altruistic goals behind poverty reduction projects: if we have the same goals, why compete—when we can cooperate, by sharing information about good practices?
 References