

# AQA Economics A-level **Microeconomics**

## Topic 7: Distribution of Income and Wealth, Poverty and Inequality

### 7.2 The problem of poverty

Notes



## **The difference between relative and absolute poverty**

Absolute poverty is defined as living below subsistence. This means that the person is unable to meet their basic needs of food, clean water, sanitation, health, shelter and education. The World Bank uses a measurement based on the number of people living on less than \$1.25 per day.

Relative poverty is measured by comparison to the average in the country. In the UK, those with below 60% of the median income are considered to be in relative poverty. In the US, a basket of goods which maintains the average standard of living of society is used. Relative poverty can be seen as one way of measuring income inequality.

This article from The Guardian describes the difference between poverty and inequality in the UK: <http://www.theguardian.com/society/2014/sep/05/poverty-uk-better-calling-it-inequality>

## **The causes and effects of poverty**

### **Inequality in wages or unemployment**

If workers can earn a higher level of education, they will be able to access jobs with higher wages. Those with lower levels of education might struggle to find a job, and if they do, it might only be low paid. This is especially harmful where countries do not have a National Minimum Wage or unemployment benefits, since it can leave people in relative poverty.

Recently, more part-time and temporary jobs have been available rather than full time jobs. This leaves people underemployed, and it limits how much they can earn. It was especially a problem during the Great Recession.

The changing structure of the UK economy to services as a result of deindustrialisation has meant some jobs have been lost. This could cause structural unemployment and hysteresis. This is a type of structural unemployment, where someone is out of work for a long time, so their skills deteriorate. This makes it harder to find a job, and it leads to long-term unemployment.



### **Welfare payments**

State pensions and welfare payments tend to increase less than wages, even though they are index-linked to inflation. This means that those on benefits see a smaller real increase in their income compared to those in jobs. This increases inequality and the number of people in relative poverty.

### **Taxes**

In the UK, some taxes are regressive, which means that those on lower incomes bear a larger burden of the tax. This can increase inequality and relative poverty.

### **Disease, malnutrition and other health problems**

Health issues can make it hard to get a job, especially in a country where jobs are scarce and rarely available. People are likely to take a lot of time off work and it can deter MNCs from investing in a country. This can leave people without an income and it can push people into absolute poverty. It is especially an issue in countries in Sub-Saharan Africa.

### **Wars and conflicts**

This might push people to flee their homes, as well as destroying anything they owned. It could leave people homeless and force them into extreme poverty.

### **Corruption and political oppression**

Countries with corrupt leaders might have higher levels of poverty. There is likely to be relative poverty since the leaders might keep most of the wealth.

### **Natural disasters**

In a similar way to wars, natural disasters such as floods and earthquakes can destroy people's livelihoods. For example, the Nepal earthquake in 2015 pushed even more people into poverty. Nepal was already one of the poorest countries in the world, and their weak infrastructure was easily damaged. It was estimated that 1 million people were pushed below the poverty line after the earthquake (source: <http://www.firstpost.com/world/one-million-people-fall-below-poverty-line-in-nepal-after-earthquake-2295416.html>)



## Impact of poverty

-  **Health:** high rates of poverty are associated with lower life expectancies, poorer standards of health and underdeveloped infants. Malnutrition is an important issue, which results in poor cognitive development in children, so they are not as productive as adults. Malnutrition also makes children more vulnerable to infections, which increases their risk of death.
-  **Society:** Poverty could result in poor housing, crime and mental health issues. Social unrest becomes more common and it can create problems within communities.
-  **Poor sanitation:** Many people living in poverty cannot afford basic levels of sanitation, and clean water is a rarity. This makes people more vulnerable to fatal diseases. Usually, the diseases contracted from poor sanitation are avoidable, but they simply cannot afford to improve their situation.
-  **Education:** Sometimes, families have to choose between eating and getting an education for their children. Children might have to be sent to work to support the family, which leaves them with poor literacy skills later on in life. This limits their ability to escape poverty as an adult.
-  **Economy:** Without a basic level of education, the higher paying jobs, with opportunities for career progression, are not accessible. This hinders the economy's ability to improve its productive potential. For example, roughly 22% of India's population is still in poverty, which is limiting their rate of economic growth.

