

## Poverty and inequality

### What is poverty?

1	Absolute poverty	Absolute poverty means that a person does not have adequate access to basic human needs such as food, safe water, shelter, sanitation and healthcare. It is likely to cause suffering and premature death.
2	Relative poverty	Relative poverty means not having the means or resources to adequately participate in the economic and social life of an economy. This level of poverty will vary depending on the level of development of the economy.

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### How is poverty measured?

1	National measures	How individual countries measure poverty. <b>poverty line in the UK is set at at 60 per cent of the median UK household income.</b>
2	International measures	These are measures used by international organisations that allow us to measure poverty and compare between countries. For example, the main measure for relative poverty used in the OECD and the EU is based on a level of income usually set at 60% of the median household income.

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### How is inequality measured?

1	Gini coefficient	It is a way of comparing how distribution of income in a society compares with a similar society in which everyone earned exactly the same amount. Inequality on the Gini scale is measured between 0, where everybody is equal, and 1, where all the country's income is earned by a single person.
2	Lorenz curve	The Lorenz curve shows the cumulative share of income from different sections of the population. If there was perfect equality – if everyone had the same salary – the poorest 20% of the population would gain 20% of the total income. The poorest 60% of the population would get 60% of the income.

## How to reduce poverty?

Economic development i.e. increases in income and investment as well as improvements in socio economic indicators can lead to gradual reductions in poverty. This has been the case with developing countries.

Economic growth i.e. an increase in real output of goods/services can also help reduce absolute and relative poverty.

International aid – money given by rich countries to poor countries. However, is this a long-term solution?

NGO's – Non-governmental organisations that may work in fields such as education, health care, women empowerment

Other poverty reduction policies – e.g unemployment benefit, food stamps, income support and housing benefit.

## Impact of inequality

Many social problems that affect the individual, such as crime, infant mortality, educational attainment and life span, are now thought to be related to the degree of inequality rather than that of poverty alone. Inequality makes it harder for the individual to progress and can cause social tensions and unrest.

Low income workers are also likely to be less productive hence harming productivity for firms which in turn affects productivity in the economy.

Inequality may have a general slowing effect on economic growth; the rich consume a smaller proportion of their income than the poor. Those on higher incomes save money which people on lower incomes would spend. This leads to a fall in aggregate demand which, in turn, leads to lower growth and unemployment. It may also cause instability; some economists have argued that inequality in advanced countries contributed to the Global Financial Crisis.

## Redistribution of income and wealth

Use of the tax and benefit system to redistribute income and wealth. For example the UK has a progressive tax system which takes a higher percentage of tax from higher earners.

Should know the general purpose of taxation, its role in the redistribution of income and wealth, and as a source of government revenue for the provision of services. Students should understand that the level of taxation is an incentive/disincentive for individuals and businesses. It is also an area of political debate, with some economies favouring high levels of taxation, redistribution and services, and others that try to minimise government intervention.

You should understand the nature of the poverty trap, why it is difficult to eradicate, how the government has tried to do so with the Working Families Tax Credit scheme, and the extent to which it has been successful.