Social Economics, Poverty, and Human Development: Conceptual Approaches, Empirical Analysis, and Policy

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Abstract

How vulnerable groups fare in society and how they are affected by public policy have long been topics of high interest among social economics researchers. This is why poverty and human development were chosen as the themes for the program of sessions organized by the Association for Social Economics at the 2017 annual meetings of the Allied Social Sciences Associations in Chicago. Among three dozen papers presented at those sessions, eight were selected for inclusion in this proceedings issue. While two of the papers are theoretical or conceptual, respectively on discrimination in markets and ignorance in economics, most of the papers are empirical. They cover issues related among others to entrepreneurship, employment, the measurement of poverty, adolescent pregnancies, growth and shared prosperity, and finally student debt. Together the papers provide valuable contributions to the field of social economics and the topics that many researchers in the field as well as readers of this journal care about.

Introduction

Researchers interested in social economics have traditionally worked on topics that matter for how vulnerable groups fare in society and how they are affected by public policy. Issues related to the eradication of (extreme) poverty and investments in human development remain vital today in both developed and developing countries. This is why poverty and human development were chosen as the themes for the sessions organized by the Association for Social Economics (ASE) at the 2017 annual meetings of the Allied Social Sciences Associations in Chicago.

Eight papers presented at the ASE sessions at the ASSA annual meetings were selected for inclusion in this proceedings issue. This introduction considers the papers in three separate sets related respectively to conceptual approaches, empirical analyses, and policy suggestions. The first set includes two theoretical or conceptual papers by Kaushik Basu on the natural emergence of discrimination in labor markets, and by David Collander about ignorance in economics. Next, four empirical papers are briefly summarized – they relate to entrepreneurship, the impact of internet adoption on the labor market, multidimensional poverty, and finally child marriage and early childbirths. The last set of papers is also based on empirical analysis, but it focuses slightly more on policy implications in the areas of shared prosperity and student loans. While the eight papers are fairly different from each other, and while they cover a broad range of topics, there are some interesting common messages that come across the set of papers as a whole, in terms of how they illustrate approaches used in social economics. This is briefly discussed as well.

Conceptual Approaches

Consider first the two conceptual papers by Basu (2017) and Colander (2017) and how they fit within a social economics approach to the analysis of economic phenomena. As noted by Hellmich (2016), social economics can be broadly conceived as an umbrella term for diverse and occasionally antagonistic approaches which do not necessarily add up to a consistent and unified paradigm for the analysis of economic phenomena. Still, common characteristics of social economics approaches include an emphasis on the fact that (1) economic phenomena, institutions and actors are social embedded; (2) economic phenomena are path dependent historically; (3)

motivations for economic action are multiple, and not necessarily limited to utility maximization; and finally (4) due to the complexity of the phenomena considered, researchers are well served to rely on interdisciplinary and transdisciplinary analysis (Hedtke, 2015).

Hellmich (2016) notes that practitioners of socioeconomics often claim that their approach relies on more realistic assumptions than is the case with traditional (neoclassical) economics. This could be debated, given the flexibility demonstrated by mainstream economics for many decades now to accommodate a wide set of models about human behavior. But thematically there is clearly a strong emphasis in social economics – and increasingly in mainstream economics – placed on the limits of the market mechanism. In that area, social economics approaches, rather than replacing neoclassical theory, can usefully complement traditional approaches.

The first paper in this special issue by Basu (2007) is about how discrimination can naturally emerge in markets due to the benefits reaped by employers when relying on group identity when making decisions. This is the topic that Basu chose for his keynote address to the Association for Social Economics in Chicago. Why has discrimination been so prevalent historically, from India's caste system to slavery in the United States, and why does it continue to be so widespread today, as illustrated by Bertrand and Mullainathan (2004) in the case of racial bias in hiring decisions in labor markets? Beyond standard explanations such as the prevalence of prejudice, Basu argues that the market itself plays a role. Assume that there are complementarities between different tasks to be performed in labor markets. Basu shows that even when two groups are identical in terms of their basic characteristics, the simple fact that there are benefits in having the same person perform multiple tasks with strategic complementarities will give an edge to some workers to be hired to the detriments of others. This in turn will lead groups to be created in order to increase the likelihood of such strategic complementarities.

One example of these patterns at work are the networks of contacts that future workers are able to develop through university alumni associations and fraternities, with benefits from these contacts being potentially larger for the members of groups that tend to be smaller and more exclusive. Because group identities can be used by workers to signal strategic complementarities, and because employers know the value of these complementarities, they may discriminate against certain groups to the benefit of other groups. This may lead to serious disadvantage for excluded groups, especially in a context where due to technological advances the opportunities to work and the share of GDP allocated to labor are on a long-term declining trend. This natural discrimination in markets may require governments to intervene to the benefit of excluded groups, for example through redistributive taxation. Basu emphasizes the need to properly account for context when using this type of model in any particular application. Yet the model, while cast within a mainstream economics approach, is highly relevant for social economics.

The second conceptual paper by Colander (2017) is about ignorance in economics. As Collander claims, he is a specialists in ignorance, and so are most of us. Ignorance is not uncertainty: it cannot readily be integrated into formal models. This implies that there is a risk in trusting and using our models for policy too much. That this risk should be recognized more forcefully, with perhaps the recent financial crisis being an illustration of the potential costs of not doing so. For some time, Collander has been a critic of standard economic approaches. He jokes that he used to suggest that economics should consider their craft as an art instead of a science, but this was met with artiphobia in the profession. In his paper, he is now aiming for a new approach which may well succeed better: he is arguing that economics should be seen as an approach similar to engineering, instead of that of a (social) science. This, he hopes, may be somewhat easier for economists to accept.

Perhaps because I was initially trained in business engineering a long time back, Colander's description of the methodology of economics as applied engineering is appealing to me. Engineering uses science, Collander argues, but it does not limit itself to the methodologies of science. Essentially, engineers use whatever "works", and they experiment to find out what works. The designs for cathedrals more than a thousand years ago were not based on extensive scientific models, but rather on a process of trial and errors. Engineers use models as (state of the art) heuristic, namely approaches that help them find solutions to particular problems. On the basis of his analysis, Collander concludes that five basic rules, inspired from the approach of engineers, should inform the work of economists, especially when working on policy: (1) economists should rely on all and any heuristic that helps then find a solution to the problems they are facing, and not solely rely on formal models; (2) they should see themselves as problem solvers, and not so much as truth seekers; (3) they should emphasize the fact that their work is often ad hoc; (4) they should share their recommendations with a grain of salt or “fudge factor”; and finally (5) they should aim to be more creative when thinking about policy and the discipline. Again, there is probably little doubt that many social economists would agree.

Empirical Analysis

The second set of papers in this issue consists of empirical analyses on topics that matter for well-being and that many social economists are concerned about, namely entrepreneurship (in the United States), employment and wages in the face of technological advances (in Brazil), poverty and its many dimensions (in Africa), and adolescent pregnancies (worldwide).

The paper by Weller (2017) is about changes over time in entrepreneurship by age in the United States. Traditionally, older households have had lower rates of entrepreneurships than younger households probably in part because they tend to be more risk averse given that they have less time to recover from potential losses from their ventures than is the case for younger households. Yet over the last few decades, there has been a reversal. According to the most recent data, rates of entrepreneurship are now lower among households headed by individuals younger than 50 years than they are for households headed by those above 50. One potential explanation could be the fact that older individuals have been able to accumulate more wealth, which acts as a buffer against the risks associated with entrepreneurship, while younger households have been encountering more difficulties in accumulating wealth. The author tests for the impact of income diversification on entrepreneurship and find indeed a positive and statistically significant correlation. While this does not imply that changes in income diversification explain most of the changes in entrepreneurship over time, it does lend some credence to the fact that changes in income diversification may have played a role in the reversal in entrepreneurship rates. This then has implications for inequality, the opportunities for entrepreneurship available to younger workers, and possibly as well the rates of entrepreneurship that may be observed in the future.

The paper by Dutz et al. (2017) is about the economy-wide and sectoral impacts on workers of Brazil’s internet rollout. The authors assess the effect of access to the internet (measured with data on access in schools) on employment and wage patterns at the level of municipalities between 2000 and 2014, a period during which internet access increased rapidly. While internet access had no statistically significant effect on total employment, it was associated with a reduction in both average wages and wage dispersion. In addition, while economy-wide employment effects were small, access to the internet was associated with shifts in employment between sectors. Gains in employment were observed in transport and storage, finance and insurance, real estate, and manufacturing industry groups, all sectors that are expected to be able to take advantage of information and communications technology to improve efficiency and thereby increase sales in Brazil and abroad. By contrast, workers were displaced in public administration and retail and wholesale services occupations. The findings point to the need for policies mitigating sectoral displacement as well as potential losses for unskilled workers.

The paper by Alkire et al. (2017) considers trends in poverty in Africa. The analysis relies on measures of multidimensional poverty derived from Demographic and Health Surveys (DHS) for 35 countries. For a subset of the countries, trends in multidimensional poverty from the DHS surveys are compared to trends in monetary measures of poverty obtained from surveys that have data on household income or consumption. In most countries accounting for more than 90 percent of the population in the samples, poverty as measured by the global multidimensional poverty index was reduced, but this was not the case to the same extent for monetary measures. This suggests that using both approaches – not only traditional monetary measures, but also multidimensional indices, can provide a richer picture of trends in well-being. The combination of measures can also shed more light on the relationships between growth and well-being.

Finally, the paper by Wodon et al. (2017) considers the role that child marriage plays for teenage pregnancies, or more precisely early childbirths. Child marriage is defined as marrying or living in a union before the age of 18. Early childbirth is defined at the level of women as having a first child before the age of 18. At the level of children, early childbirths are defined as being born of a mother younger than 18. Various estimates are provided for the share of early childbirths likely due to child marriage for both mothers and children. The estimates are based on the timing of the births of children and marriage or union of mothers. According to the intermediate estimate, in a sample of 26 countries that account for most child marriages and early childbirths worldwide, 84.4 percent of children born of mothers younger than 18 can be said to be related to child marriage. In addition, three in four young women who had their first child before 18 probably did so because they married as children. The results can be used to advocate for stronger programs and policies to end child marriage given its contribution to early childbirths and the negative effects that early childbirths have among others on the health of mothers and children.

It could be argued that the techniques used and emphases placed in these four papers are not specifically borrowed or adapted from social economics narrowly conceived, and that would probably be correct. As mentioned earlier, social economics tends to emphasize the fact that economic phenomena are socially embedded and historically located with complex motivations on the part of agents that call for multidisciplinary analysis. These four empirical papers focus for the most part on measurement, as opposed to providing a deeper understanding of the many factors, both social and economic, that may lead to the results being observed. Nevertheless the papers are relevant to social economics in part because of the topics they consider, all of which are fundamental for poverty, human development, and well-being. For example, looking at the contribution of child marriage to early childbirths is relevant to social economics because this contribution is at the core of patterns of gender discrimination and disadvantage that are often perpetuated from one generation to the next with the practice of child marriage. Whether one considers conceptual approaches, empirical analyses, or policy suggestions (the focus of the next section), social economics is often well served in considering its remit broadly.

Policy Suggestions

The last two papers in this special issue are also based on empirical analysis, but they tend to place a slightly stronger emphasis on policy implications, at a fairly broad level in the case of the factors affecting poverty and shared prosperity in the case of Antoine et al. (2017), and in a more detailed way in the case of policies towards students loan in the case of Baum (2017).

The paper by Antoine et al. (2017) is a cross-country analysis of the factors that affect poverty reduction and shared prosperity, which is defined at the World Bank as achieving a high growth rate for the bottom 40 percent of the population in terms of income or consumption. It is now commonly accepted that while growth is the primary factor leading to poverty reduction as well as shared prosperity, it is not the only factor. The paper looks at factors contributing to income growth for the poorest two income quintiles in a panel of 117 countries over the period 1967-2011. Apart from maintaining macroeconomic stability, investing in human and physical capital is associated not only with faster overall economic growth, but also with faster income growth for the bottom 40 percent of the population. While growth is essential, it is not the whole story.

The last paper by Baum (2017) is about student debt in the United States. The paper challenges the common view that there is today a major student debt crisis in the country. Even though student debt has reached very high levels (at $1.3 trillion, which is higher than credit card debt), most students who borrow repay their loan and they do benefit from the education that they acquire. Still, specific groups face major challenges. This is the case especially for students who drop out without completing their degree after attending low quality for-profit institutions. The solutions to those challenges are not to provide universal subsidies that are costly and may benefit disproportionately better off students. Instead, solutions should be targeted to the problems at hand, starting with ways to discourage borrowing by students for study at institutions with a poor track record in providing value added. This could be done among others through stricter rules for institutional eligibility for federal student aid programs as well as better guidance for students. At the individual level public subsidies should be targeted to the students who need them the most. The paper also suggests a number of other reforms for the student loan repayment system.

Conclusion

Social economics can broadly be viewed as an approach to economic research that emphasizes how economic agency is socially (and historically) embedded. The role that culture and group identities play in decision-making features prominently in the field, and so does the importance of ethical considerations in economics, as well as research on the limits of competitive markets.

In addition, it seems fair to say that many researchers in the field pay special attention to the most vulnerable members of our societies. This why poverty and human development were chosen as the themes for the sessions organized by the Association for Social Economics at the 2017 annual meetings of the Allied Social Sciences Associations. This proceedings special issue consists of a selection of eight papers presented at those sessions. It is hoped that together, the papers provide a valuable contributions to the field, considering a range of topics that many social economics researchers as well as readers of this journal care deeply about.

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