

Poverty and economic growth

by Robert M. Solow

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Whenever social institutions malfunction, the incidence of damage will usually be distributed unevenly over the society's members. Some are simply not exposed to the problem and some have the skill and the wherewithal to escape it. More significantly, the rules that govern the society's operation may determine the extent to which members are affected by the institutional failure. So, Lampman showed, the incidence of poverty was disproportionately high among the old, the uneducated, among female-headed families, among rural people, among those employed in low-paying occupations and industries, and those with weak attachment of any kind to the labor market.

There is a natural tendency for commentators on the problem to blame the victims, not only for their own distress but for the problem itself. If Problem A imposes a burden disproportionately on those with Characteristic X, then it seems reasonable—and comforting—to say not only that those in trouble are in trouble because they have Characteristic X but also that X is *intrinsic* to A, that Problem A exists only because of the presence of people with Characteristic X. Problem A can be “solved” by somehow shrinking or eliminating the population of bearers of Characteristic X, and only that way. It is a sort of Theory of A.

Now there is nothing illogical about this sort of theory. It could be true, or it could be half true or a third true. It is possible that Disease A occurs inevitably in all those and only in those for whom Gene 99000 on Chromosome 17 has form X. Selective breeding or genetic engineering may be in fact the only way to eradicate Disease A. But blaming the victim is more tempting than it deserves to be. Art Okun had a pungent way of putting it. A naive person, on seeing a car with a flat tire, will naturally believe that the hole in the tire must be at the bottom, because that is where the tire is flat. Most of us have learned otherwise. That may be too pungent; I have a more pedestrian analogy. The Titanic hits an iceberg and sinks. There are lifeboats sufficient to save only 75 percent of the passengers. The rules of the game are: women and children first, followed by the good-looking

men. When the econometricians are through with the casualty list, they will all have observed that the incidence of drowning was disproportionately high among homely men. Some will conclude that they drowned because they were homely men. They were, so to speak, “structurally drowned.” A few will propose that drownings at sea could be eliminated if homely men were not allowed on ships, or even that the beautification of homely men will prevent ships from hitting icebergs. You see what I mean by a third of a truth; even the theory of “structural drowning” is true only in a very special sense. They drowned because they were homely, but a quarter of the passengers were bound to drown. The aggregate amount of drowning has quite different causal routes from the selection of those to be drowned.

Back in 1959 Lampman felt impelled to emphasize his belief that the continued growth of the economy, with increasing employment and increasing output per person employed, would by itself significantly reduce the incidence of poverty, especially among black people and those tied to low-income industries and occupations, less so among the uneducated, the old, and female-headed families. He thus took issue with those who were urging that poverty was primarily “caused” by the characteristics in question and would yield only to treatment aimed at those characteristics themselves. Two years later, as a staff member of the Council of Economic Advisers, I went through a similar investigation of the incidence of unemployment, thought by many to be “structural” and therefore de-linked from the general level of economic activity. I came to Lampman-like conclusions.

Lampman noted that the overall incidence of poverty had diminished quite a lot—according to his definition from 26 percent of the population in 1947 to 19 percent in 1957. Sheldon Danziger pointed out that Lampman's projection of poverty numbers to 1977—12 percent—had been a bull's-eye, but that the process had not continued between 1977 and 1987. He suggested that we might speculate about why this change had occurred, why Lampman's general optimism seemed no longer to be relevant. Well, there are two possibilities: one is that the connection between general economic growth and the reduction of poverty is less firm or not true at all any more, and the other is that the development of the general economy was not as favorable as Lampman had expected it to be. Of course both could be true. It is to be noted that Lampman was not counting on any substantial redistribution of income to the poor. He observed that the

"The Low Income Population and Economic Growth," Study Paper No. 12, Joint Economic Committee, Congress of the United States, December 16, 1959.

. . . It is paradoxical that in this time of great prosperity in the richest nation in the world there should still be a substantial part of our population with incomes far below what is thought of as the American standard.

In the period since World War II great advance has been made in raising the total national income and the income per family and per person. Has similar progress been made in reducing the numbers in low-income status? What are the socioeconomic characteristics of the group that remains in low-income status? In what respects does this group differ from the total population? To what extent do "handicapping" characteristics of old age, nonwhite color, loss of breadwinner, and low education seem to explain the persistence of low incomes? Is the low-income problem peculiarly associated with any region or occupation or family size; are any important number of our children afflicted by low family income? These are questions that relate to an appraisal of the present low-income problem. . . . (p. 3).

It is expected that smaller numbers of persons will be in low-income status in future years. Projection of past experience suggests that only 10 to 12 percent of the population will be low-income persons by 1977. It is alleged by some that modern poverty will not yield to economic growth in the future at the same rate it has in the past. We appraise this allegation as one having some merit and conclude that the numbers in poverty will fall with economic growth in a manner similar to, but slightly slower than that of the past.

It is notable that reduction of the numbers in poverty has been accomplished with little change in the share of total income going to the lowest income groups. Government policy aimed at moderating economic inequality seems merely to have prevented a fall in the share of income of the relatively poor. A more aggressive Government policy could hasten the elimination of poverty and bring about its virtual elimination in one generation. (p. 4).

Ends and Means of Reducing Income Poverty (Chicago: Markham Publishing Co., 1971).

The three theories about causes of poverty . . . show ways in which our system selects people to be poor. These have to do with risks, barriers, and personal differences. Some remedies are suggested by this three-point analysis.

It is consonant with the "risk" theory that poverty will be minimized to the extent that frequency of disability, premature death, family breakup, loss of savings, and unemployment can be reduced. To the extent that a basic risk cannot be done away with, individuals, private groups, and governments can take steps to insure against the loss of income associated with the risk.

Poverty is sometimes seen as the result of failure of successive lines of defense against it . . . Another framework for consideration of risk is suggested by what might be called the life-cycle classification of causes of poverty according to phase of life. Some persons are born into poverty. Others enter it in childhood because of death or disability of a parent. Some enter it in adulthood because of a personal disaster or failure to insure against all risks. In this "risk theory" the emphasis is upon randomness and historical accident, as in a fable Carl Sandburg told of two cockroaches washed off a roof by a rainstorm. One fell in a rock pile and the other in a garbage pail. When they met again the first cockroach asked the other, "How does it happen that you are so fat while I am so lean?" The answer was, "It is because of my foresight, industry and thrift."

A second class of remedies, which are identified with the "social barriers" theory of poverty, includes such things as breaking down practices of racial discrimination in hiring, housing, and education; improving mobility of labor from rural to urban occupations; and bettering chances for women and elderly people to work in a wider range of occupations. These remedies also include improving the environment of the poor and integrating the poor with the rest of the community. William Penn alternated the wide and narrow streets in Philadelphia so that the rich and poor would know each other.

The "social barriers" theory says that if poor people are different from the nonpoor, it is because of the fact of poverty rather than because of innate traits. One hundred years ago the Irish drank because they were poor, rather than vice versa. According to this theory, poverty itself is what is transmitted. It is an inheritable disease. The observable personal differences which are asserted to be symptoms rather than causes will abate if the conditions of poverty are remedied. Here the analogy to public health matters is clear.

A third theory is that people are selected to be poor on the basis of personal differences (which may or may not be transmissible) of ability, of motivation, of moral character, of will and purpose. Some philosophers consider life a matter of survival of the fittest and a contest which rewards the morally as well as the financially elect, and appropriately visits the punishments and rewards unto the second or third generation. However, if we want to reduce poverty, we may strive to reduce personal differences of ability and motivation. Here again there is a wide range of steps that can be taken. (pp. 138-140).

lower end of the Lorenz curve had not shifted perceptibly between 1947 and 1957.

The way the economy has evolved is certainly part of the story. There is no need to carry the reasoning all the way back to the productivity slowdown of the 1970s and 1980s, though Lampman was careful to stipulate that it would take continued productivity growth to contribute to the reduction of poverty. It should be enough if I remind you that real average hourly earnings (and real compensation as well) peaked in the years 1973–77 and are now lower than they were then. Real family income has continued to rise slowly, but with the major contribution coming from an increase in the number of workers per family. Poor families are not usually multiple-earner families anyway. I would be surprised to learn that the labor market had contributed as much to the reduction of poverty after 1977 as it had done before, through the mechanism of rising wages.

One way to check this hypothesis would be to look at the experience of a state like Massachusetts, where employment is very high and where real average hourly earnings have risen faster than the national average, as a result of the tight labor market. My colleague Paul Osterman has been studying the incidence of poverty in Boston. He finds that the incidence of poverty among Boston families fell from 18 percent to 13 percent between 1980 and 1988.¹ The reduction was slightly sharper among black families than white, and rather slower among Hispanic families. It is only a scrap of evidence, but it goes in Lampman's favor. Clearly low unemployment and rising real wages were the main forces at work.

Lampman counted the old among those subgroups for whom the incidence of poverty would not yield much to "mere" economic growth. Rising wages do not help those who are out of the labor force. He could not know that the expansion of Social Security coverage, the creation of Medicare, and the indexation of increased benefits would essentially eliminate old age as a statistical disadvantage relative to the population at large. From that source the future turned out to be more favorable than Lampman had any right to believe. On the other side he argued that low education was another disabling characteristic relatively immune to dissipation by economic growth: but he "confidently predict[ed] that the numbers having low educational attainment will fall and from that deduce[d] that the percent of persons having low income will fall."² My guess is that Lampman expected rather more from the advance of public education than the system has been able to deliver in the 1980s, for fiscal and sociological reasons that are too deep for me to fathom. This source of excess optimism can be set off against the excess pessimism on account of the old.

I am left believing that the fact of wage stagnation, rather than any misconception on Lampman's part of the relation between growth and poverty, is the important source of the failure of the incidence of poverty to diminish after 1977. To this must be added the general and deliberate regressiveness

of federal policy during the Reagan years. I mentioned earlier the casual tendency to blame the victim; the conservative twist has been a tendency to punish the victim.

I want to give "structural" explanations their due, as Lampman did in 1959. There are, after all, people whose personal characteristics condemn them to pretransfer poverty in a market economy. It is not necessarily their fault; it may be their tragedy. Continued growth of the economy, accompanied by increasing productivity, may have only limited capacity to improve their situation. If we count what I will loosely call "disaffection" or "disorganization" among those personal characteristics, then the number involved can even increase within a short span of time. If the normal process is successful, as Lampman anticipated, then as time goes on the proportion of the poor in the category he described as "immune to economic growth" will increase. This is especially hard to know with any accuracy as the disabling characteristics get less and less easy to pinpoint statistically. We have learned to look to the Institute for Research on Poverty to inform us about such matters, in the tradition that Lampman so gloriously began.■

¹ Paul Osterman, "Gaining Ground: The Impact of Full Employment in Boston," forthcoming in *The Urban Underclass*, ed. Christopher Jencks and Paul Peterson.

² Lampman, "The Low Income Population and Economic Growth," Study Paper No. 12, Joint Economic Committee, Congress of the United States, December 16, 1959, p. 27.

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