

# ASPIRATIONS, POVERTY AND ECONOMIC CHANGE

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## 1. INTRODUCTION

My aim in this short paper is to discuss a particular aspect of poverty, which is its close and brutal association with a failure of aspirations. Lest the point I am about to develop be misunderstood, let me state immediately that this is not an assertion about *individuals* who are poor; it is a statement about the condition of poverty itself. Poverty stifles dreams, or at least the process of *attaining* dreams. Thus poverty and the failure of aspirations may be reciprocally linked in a self-sustaining trap. The notes in this paper are meant to draw out various aspects of this theme, and in the process to introduce and discuss an aspirations-based view of individual behavior.

The starting point, then, is a view of the individual that isn't standard in economics, but should be: individual desires and standards of behavior are often defined by experience and observation; they don't exist in social isolation as "consumer preferences" are so often assumed to do. This simple remark has strong implications: if a person's behavior is conditioned by the experiences of other individuals in the cognitive neighborhood of that person, these may be all-important in driving group interaction and group dynamics, in a way quite different from what the simple aggregation of individual "preferences" would lead us to believe.

This social grounding of individual desires I will refer to by the term "aspirations".

My objective is to remark on this concept of aspirations as it relates to issues of poverty (and this includes not just economic impoverishment but associated ills, such as poor health). I will argue that there is much to be learnt by viewing poverty both as a (partial) result of and a (partial) cause of an aspirations failure.

While I, and other economists, have been concerned with aspirations-based theories of individual behavior for some time,<sup>1</sup> the immediate source of inspiration for these notes is the work of Arjun Appadurai (see Appadurai (2002)) on what he calls the "capacity to aspire". In a thoughtful and provocative sequence of arguments, Appadurai — an anthropologist — has drawn attention to this fundamental determinant of behavior. He has forcefully made the point that aspirations are socially determined, and — to complete the vicious circle — has argued that the poor may lack "the [aspirational] resources to contest and alter the conditions of their own poverty". My notes will explore some of these issues — and others — from the vantage point of an economist.

## 2. THE ASPIRATIONS WINDOW

I begin by developing the idea of an *aspirations window*. The window is formed from an individual's cognitive world, her zone of "similar", "attainable" individuals. Our

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<sup>1</sup>That individuals may use the consumption experiences of others as a basis for what they themselves might want is, of course, not a new idea in economics, though by and large it has remained outside the mainstream. The early work of Veblen (19xx) and Duesenberry (19xx) come immediately to mind. But I have in mind something a bit different from conspicuous consumption, envy, or keeping up with the Joneses, issues that Veblen emphasized. Rather than envy, individuals may use the experiences of others (and perhaps of their own past experiences) as the yardstick for setting goals for themselves, against which they evaluate the pleasures and pains of their own immediate experience. This is logically distinct from envy (see, for example, Bendor, Mookherjee and Ray (2001a, 2001b), Gilboa and Schmeidler (19xx)) and Ray (1998).

individual draws her aspirations from the lives, achievements, or ideals of those who exist in her aspirations window.

Put this way we aren't really saying much. The individuals who populate my window are the individuals who determine my aspirations — that's tautological. We really begin to put structure on the problem, when we take up two issues: (a) the determinants of an aspirations window, and (b) the effect of aspirations on behavior. I address (a) here and postpone (b) to the next section.

First, notice that the concept of aspirations itself may be inherently multidimensional. Individuals aspire to a better material standard of living, but there are other aspirations as well, some a bit more sinister than others: dignity, good health, recognition, political power, or the urge to dominate others on religious or ethnic grounds. Depending on one's place in the socio-economic hierarchy, these many-faceted aspirations may complement one another, or they may be mutual substitutes.

Because aspirations and the notion of "similarity" are both multidimensional concepts, so is the aspirations window. If I am a 45 year-old Indian professor of Economics who lives in New York City and mainly has nonacademic friends, you can count at least five dimensions that might enter my aspirations window — and just from that one line of introduction. But there are several ways in which one can narrow down the notion of similarity, and give it substance.

First, it may simply be that individuals use their peers (or near-peers) to form comparisons, invidious or otherwise, because that's just the way people are. I might use the standards and achievements of other economists, or those of other Indian academics, or perhaps academics in my age group, as a basis for forming my aspirations. But I'm unlikely to call on the experiences of Bill Gates or Madonna: they're just too far away from who I am.

There may be a biological or evolutionary basis for this restriction, though the particular *form* assumed by the restriction may be highly society-specific, of course.

Second, there may be restrictions that arise simply because of the flow of information; what people can physically observe may be limited, or communication may be circumscribed in some way. William Julius Wilson's (1987) study of role models may be a useful example: successful individuals who outmigrate from the innercity are no longer there to be observed, and cannot influence aspirations or behavior among the young. Kaivan Munshi and Jacques Myaux's research on the Bangladesh fertility slowdown (Munshi and Myaux (2001)) suggests that Hindu fertility averages had a separate and significant effect on Hindu fertility rates (likewise for the Muslim averages). There is also some ethnographic evidence that individuals set reproductive goals depending on the mortality experience of infants or children in their own locality or family (Lewis (19xx), Das Gupta (19xx)).

Third, there may be econometric reasons. Once again, Kaivan Munshi's work is relevant: in his (1999) study of adoption of HYV seeds, he shows that a farmer will want to look at the adoption decisions of farmers who are "close" to him; spatially, economically, perhaps even socially. Looking at the experiences of individuals similar to me is like running an experiment with better controls, and therefore has better content in informing my decisions — and by extension — my aspirations. Likewise, in forming estimates of the rate of return to education, a poor individual might look only at the experiences of

similarly poor individuals, believing (perhaps correctly) that the rate of return to education calculated from other observations may be colored by contacts and connections (this issue is logically distinct from the truncation effect discussed above, in the context of Wilson’s work.)

Fourth, “similarity” is contextual: it depends on how much mobility (or *perceived* mobility) there is in society. The greater the extent of (perceived) mobility, the broader the aspirations window. A bonded laborer may believe that there is an unbridgeable wall between him and the local shopkeeper in the village; if labor is free to move and possibly change occupations, such comparisons may well be made.

Finally, the different dimensions of aspirations are obviously connected with different facets of the aspirations window. As an economic agent who desperately seeks to escape poverty, I will emulate, imitate, and learn from the economic strategies of those in my neighborhood income or wealth group. As a Hindu Indian who is drawn to the idea that my fellow-Muslims should head off to Pakistan, I may emulate an entirely different set of people. More dangerously, an aspirations failure along one dimension may spur my ambitions along another.

### 3. THE ASPIRATIONS GAP AND INDIVIDUAL BEHAVIOR

Why are these considerations important? To address that question we need to combine a theory of how aspirations are *formed* with a theory of how aspirations affect behavior. I now turn to a simple — perhaps simplistic — account of this.

In this account, the idea of an *aspirations gap* plays a central role. For concreteness, let me illustrate this by using material aspirations alone (the same idea can be applied, perhaps with modification, to other dimensions). The aspirations gap is simply the difference between the standard of living that’s aspired to and the standard of living that one already has. I want to argue that it’s this *gap* — not aspirations per se, nor one’s standard of living per se — that affects future-oriented behavior.

Denote by  $s$  an individual’s current standard of living, and let  $a$  denote the standard that’s aspired to (determined by some combination of the considerations described above). Define the gap to be

$$(1) \quad g(a, s) \equiv \max\left\{\frac{a-s}{a}, 0\right\}.$$

Thus someone with extraordinarily high aspirations relative to his current standard will be “fully gapped”, as it were, having an aspirations gap of 1. Someone who does not look beyond his current lot will have  $a \simeq s$ , and the aspirations gap will be zero. I do not permit “negative gaps”, and given the way  $g$  is to be used below, this simply means that while a positive gap creates the impetus to close it, there is no particular impetus to create negative gaps.

The simplest story that one can tell is one of investment to close the aspirations gap. Investment  $i$  raises future standards of living (say, according to some function  $\sigma(i, s)$  that depends both on the investment made and the current standard), thus narrowing the aspirations gap, but is costly to the individual. Denote this cost function by  $c(i)$ . An agent with aspiration  $a$  and current standard  $s$  may be viewed as choosing to *minimize*

the sum (perhaps weighted) of gap and cost:

$$(2) \quad g(a, s') + c(i)$$

subject to the constraint that  $s' = \sigma(i, s)$ .

This sort of model, which I won't work out in detail, has the following interesting feature:

*Individual investment efforts are minimal for both high and low aspiration gaps.*

A little reflection renders this proposition intuitively obvious. Individuals whose aspirations are closely aligned to their current standards of living have little incentive to raise those standards. However, individuals whose aspirations are very far away from their current standards of living *also* have little incentive to raise standards, because the gap will remain very large before and after. A lot of investment will only cover a small part of the way: the overall journey is too long, and therefore not worth undertaking in the first place.

Thus our concept of an aspirations window, together with this description of aspirations and individual behavior, has an interesting implication. If economic betterment is an important goal, the aspirations window *must* be opened, for otherwise there is no drive to self-betterment. Yet it should not be open too wide: there is the curse of frustrated aspirations. There must be individuals in our immediate cognitive neighborhood who do better than we do, yet if they do a *lot* better, there will be no investments made even if the cognitive neighborhood to such individuals is unbroken. In short, the experiences of others may have little effect on us *either* because they lie outside our aspirations window, or even they do, their living standards (which form our aspirations) are far away from ours.

#### 4. SOCIAL POLARIZATION, POVERTY AND ASPIRATIONS FAILURE

The minimal effect of an aspirations gap at both ends of the gap spectrum is crucial to the understanding of an *aspirations failure*. How might such a failure come about for the poor? To understand this, it is necessary to think about societies in which there is a substantial amount of social polarization, or stratification.

The best way to do this is to think of the opposite scenario: a *connected society*, one in which there is much (economic) diversity in every cognitive neighborhood, diversity in which every individual can justifiably think of herself as being on the attainable fringes. Crudely put, a society in which there is a chain of *observed, local* steps between the poorest and the richest will be more vibrant, in the sense that individuals will not only have aspirations, but will have the sort of aspirations they can act upon.

In contrast, a polarized society (see, e.g., Esteban and Ray [1994] and Wolfson (1994)) is one in which there are few inhabitants between the poor and the rich.<sup>2</sup> In such a society, there are only two possibilities.

First, the poor do not include the rich in their cognitive window. This will especially be the case if economic polarization is aided and abetted by other forms of stratification: slavery, serfdom, caste, racial discrimination. Then the aspirations gap will be low, and so will individual investments for the future. This sort of aspirations failure often goes by other names; most commonly fatalism. But true fatalism — a deep belief that one’s own destiny is pre-ordained and beyond control — cannot be affected by socioeconomic policy. This variant of fatalism — the one that says that there is little hope of betterment because this is the way things have always been — *can* be so affected. Faced with the diagnostic choice between true fatalism and an aspirations failure, one can only hope that it is the latter.

Second, the poor do aspire to be like the rich, but the gap is simply too large. The costs of the many steps of investment are too high, and the reward — in terms of a relative narrowing of the aspirations gap — simply too low. This is another kind of aspirations failure. The aspirations do exist, but the feeling is widespread that such aspirations are largely unreachable. The seeming absence of class distinctions, or caste divisions, can only enhance this brand of aspirations failure, because there are no ostensible barriers to block the view of the rich from the cognitive windows of the poor. Poverty in such societies will find expression, not in the “fatalism” of the previous paragraph, but in frustration, much like the poor admirers of Richard Corey, who “thought that he was everything, To make us wish that we were in his place”.<sup>3</sup>

Thus we see that it is not the condition of poverty alone which is responsible for an aspirations failure. It is poverty in conjunction with a lack of connectedness, the lack of a critical mass of persons who are both better off than the person in question, yet not *so* much better off that their economic well-being is thought to be unattainable. In contrast, *inequality* isn’t really the prime mover at all, though to some extent it may be correlated with polarization. It is perfectly possible for an unequal society to be nevertheless thickly populated at all points of the economic spectrum, creating local, attainable incentives at the lower end of the wealth or income distribution. Affirmative action or public education may be policy tools that help in creating this sense of local connectedness.

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<sup>2</sup>Notice that connectedness is a statement about observables. It is far from clear that connectedness in individual wealth, assets or income translate directly into connectedness in *observed* standards of living. An example of a situation in which the two notions of connectedness are firmly linked is one in which no good is consumed for the purpose of social signaling. Then a standard set of conditions yields the continuity of consumption (or expenditure) in income, and endowment-connectedness translates right away into consumption-connectedness. This equivalence fails, however, if there are “goods” (such as wedding banquets) which are “consumed” simply to convey status. Following Douglas Bernheim (1994) and others, it can be then shown that such expenditure on such items is necessarily clumped in discrete categories, even if the underlying distribution of endowments is smoothly dispersed. Such clumping helps to destroy connectedness, and are ripe for aspirations failure.

<sup>3</sup>Edward Arlington Robinson, *Richard Corey*, from his *Collected Poems*, 1921.

## 5. SOCIOECONOMIC CHANGE AND ASPIRATIONS

So far I've focused on the effect of aspirations on individual behavior. I now want to take this framework a step further by discussing the effect of social and economic change on aspirations (and therefore on behavior). In the next section I take up the question of deliberate activism to change the aspirations of the poor.

As a first example, consider the seemingly paradoxical thesis of Alexis de Tocqueville (1856) — that economic development may generate social tensions and rebellions, more so than countries with stagnant mobility and high inequality. As we all know, Tocqueville was addressing the fact that an anti-feudal revolution broke out in the one European country (France) where the feudal oppression was the lightest to start with. While I do not have the time here to go into the details, Tocqueville's argument is clear: iniquities and oppressions that are cloaked with implacable inevitability can be borne.<sup>4</sup> Once this sense of inevitable oppression is removed by increased mobility and increased economic development (at least in aggregate terms), the aspirations window must widen. This, in turn, will increase the aspirations gap unless all *actual* standards of living can keep pace with changing aspirations. The result may very well be increased conflict, rather than less.

Tocqueville's thesis may thus be summarized in one of his own memorable lines: “the French found their position all the more intolerable as it became better”. The very process that raises aspirations must also fulfil those aspirations in the not-too-distant future, otherwise enhanced voice can all too easily turn to violent exit.<sup>5</sup>

My second example concerns societies (such as the United States) where an increased aspirations gap may not lead to violent exit, but to increased effort. In such societies, culture may be “constructed” to enhance impressions of economic mobility. I do not say that there's a deliberate conspiracy here (though who knows?). One “non-deliberate” source for this construction stems from the familiar “truncation bias” created by the media, which will report newsworthy “successes” (lottery winners, basketball superstars) but not mundane “failures”. Notice that the truncation bias grows with the underlying inequality in that society — the truncated positive half of the distribution will mistakenly suggest an even greater rate of return to occupations.

If such constructions raise the aspirations gap — but moderately so — it might induce hard work for a large working class with no real reward. One can see how illusions of economic mobility can be beneficial for worker productivity.<sup>6</sup> Now, while I would not

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<sup>4</sup>Compare with Appadurai's argument that the poor display “fairly deep moral attachment to norms and beliefs that directly support their own degradation”.

<sup>5</sup>A lesser-known idea of Albert Hirschman is that of the “tunnel” effect (see Hirschman and Rothschild (1970)). You are caught in a multilane tunnel and all traffic is jammed as far up as you can see. Suddenly the lane next to you starts to move. You're still stuck. How would you feel? The Hirschman argument is that you'd initially feel happy, for this is a signal that your lane is about to move as well. With the passage of time, however, a continuing move of the next lane and continued stationarity of your lane may lead to immense frustration.

<sup>6</sup>Several recent studies conclude that the United States displays no higher economic mobility than its European counterparts, and along some dimensions — such as mean exit time from poverty — may display *lower* mobility (see, e.g., the survey by Burkhauser and Smeeding (2001) on the use of micro-level panel data and the references contained therein).

extend these ideas directly to countries such as India, I would be tempted to ask just how much an improvement in the “terms of recognition” may be exploited by municipal or state governments, or U.N. officials, to postpone real economic change in the living conditions of the poor.

Finally, one can use this sort of framework to ask whether the poor can be “hijacked” to serve other “cultures”, such as the rise of religious fundamentalism. The tragedy of Gujarat tells us very clearly that many riots aren’t riots at all: they are carefully orchestrated pogroms. But pogroms need labor, and unfortunately (all other things equal), it is easier to buy the poor. Here is a stage at which a failed capacity to aspire in the material sense may actually ignite other aspirational routes. The former failure, in turn, may arise from an economically polarized society.<sup>7</sup>

In the Indian case, there is an odd twist to the question of religious fundamentalism. I have emphasized the “push” into a distinct aspirational dimension (religion), emanating from the failure along another aspirational dimension (economic wellbeing). In addition, there may be “pulls”. The demolition of the Babri Masjid in 1992 may have raised fundamentalist aspirations and the level of violence in its own right, in an eerie echo of Tocqueville’s reading of the French Revolution.

## 6. COLLECTIVE ACTION AND ASPIRATIONS

Now let me turn to the effects that may be deliberately generated through collective action. What are the avenues of deliberate, significant influence on the capacity to aspire? I want to mention three pathways, each of which can have significant impact on aspirations and the consequent future-orientation of individuals.<sup>8</sup>

[1] GROUPS AS INTERNAL CONVEYERS OF INFORMATION. Groups are repositories of pooled information, which they can credibly convey to every member of the group. For instance, the simple fact that group members are saving (or are making a commitment to save) is information that can be conveyed — with good effect — to every group member.

The key word in this context is *pooling*: the sharing of the experience of peers. Suppose that you believe that the rate of return to primary education is high, and want to convey this to a poor individual in order to get him to send his son to school. There are a simple reason why this statement will mean very little to him (see also my remarks on activism in a slightly different context): *there is no experience quite as compelling as the experience of your immediate family, and more broadly, those in your socio-economic and spatial neighborhood*. You might say that econometricians had found a high rate of private return to investment in primary schooling in a study of nation-wide panel data which had controlled appropriately for differences in observed and unobserved characteristics within the underlying population: the terms of such a statement would mean nothing to them

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<sup>7</sup>This line of reasoning forms the basis of ongoing research with Joan Esteban and Rohini Pande on conflict in India.

<sup>8</sup>Of course, there are other pathways. For instance, I neglect violent action. Much of this literature is connected with the group as a successful coordination device — see, e.g., Hardin (1997), and I do say something about coordination below. I also ignore groups as negotiating devices: with the law, with bureaucracy, with the police and government officials. Finally, group action may itself bestow a sense of dignity and self-respect; on these matters see Appadurai (2002).



(and would have meant nothing to us — probably still doesn't), unless it is complemented by the immediacy of shared experience. This is why the pooling of information, of experience, among group members is of paramount importance.

[2] GROUP ACTIONS AS EXTERNAL CONVEYERS OF INFORMATION. Next, consider group actions that credibly communicate information to outsiders: the government, perhaps, and certainly the public at large. Such communication can have enormous impact, if for no reason that the fact that the numerical strength of the affected party is publicly revealed, which directly (and indirectly, through public awareness), must affect overall political calculation. Thus activities such as self-surveys (carried out by the Alliance and described by Appadurai) may be capable of great instrumentalist power. If used carefully and credibly, it can be an enormous lobbying force, with real economic benefits. Just the awareness of the sheer numbers of people living in a slum can possibly scuttle a relocation effort. Statistical visibility is power.

The key word here is *credibility*. A fundamental threat to the efficacy of activism is that a person listening to an activist will feel (perhaps correctly) feel that the activist is trying to convince him of something. One might — in deference to the other Dilemmas present in game theory — call this the Activist's Dilemma. If I, as an activist, believe in something more than another person does, and am in store of objective, valuable information that might bring the other person closer to, but not *fully* in line with my beliefs, I will want to exaggerate my information (or at least be suspected of doing so whether I do so or not). All would be well if such exaggerations could be appropriately stripped away to reveal the true informational content, but a simple game-theoretic argument<sup>9</sup> shows that this significantly hampers the ability to communicate. More precisely, an activist may be able to credibly transmit statistical changes that are large, but lose the ability (in the strategic game) to credibly communicate more nuanced variations in the data.

[3] GROUPS AS COORDINATION DEVICES. Finally, an important aspect of group effectiveness can be succinctly and easily summarized in the language of "multiple equilibrium". A state  $x$  persists in society, which leads individuals in that society to take actions  $a$ . The actions  $a$  aggregate back to  $x$ , and the cycle is complete. The idea has been applied to everything under the sun: poverty traps, high-fertility regimes, persistence of social norms, business cycles, and yes, there is place here for the aspirational trap.

If I live in a community in which the majority of my peers do not save for a better future, then my own aspirations are dulled, I do not fear a relative loss of standing among these peers, and I may not save. This equilibrium can take hold with ease (even in rich countries: witness the United States). On the other hand, if my neighbors are known to save on a regular basis, it will spur my desire to save. This is not to underestimate the sheer difficulties of saving under poverty, but as several microfinance organizations and ROSCAs have shown, the difficulties are far from insuperable. A savings group may be viewed as a *coordination device* to break such a trap. By coordinating an open, observable promise to save among a large number of similar individuals, it induces greater incentives to save for each one of them, shoring up an entirely different equilibrium.

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<sup>9</sup>Such an argument would be a simple variant of Crawford and Sobel (1982).

[Indeed, it is little wonder that group savings organizations are widespread among the poor in developing countries.<sup>10</sup> ]

## 7. CONCLUSION

In this essay, I have discussed

- [a] the notion of an *aspirations window*, and what might determine such a window,
- [b] how an aspirations window generates an aspirations gap, and how an aspirations gap influences individual behavior,
- [c] how economic or social change can affect the aspirations gap, and therefore behavior, and
- [d] the possible avenues through which deliberate group action can affect the aspirations gap.

My particular focus in this essay has been on poverty, but it should be obvious that the interplay between aspirations and behavior goes further than that. For instance, one might use these ideas to show

- (a) why rich countries destroyed by war may grow back quickly;
- (b) why middle-income countries often grow faster than either rich or poor countries;
- (c) why immigrants might save at extraordinarily high rates, or
- (d) why polarized societies may exhibit low social mobility.

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<sup>10</sup>For a general discussion of microfinance in developing countries, see Morduch (1999)

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