What causes poverty? Theory, from Adam Smith to Amartya Sen via Karl Marx
For immediate release

In global terms, the UK is a relatively affluent country - yet 22.7 percent of its population are considered to be at risk of poverty or social exclusion. This social and economic phenomenon remains a major challenge for policy.

New research published today by E Philip Davis and Miguel Sanchez-Martinez at the National Institute of Economic and Social Research (NIESR), reviews the economics of poverty from a theoretical perspective.

The issue is not just one of joblessness. With just over half of the 14 million people in poverty (who survive on less than 60 percent of the national median (middle) income) coming from working families, while pensioner poverty is at historically low levels.

An appropriate response to poverty requires an in-depth understanding of the underlying causal mechanisms, particularly in the economic sphere. In this context, the research (funded by the Joseph Rowntree Trust) critically analyses the views of poverty adopted by different economic schools of thought that are considered relevant to the UK, as well as eclectic theories focused on social exclusion and social capital.

The authors contend that each of the economic approaches has an important contribution to make to the understanding of poverty, but that no theory is sufficient in itself. A selective synthesis is needed for understanding. Furthermore, economics by nature omits important aspects of the nature and causes of poverty.

The key points from this analysis are:

- The definitions of poverty adopted over time have reflected a shift in thinking from a focus on monetary aspects to wider issues such as political participation and social exclusion.
- Classical economic traditions contend that individuals are ultimately responsible for poverty and accordingly provide a foundation for laissez faire policies. By contrast, neoclassical (mainstream) economics is more diverse and can provide explanations for poverty that are beyond individuals’ control, notably market failures.
- Both schools centre on the role of incentives and individual productivity in generating poverty that perhaps overemphasise monetary aspects, the individual as opposed to the group, and a limited role for government. They tend to be averse to policies of redistribution.
- Keynesian/neoliberal schools, in contrast, focus on macroeconomic forces and emphasise the key role of government in providing not only economic stabilisation but also public goods. Poverty is considered largely involuntary and mainly caused by unemployment.
- Marxian/radical views see the role of class and group discrimination, which are largely political issues, as central to poverty. These theories assign a central role to the state in its intervention and regulation of markets. Prominent
examples of anti-poverty proposals in this vein include minimum wages and anti-discriminatory laws.

- Social exclusion and social capital theories recognise the role of social as well as economic factors in explaining poverty, giving them a similar weight. They offer a helpful contribution in understanding not only what the precursors of poverty are but also what underlies its persistence over time.
- A selective synthesis of approaches is needed to maximise the relevance of economic insights in poverty reduction. Furthermore, there is a need for a broader and richer range of motivations for human behaviour beyond the key focus of economics on purely material and individualistic aspects, such as the maximisation of one’s own consumption less disutility of labour. This calls for an integrated approach that draws elements from other social disciplines such as political theory and sociology.
- The analysis implies a number of policy recommendations, notably the need to focus on provision of forms of capital (including education) to aid the poor; anti-discriminatory laws; community development; and policies to offset adverse incentives and market failures that underlie poverty.

ENDS

Notes:
For a full copy of this paper ‘Discussion Paper 435: A Review of the Economic Theories of Poverty’, see [here](#) or contact the NIESR Press Office:
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