

Abstract for “Pro-poor Mobility”

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There is a renewed interest among economists and policy makers on the issue of the relationship between inequality and growth. While it was originally investigated by the macroeconomic-oriented literature, a microeconomic-oriented literature has recently flourished, trying to assess the impact of growth on poverty and inequality. Researchers endorsing this approach question the methodology used by the macro-oriented studies, which are based on aggregate indicators of the distribution. They argue, instead, that a proper understanding of the relationship between growth and inequality or poverty requires looking at the impact of growth on each single part of the distribution.

A standard practice in this literature is to compare the pre-growth and post-growth distribution, implying that the individual income dynamic is ignored. This happens because these measurement tools satisfy the “anonymity axiom”: they are invariant to a permutation of the individual income vector. This practice is appropriate for measuring the pure distributional change that takes place in a population. It is, instead, unsatisfactory, if the aim is the normative evaluation of growth, since it is not able to distinguish income transformation processes generating chronic poverty, from those processes generating transient poverty.

Building on this criticism, recent contributions argue that welfare relevant judgments of the effect of growth should be based on analyses endorsing a 'non-anonymous' perspective (Bourguignon 2011, Grimm 2007, Jenkins and Van Kerm 2011, Palmisano and Peragine 2012). Proponents of this approach recognize the role played by mobility in the characterization of the distributional implications of growth; they bring to light the need to analyze the pro-poor role of mobility: a very unexplored land. In fact, while the measurement of mobility is quite developed (see Fields and Ok, 1999 and Fields, 2008), the analysis of the impact of mobility on poverty is still on its infancy. Hence, the aim of this paper is to address this issue, by introducing a framework for investigating the impact of mobility on poverty. This is not an easy task for two reasons, which represent the aspects that mainly distinguish the analysis of pro-poor mobility from the standard analysis of pro-poor growth.

First, the assessment of the pro-poor feature of mobility means that we are concerned with how a particular aspect, defining the economic conditions of the poor, evolves through the effect of mobility. That is, the evaluation of the impact of mobility on poverty implies looking at the individual poverty trajectory over time. Hence, such analysis cannot prescind from looking at intertemporal poverty. Differently from the standard pro-poor growth analysis, based on the comparison of aggregate transient poverty between two periods of time, the pro-poor mobility analysis requires the evaluation of both transient and chronic poverty.

Second, this analysis involves the choice of the specific meaning of mobility to be used. In our work we share the Benabou and Ok (2001)'s definition of mobility as 'an income transformation process mapping each individual income into a final income'. Consistently, with this interpretation, since Freedman's contribution in 1962, it has been argued that income mobility has at least two potential effects

on social welfare. It helps to equalize the distribution of permanent incomes as compared to the distribution of periodic incomes, thus increasing social welfare. It generates variability at the individual level, because of the time variability of individual incomes that mobility induces, thus reducing social welfare if individuals are risk averse.

We follow the spirit of mobility as 'equalizer' (see Shorrocks 1978 and Aaberge and Mogstad 2010) as recently investigated by Fields (2010) whose framework builds upon the comparison between inequality in permanent incomes and the inequality in the initial distribution of income. In particular, we depart from those frameworks that have considered both the benefits of mobility and the costs of variability (for instance, Gottschalk and Spolaore 2002 and Makdissi and Wodon 2003).

Some insights in this direction have been put forth by Bibi, Duclos and Araar (2013). They propose a model to evaluate the welfare implication of mobility as 'equalizer', which is able to account for both the cost of inequality across time and across individuals. However, while their model focuses on the inequality and welfare implication of mobility, it is silent on the impact of mobility on poverty.

Sharing their view, we propose to evaluate the pro-poorness of mobility by accounting for both its costs and benefits, in terms of poverty, within the same framework. We argue that mobility has two potential effects on poverty: (i) it can reduce social ill-fare through the reduction of chronic poverty and the reduction of inequality in the intertemporal poverty; (ii) it can increase transient poverty, thereby increasing social ill-fare. We then propose a model to evaluate the pro-poorness of a mobility process, which builds on an explicit ill-fare function able to account for both the costs and the benefits of mobility across time and across individuals. We then define a decision rule which allows to answer to the following question: when is mobility pro-poor? Our decision rule is constructed by comparing actual intertemporal ill-fare with a benchmark, representing the extent of intertemporal poverty that would arise in the absence of mobility.

This paper's approach is different from the three previous contributions assessing the impact of mobility on poverty proposed by Grimm (2007), Foster and Rothbaum (2012) and Araar et al. (2012). One weakness these measures have in common is that they are only concerned with the transient impact of mobility on poverty. Thus, the contribution of this paper is twofold: (i) we enhance the 'pro-poor mobility framework' by accounting for the impact of mobility on both transient and chronic poverty; (ii) we extend the 'mobility as equalizer' framework to take into account the impact of mobility on poverty, corrected for the cost of the variability in transient poverty and the cost of inequality in the distribution of intertemporal poverty.