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Poverty Alleviation as an Economic Problem

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Abstract: Lionel Robbins famously distinguishes between technological problems, in which variable means confront a given end, and economic problems, in which given means are allocated across competing ends. This essay explores the implications of this distinction for poverty alleviation. Drawing on Buchanan (1964) and Hayek (1945), we argue that there are three key dimensions to understanding how social systems cope with the economic problem: exchange, coordination, and governance. We then make a case that poverty alleviation is more like an economic problem than a technological one, an economic problem with a small 'e.' We survey empirical evidence that poverty is not a simple lack of objectively identifiable resources but rather a multidimensional and socially embedded phenomenon. Understanding what poverty alleviation would even look like requires thinking through problems of exchange, coordination, and governance. We draw out some of the implications of this analysis for the efficacy of both redistribution and philanthropy in alleviating poverty both domestically and abroad.

1. Introduction

Poverty alleviation is one among the many aims typically associated with philanthropic activity. Many constraints on human welfare or flourishing are associated with the lack of wealth, so naturally philanthropic resources are often dedicated to trying to help the poor through various forms of social, spiritual, or material support. Attempts to alleviate poverty can try to lift individuals above some threshold of wealth or income, whether that threshold is defined in relative or absolute terms. Or they might target the symptoms of poverty in an attempt to make poverty less miserable.

Arguments for making poverty alleviation the business of the state often focus on questions of scale. Some argue that poverty alleviation is a public good. We would all like to mitigate or even eliminate poverty, but each individual has an incentive to free ride on the contributions of others, leading to private under-provision of relief. Others argue that freedom from poverty is a universal right. Since such a right extends to all individuals, it falls to the state to guarantee that individuals receive some form of assistance.[1]

Sometimes these arguments extend to include obligations to individuals in other polities, underwriting a case for government provided foreign aid. Aid agencies often conflate the goal of poverty alleviation with the goal of spurring economic development. Many aid agencies—USAID, NORAD, DFID—contain the word 'development' in their title. Leeson and Skarbek (2009) point out that evaluating aid in terms of its ability to cause development confuses economic and technological problems. A technological problem involves achieving some particular goal—such as increasing the quantity of medicine provided—with the most effective means. The economic problem, by contrast, involves determining how to balance a multiplicity of ends in a world of scarcity. Economic development requires a method of solving the economic problem, whereas aid programs by their nature focus on technological problems by providing particular goods.

This essay takes a more radical stance. We argue that not only the social process of wealth creation but also the more modest aim of poverty alleviation is likewise an economic problem. It is not "The Economic Problem" of wealth creation but "an economic problem" (with a small 'e'). That is, even where we distinguish the problem of alleviating poverty from the problem of producing wealth, individuals and groups still confront a problem of balancing a multiplicity of ends in a world of scarcity. Our argument proceeds as follows. Section 2 reviews the nature of the economic problem, utilizing James Buchanan's classic critique of Lionel Robbins as a starting point. We argue, following Buchanan, that there are three important dimensions to an economic problem: exchange, coordination, and governance. Societies effectively cope with

[1] Our argument is not concerned with whether 'assistance' is the best term, since one might legitimately argue that alleviation is owed to poor individuals. All that matters for our analysis is that there is a historical transfer or provision of services drawing on resources that others initially control (whether justly or not).

scarcity when they adopt rules that enable the gains from exchange by coordinating dispersed knowledge and incentivizing cooperation rather than conflict.

Section 3 extends these three categories to poverty alleviation. In brief, there are many margins of poverty. Poverty is multidimensional and not merely an absence of money; what counts as poverty alleviation will vary between individuals. We then illustrate that poverty alleviation is subject to all three dimensions of the economic problem. Poverty alleviation is an exchange problem, in that it involves seeking out mutually beneficial agreements between individuals with different and possibly conflicting ends. It is a coordination problem in that it involves coordinating dispersed knowledge about effective means of alleviating poverty. And it is a governance problem in that it requires rules that incentivize effective giving and feedback to evaluate the success of different plans.

Section 4 [to be written] applies these arguments to [empirically relevant and interesting example x. Perhaps foreign aid again, or something more broad.]

Our goal in analyzing poverty alleviation as an economic problem is to facilitate accurate and fair comparative institutional analysis about the proper social sphere in which to pursue plans to aid the poor. Understanding the problem that poverty alleviation confronts is a necessary preliminary to any serious discussion about the proper roles of government and civil society in assisting the poor. We do not seek to provide a definitive answer but only to cast doubt on simplistic plans to eliminate poverty.

2. The Three Dimensions of the Economic Problem

Robbins (1932) furnishes the classic distinction between economic problem and technological problems. Both involve the relationship between means and ends. But whereas technological problems entail finding the most efficacious means of accomplishing a given end, economic problems entail allocating scarce means to multiple and competing ends. Grappling with an economic problem thus involves some criterion for selecting which ends will be served and a corresponding recognition of the opportunity cost of realizing any given end. We often express this distinction to our students in the form of a limit case: a problem of selecting which among many means best serves a single end is technological, while a problem of allocating some particular means among many ends is economic.

Nonetheless, having learned to dutifully rehearse the distinction in order to pass a principles course, both novice students of economics and professional practitioners frequently conflate the two sorts of problems. The language of a 'problem' is itself a potentially misleading metaphor. "Problems" are often conceived in terms of obstacles to achieving given ends. In ordinary language, a problem confronts an agent, and agents are agents because they have purposes and plans. Speaking in terms of an economic problem can impose a false teleology onto the social world. Many textbooks present "The Economic Problem" itself as one of 'society' allocating scarce resources, embedding both collectivist and constructivist biases into the very core of economic analysis.

These concerns are voiced most poignantly in James Buchanan's presidential address to the Southern Economic Association, "What Should Economists Do?" (Buchanan 1964) Buchanan takes Robbins to task for a stark ambiguity in his definition of the economic problem: he fails to specify *whose* ends the problem refers to. This ambiguity opens the door to conflating exercises in normative social planning with the social scientific endeavor of understanding how individuals with diverse ends interact with one another. Buchanan thinks this vice was particularly prevalent in public finance and welfare economics, whose *modus operandi* is to describe possible states of the world in terms of efficiency, a unified metric that encapsulates and aggregates competing values. Policy recommendations then flow naturally from any corresponding inefficiencies. This sort of exercise may have its uses but effectively reintroduces a single *telos* into economic analysis by creating a given and fixed maximand. How is a social engineer trying to maximize economic efficiency *really* any different than an electrical engineer maximizing the energy efficiency of a given appliance? By imagining a social planner confronting 'The Economic Problem,' and furnishing that planner with a unified metric of success, this approach by its nature attempts to reduce economic problems to technological ones.

How can this pitfall—assuming it is one—be avoided? Buchanan's discussion points toward three dimensions of the economic problem: exchange, coordination, and governance. These tree facets of social interaction are corollaries of the fact that scarce means confront multiple, competing ends. Omitting any one tends to miscast the fundamental properties of social phenomena. Attentiveness to these three dimensions of the economic problem facilitates more consistent application of the economic way of thinking, one that does not collapse into solving artificially constructed technological problems. Though the three are deeply interrelated, we consider each in turn.

Economics as an Exchange Problem

The fundamental question that Buchanan asks of Robbins is: whose ends are being compared, and who is doing the comparing? A genuinely social science should start from the recognition that human purposes are several, heterogeneous, and often incommensurable. Ends are several, in that they belong to distinct individuals and are not given by membership in a society or group. Buchanan challenges economists to be more consistent methodological individualists. Ends are also heterogeneous: they differ from one individual to another. Buchanan's position on economics as an exchange problem complements his radical subjectivism. Following this approach, Martin and Wagner (2009) distinguish between surface-level heterogeneity and deep heterogeneity. Surface-level heterogeneity means that ends differ in intensity but not fundamentally, as between two individuals who have differing views about the optimal rate of a sales tax. Deep heterogeneity, by contrast, means that individual ends can be incommensurable, such that there may be no meaningful dimension along which they vary. Incommensurable ends might include pro-life and pro-choice positions, deep religious or moral commitments, or various pairs of opposing lexicographic preferences. Taking the multiplicity of ends seriously thus means taking the possibility of interpersonal conflict seriously. Competing ends held by different individuals might be truly irreconcilable. The phrase 'economic problem' should be read less like an applied math problem—"maximize *f(x)*"—and more like a tense encounter with a mobster—"are we going to have a problem?"

But irreconcilable ends do not necessarily mean irreconcilable conflicts. The possibility of conflict makes 'optimization' an unsatisfying answer to the economic problem, but not exchange. Buchanan argues that economists should focus not on individual choice so much as interpersonal exchange. Analyzing social phenomena as emerging from exchange does not impose common, homogenous, or even commensurable ends. Exchange relationships denote some form of agreement, but it is 'agreement to' rather than 'agreement that' (c.f. Kukathas 2003, pp. 99-101). Individuals can have preferences, beliefs, and values that are not amenable to any form of aggregation or averaging and still engage in trade with one another. Buchanan thus argues for a catallactic approach to understanding social phenomena, rather than one focused on economizing with a given set of ends.

F.A. Hayek draws a similar distinction between economy and catallaxy as modes of social organization (LLL Ch. 10). An economy is an organization, balancing a given array of ends according to a deliberate plan, such as a firm or household. A catallaxy, by contrast, is a spontaneous order that emerges from individuals (and economies) pursuing different ends within the rules of property, tort, and contract. As Buchanan puts its, "market organization is not a *means* toward the accomplishment of anything. It is, instead, the institutional embodiment of the voluntary exchange processes that are entered into by individuals in their several capacities" (Buchanan p. 38). Both orders and organizations confront scarcity, but their ways of coping with scarcity are different in kind. An organization establishes a common goal (or array of goals) and pursues it, while an order emerges because it facilitates the pursuit of different goals. Only where the relative importance of ends is not given is the economic problem really distinct from a technological one.

Coping with the economic problem means adjudicating between several, heterogeneous, and often incommensurable ends. Whose ends will be served, by whom, and in return for what? In exchange relationships, individuals accomplish their own ends by serving the ends of others, sometimes even unknown others with unknown ends. Where individuals are pursuing different goals through *quid pro quo* relationships, they are responding to an economic problem.

Economics as a Coordination Problem

Individuals can advance one another's ends through exchange relationships. But their ability to do so—even when they are willing—is constrained by their knowledge of others' ends and of available means. Potential gains from exchange must be discovered before they can be pursued. Hayek famously describes this as the economic problem in "The Use of Knowledge in Society." The knowledge relevant to satisfying our ends at least cost is not given to any one mind, but is rather dispersed throughout society.

Knowledge about the relative scarcity of any resource never exists in concentrated form, and may include ephemeral knowledge of time and place as well as a tacit understanding of particular resources and the ends they might serve. Any form of economic organization will effectively cope with the economic problem to the extent that it successfully mobilizes this dispersed knowledge.

Hayek's project is to recast 'economics as a coordination problem' (c.f. O'Driscoll 1976). Since no one mind is capable of gathering and processing the information on which effective economization depends, dealing with the economic problem requires coordinating the actions of individuals who cannot know all the facts relevant even to achieving their own ends. Statistical and mathematical tools cannot adequately fulfill this function because, among other reasons, the conditions of relative scarcity are constantly changing. "[E]conomic problems arise always and only in consequence of change" (Hayek 1945).

Whereas conceiving of economics as an exchange problem questions the givenness of ends, conceiving of economics as a coordination problem also questions the givenness of means. The ability of a social system to facilitate coordination depends on the feedback mechanisms available to participants. Due to the 'knowledge problem' that entrepreneurs confront about how to best realize the gains from exchange, they inevitably make errors concerning the least cost means of achieving ends. In markets, price signals allow for profit and loss calculations to minimize such errors *ex ante*, while realized profits and losses provide more direct feedback once an error has been made. Market competition thus acts as a discovery process: rather than entrepreneurs knowing the least cost methods of production *ex ante*, those means are discovered through the competitive process itself.[2]

Coping with the economic problem means adapting to changing conditions by mobilizing dispersed knowledge, enabling innovative experiments, and detecting and correcting entrepreneurial errors. How can ends be served at least cost, and who has the best ideas about how to do so? Individuals confront problems of ignorance as much as problems of scarcity; otherwise the economic problem would always be solved. Where individuals are searching for lower cost means of accomplishing ends—especially the ends of others—they are responding to an economic problem.

Economics as a Governance Problem

The economic problem does not confront 'societies' with unified hierarchies of ends, but rather individuals with several ends and unique knowledge. The concept of a plan or organizational structure designed to solve such a problem makes little sense. Spontaneous orders instead rely on rules to facilitate the realization of the gains from exchange through the mobilization of dispersed knowledge. Buchanan enjoins economists to focus

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[2] While we have focused on the discovery of means, it is no less true that individuals may discover new ends through this sort of process.

on exchange *and the institutions*—or rules—that govern different forms of exchange. In so doing, he seeks to drive another wedge between technological and economic problems. Technological problems have an underlying physical setting, while economic (exchange) problems have an underlying social setting: the rules within which various forms of interaction takes place.

Following Buchanan, economic problems have two stages (or more precisely, two types of stages). In the first stage individuals establish the rules of the game, while in the second they pursue their several ends within those rules. The first stage can be thought of as a governance problem, the second as an exchange and coordination problem. Several clarifications of this simple framework are in order. First, referring to the stages as 'first' and 'second' is not meant to denote any strict chronological order. Changes to rules often take place in as a result of exchange activity. Rather, 'first' and 'second' refer to the fact that exchanges are always nested in some sort of rules; rules have logical (or ontological) priority. Second, the rules themselves are products of social interaction. So the emergence of a set of rules can itself be analyzed as an exchange problem and a coordination problem in its own right. Finally, rules take a variety of forms. Williamson (2000) distinguishes between informal cultural norms, formal legal rules, and particular contracts and agreements. These rules intersect and affect one another in various ways: exchange behavior shaped by informal norms may lead to the emergence of formal legal norms, legal norms influence the types of contracts individuals are willing to sign, and exchange activity coordinated by contracts has the power (over the long run) to reshape cultural norms. All these levels of rules play a critical role in how individuals grapple with the fundamental economic problem of scarcity.

In an important sense, the governance dimension of the economic problem is the meta-problem on which exchange and coordination hinge. Rules profoundly shape both knowledge and incentives. Institutions can incentives productive or unproductive activities, can be more or less successful at mitigating conflict over scarce resources, and can be more or less successful at enabling realization of gains from exchange. Institutions can also provide (or fail to provide) crucial feedback mechanisms by which individuals can evaluate the success of their plans and identify new opportunities for realizing their ends. The shape that a spontaneous order takes is first and foremost the result of the rules that its participants follow.

Institutions are also *analytically* important for good social science, both for positive and normative analysis. Emphasizing rules helps avoid the dangers of imposing a false teleology on spontaneous social processes. They operate deontically, specifying what individuals are allowed to do, required to do, or forbidden from doing (Ostrom and Crawford 1996). They set boundaries and requirements on action rather than specifying ends. Positively, we do not need to impose a suspect homogeneity of ends on a population to understand patterns of behavior. Normatively, we can analyze the ability of different rules to incentivize and facilitate morally salutary types of interaction, *without* assuming that individuals subject to such rules will share certain values with one another or with the analyst. [need better word] A focus on rules allows for the formulation of proposals that are both more sanguine about differing ends and limited knowledge of individuals, and creates wider scope for agreement among individuals whose ends might conflict.

Coping with the economic problem means discovering and adopting rules that facilitate realizing the gains from cooperation and exchange while diminishing the gains from conflict. How do different rules shape exchange behavior? What feedback do they provide? Individuals with different ends facing both the possibility of conflict and stark limitations on their knowledge require rules to successfully coordinate their behavior in mutually beneficial ways. Where individuals rely on rules to mitigate conflict and enable cooperation they are confronting an economic problem.

3. Poverty Alleviation: An Economic Problem

On one hand, poverty alleviation is an economic problem in a philosophically trivial sense. Overall levels of poverty obviously depend on how well society copes with The Economic Problem (with a capital 'E'). Societies flourish economically according to the ability of their institutions to incentivize cooperation and coordinate dispersed knowledge. Economic growth is, in the long run, the most effective means of alleviating poverty. But for the remainder of this essay, we set aside this connection and treat poverty relief as a distinct phenomenon from economic development. The two are strongly related, but not necessarily identical.

On the other hand, then, poverty alleviation might appear to be a technological problem rather than an economic one. One might plausibly argue that, to the extent that we are asking how to best achieve poverty alleviation, it is a given end rather than a plurality of ends. Questions of efficacy would thus be questions of technical efficiency: what are the most appropriate means to this fixed end?

We find this position unconvincing, for reasons explained in this section. Poverty alleviation, even if it is distinguished from The Economic Problem, is still an economic problem (with a small 'e'). Alleviating poverty involves balancing multiple competing ends. These ends are held by different individuals and may conflict, making poverty alleviation an exchange problem. The knowledge about achieving those ends is dispersed, making poverty alleviation an exchange problem. And the rules that govern interactions between the poor and their benefactors play a crucial role in shaping both the incentives for cooperation and the knowledge available to them, making poverty alleviation a governance problem.

The most basic point of our argument is this: there are many margins of poverty. Poverty is fundamentally a multidimensional phenomenon rather than a simple lack of some given basket of resources.[3] Sheer lack of income or wealth—in the narrow sense of

[3] P.T. Bauer makes the important point that poverty is the natural state of mankind. Poverty has no causes, only prosperity has causes. Thus, it might be more accurate to say that prosperity is a multidimensional phenomenon.

highly liquid resources—is only one component of what it means to be poor. Defining poverty as having a low bank account balance misses what is morally troubling about poverty, and confuses a crude proxy for the thing itself. Poverty as a social phenomenon is also associated with issues related to physical and mental health, social networks, cultural norms, access to legal services, political influence, and public services.

The sociological literature provides a wealth of evidence about the multiple dimensions of poverty. These dimension include: the relationship between poverty and social isolation (Harrington 1962, Wilson, 1987), the lack of access to human and social capital (Loury 1981, Coleman 1988), the way in which economic hardship might alter behavior, social norms and the aspirations of the poor (Rodman 1963), and even the incentives provided by social policies aimed at helping the poor (Murray 1984, Piven and Cloward 1993). Several studies have shown that there is significant variation in outcomes among poor living in seemingly identical conditions (Newman 1999, Small et al. 2010). This variation is unsurprising if one takes into account how the poor develop very different strategies to cope with economic hardship, strategies that are consistent with a heterogeneity of ends among the poor themselves. In this regard, a review of recent ethnographic studies shows how similarly poor people who live in the same poor neighborhoods make substantially different decisions regarding things like pregnancy, studying, drug sales, community participation, and robbery and how this decisions might constrain or enhance their ability to escape from poverty (Newman and Massengill 2006).

In addition, when the poor receive transfers, either in cash or in kind, their ability to use them productively depends on a series of institutional factors (Allard and Small 2013). Moreover, the ability of the poor to make use of "non-financial resources", such as social networks, is also mediated by several institutional factors. For example, a study of how low-income Latin-American and African-American mothers make use of their social networks to make ends meet, reveals that "several factors constrain, complicate, or promote social capital […], which, in turn, have important implications for they daily survival and socioeconomic mobility" (Dominguez and Watkins 2003, p. 128). In a similar vein, Small (2004, p. 176) argues that "the relationship between neighborhood poverty and social capital is neither automatic nor spurious but conditional on factors that must be identified".

One possible objection is that poverty really is just about a lack of resources, and that the above factors are all just a function of that absence of resources. And while it is true that these various dimensions of poverty are deeply interrelated to one another and especially to the lack of resources, but they are not reducible to it. Simply transferring resources from some individuals to others—even highly liquid resources like money—is not sufficient to alleviate poverty. The remainder of this section explores why this is the case, drawing on the analysis of exchange, coordination, and governance problems from section 2 above.

Poverty Alleviation as an Exchange Problem

Imagine asking a large number of people the following question: "Is alleviating poverty a worthwhile goal?" Such a question would likely garner nearly unanimous affirmative responses. Even those who might dissent would likely be thinking of the task as impossible or objecting to particular means they think the questioner might be implying. But if you were to ask a large number of people what alleviating poverty would actually entail—what would mean that the end had been (however partially) achieved—answers are likely to vary a great deal. Transfers of resources will feature heavily, but others will emphasize public services, inequality, or other dimensions of poverty.

Even if individuals are unanimous in their desire to end poverty in the abstract, their concrete ends can differ quite a bit. The sphere of activities aimed at alleviating poverty—philanthropic, religious, political, legal, educational—is more like a catallaxy than an economy. It is an order comprised many distinctive enterprises, one that we have no reason to expect to cohere. Individuals pursue ends that are several, heterogeneous, and potentially in conflict with one another. Even on an abstract philosophical level, academics dispute definitions of poverty, what alleviation would look like, and how to prioritize different forms of alleviation.

[Need to discuss Sen and Equity/Efficiency tradeoff]

The range for disagreement expands substantially when we consider the various players involved in any poverty alleviation game. Consider private philanthropic efforts. What is the donor's intent, and how much should it count in evaluating the success of a project? Some donors may prefer to give in-kind rather than cash transfers, or bundle the delivery of a meal with a religious sermon. To what degree should the preferences of recipients count? Recipients may have preferences that tend to reinforce their poverty. Should these be overridden? Do professional non-profit workers possess expert knowledge that should override either the preferences of donors or of recipients? Matters are no less complicated when we involve the public sector. Should voters preferences count? When aid crosses borders, does the recipient government get a say in how the money is spent?

[Samaritan's dilemma goes here]

Even among the poor the definitions of poverty might be contestable. A good example comes from a qualitative study by Rao and Sanyal (2010). They analyze public meetings in Indian villages where villagers themselves are empowered to make decisions regarding budgetary allocations and beneficiary selection for antipoverty programs. The purpose of these public meetings, according to the Seventy-third Amendment to the Indian constitution (1992), is to increase the role of village councils in rural governance. The authors focus on villager's discussions about distributive justice, and particularly on the distributive criteria for benefits allocated to people defined as falling below the poverty line. The authors show how the definition of poverty among villagers "is hardly obvious or unproblematic" (p. 163), and how village council presidents and ward members "struggle over the definition of who is poor" (p. 165). Although sometimes the villagers are able to reach a consensus in defining who falls below the poverty line, consensus is not the normal outcome of these deliberative processes.

In claiming that poverty alleviation is an economic problem, we are simply pointing out that alleviating poverty necessarily involves adjudicating between these different and conflicting goals. One might object on the following grounds: “Individuals disagree about what poverty alleviation entails, but everyone else is simply mistaken. There is a correct theory of what poverty is and how to alleviate it.” But even if these statements are true, poverty alleviation is still an exchange problem. In any economic problem, it might be the case that some overall structure of production is morally required, but this does not change the fact that individuals in fact have differing preferences in reality. Implementing even an objectively identified solution involves finding some basis for agreement, whether through consensus or through force.

Poverty Alleviation as a Coordination Problem

Many thinkers argue that alleviating poverty is largely, even primarily, a matter of will (e.g. Singer life, Pogge). If relatively wealthy individuals were simply more generous or just, the influx of resources could effectively cure poverty for many poor individuals. While we do not want to dismiss such a viewpoint as unreasonable—increased levels of donations or redistribution may have a large effect—we do wish to point out that this approach omits an important variable: the coordination of dispersed knowledge. In addition to the problem of adjudicating between competing ends, poverty alleviation also confronts a problem of coordinating dispersed knowledge about effective means.

Knowledge about how to effectively alleviate poverty is presumably just as dispersed as any other knowledge about how to effectively utilize scarce resources. There is a wide array of poverty-alleviating ends, and limited means can be brought to bear in lower- or higher-cost ways of achieving those ends. The requisite knowledge depends not only on generally applicable and easily replicable technical knowledge, but also on knowledge of the particular circumstances of time and place. The sort of knowledge that is relevant for economic development is also relevant for poverty alleviation. Poverty is a socially embedded phenomenon and thus there is a great deal of contingency in what constitutes effective poverty alleviation from one time and place to another. In economic terms, the ‘binding constraints’ on wellbeing will vary from one situation to the next.

Harragin (2004) provides an example of how poverty alleviation confronts a problem of coordinating dispersed knowledge. He explores the role of local knowledge in the implementation of food relief policies directed to help the Dinka population during the 1998 famine that affected southern Sudan. Relief agencies implemented a focalized aid program, giving preference to one zones over others. In addition, the program considered giving aid only to those with signs of advanced malnutrition. However, this strategy overlooked the social norms that govern the life of the Dinka. Harringan documents that, in times of economic hardship, the Dinka will rarely go to anyone outside their kinship to request help. This way of coping with hardship is influenced. Among other things, by social norms associated with accepting food prepared by non-relatives. The program implemented by relief agencies caused a tension between kinships, and between aid agencies and local authorities. Resources that were intended to go to vulnerable minorities in a given territorial area were reassembled by local authorities after the official distribution and redistributed to the general population along kinship lines. Aid agencies reacted against this practice and considered it evidence of diversion of resources and corruption.

Sobel and Leeson (2007) similarly apply Hayekian concepts of dispersed knowledge in disaster relief. They argue that, after Hurricane Katrina, FEMA was unable to effectively coordinate the dispersed knowledge of time and place necessary to effectively marshal relief. Those seeking to alleviate suffering following the disaster confronted the problem of finding out who needed what, where, and in what quantities. Those organizations which responded most effectively tended to ignore the guidelines and policies laid down by FEMA itself and instead base their decisions on knowledge of local circumstances.

A number of authors have drawn the connection between the problem of dispersed knowledge and the persistent shortcomings of foreign aid (e.g., Easterly 2006, Williamson 2010). Coyne (2013), building on Leeson and Skarbek (2009), argues that the *most* that humanitarian aid can do is eliminate suffering. But, owing to the difficulties of gathering knowledge about what concrete conditions are on the ground, aid often fails to achieve even this end, and sometimes results in unintended consequences. The problem of coordinating these activities exists on all sides: donors may lack knowledge about what potential recipients need, donors might adopt plans that clash with those of other donors, and recipients may lack the knowledge to make effective use of transfers.

In claiming that poverty alleviation is subject to a coordination problem, we do not mean that particular policies or organizational forms are ineffective. *All* modes of organizing relief activities struggle with problems of dispersed knowledge. In one sense poverty alleviation's coordination problem is less severe than the 'capital E' problem of coordinating economic activity more generally. The range of activities to be coordinated is considerably less extensive, and relief activities can utilize prices generated by markets (c.f. Auteri and Wagner 2007). As Coyne points out, humanitarian aid *can* be successful even if it is often is not; central planning an economy, by contrast, is doomed to failure. But in another sense poverty alleviation faces a more difficult coordination problem in that philanthropic enterprises do not engage in economic calculation. This leads to the final dimension of poverty relief we wish to highlight, governance problems.

Poverty Alleviation as a Governance Problem

The players in the poverty alleviation game have different ends and incomplete knowledge. The ability of players to realize their several goals depends critically on the institutions that govern the game. As is common with questions of social policy more generally, the literature on poverty alleviation frequently focuses on evaluating particular proposals or forms of relief rather than examining the institutional framework within which relief efforts are embedded.

The rules relevant to poverty alleviation vary tremendously. In the voluntary sector, the rules of private property and contract still form the core institutional framework. But these rules are modified by various regulations and provisions regarding taxation, fundraising, etc. Public sector activities aimed at poverty alleviation are likewise influenced by a mix of rules, including those characteristic of bureaucracy, legislative bodies and committees, and electoral procedures. And of course the two sectors deeply affect one another in most countries, exemplifying what Wagner refers to as an 'entangled political economy.' Recipients' actions are also constrained by rules, both formal and informal. The effects of injecting resources into a poor community will partly depend on the institutions in place in that community.

DeLuca et al. (2013) analyzed the regulations and institutional context of the Housing Choice Voucher program (HCV) in Mobile, Alabama. The HCV program provides subsidies to eligible families to rent a property in the private market rather than being tied to public housing projects in a particular neighborhood. The rationale behind the program is that the voucher system would allow poor families to move to communities that will provide them with higher economic opportunities and that may improve their social capital. However, the program has not produced the intended results. Many voucher holders remain in poor and segregated communities. The authors emphasize the following problems. On one hand, there are problems with the rules under which the program operates: first, according to the federal guidelines, "families are given a maximum of 60 days to locate a unit with their housing voucher" (p. 278); however, the actors involved in this study revealed that this time limit was quite unrealistic. Second, local public housing authorities with the longest queues "often close their lists to new applicants and abandon a first-come first-served policy, selecting families at random and making it difficult for families to plan for their housing search" (p. 277). In addition, there are additional problems with the institutional context of the program itself: a) the local housing authorities "are tasked with contradictory goals and given too few resources to carry them out" (p. 286); b) the same authorities don't have the adequate incentives to send families to higher-income neighborhoods; c) the institutional structure of local housing authorities limits interjurisdictional cooperation, which has important effects on voucher portability (p. 287); and d) the bureaucratic nature of the process limits the potential impact of portability. The authors suggest that this institutional context often works "toward different goals than those of the families they are meant to help" (p. 269). Rosenblatt and DeLuca (2012) obtained similar results in Baltimore.

With respect to institutions, there is one sense in which poverty alleviation typically confronts a more severe economic problem than that confronted by economic activity more generally: the lack of profit and loss calculation. To the extent that poverty alleviation can be treated as distinct from the 'capital E' economic problem at all, it must be the case that organizations aim at ends that are not within the normal ambit of profit-maximizing firms (Auteri and Wagner 2007). Economists following Mises (1944) and Hayek have often argued that non-profits of all sorts thus lack a crucial feedback mechanism for determining the success of their plans. Boettke and Prychitko (2004) explicate this difficulty in detail but argue that the competitive pursuit of donations provides at least some feedback for philanthropic endeavors, especially compared to

public sector bureaucracies that rely on tax revenue. This feedback is not as fine grained as profit and loss, but it does help weed out some errors.
[Much more remains to be written, including the final substantive section. It will probably deal with the differences between relief crossing institutional environments (e.g., aid) vs. relief within an institutional environment (domestic poverty relief), and/or the scope for pure cash transfers to successfully mitigate the above difficulties.]

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