

Section 7: Poverty

Relative poverty: incomes and SoL is low relative to others
Absolute poverty: cannot afford basic needs, earning below \$2 a day cannot sustain acceptable standard of living

Causes

- cyclical unemployment during a recession, structural unemployment
- low income earners not given enough work hours(underemployment) leading to in-work poverty
- poor education
- poor healthcare
- state benefits rising slower than wages
- high housing costs (social and private rental)
- top band tax cut increases relative poverty
- subsistence farming - not well paid
- population growing faster than GDP in low income countries
- Absence of basic public services
- High levels of debt
- Corruption in govts

-poverty trap: a self reinforcing mechanism which causes poverty to persist

-Causes: no or very low level of capital making it hard to lift themselves out of poverty leading to poverty cycle, low wages, poor work opportunities, inability to pay for education

Consequences

Individual

- reduced ability to support family
- health deterioration/low life expectancy
- in LR could lead to structural unemployment
- poorer educational attainment /lower school enrollment so enters a low-skilled profession
- Low real spending power limits size of domestic demand for consumer G and S

Govt

- more welfare spending
- crime and social unrest so more spending on defense

Economy

- lower productive potential
- large number of low-income earners= reduced consumption so restricted growth

Policies to reduce inequality/poverty

Overall eval:

- incentives
- State of govt finances
- govt priorities
- normative judgement of govt failure
- equity vs effeiciny
- level of inequality

Benefits

- benefits based on income
- Universal benefits(for everyone)
- carers benefit (carers are more likely to go into poverty)
- child benefits

Evaluation

- income based benefits contribute to poverty trap and so should be gradually reduced as income rises
- large cost to govt=more taxation
- carers allowance only allowed for those that work more than 35 hrs

Progressive taxation

- redistributes income to low earners=reduction in relative poverty
- tax free allowances
- reducing regressive taxation

Evaluation

- if high income earners are taxed more they may move to different location
- Contributes to poverty trap as less profitable to work

NMW

- allows individuals to meet basic needs
- above competitive wage levels
- counteracts monopsony power

Evaluation

- large cost to firms
- causes unemployment(govt failure)
- less incentive to be entreprenieual
- Changed to NLW wages which are even higher=reduced competitiveness=more likelihood of low income earners becoming unemployed as their supply is elastic = poverty

Legislation

- anti-discrimination laws
- strict hiring and firing laws

Evaluation

- high cost to firm

State provision

- healthcare=higher productivity
- State education
- Affordable social housing

Evaluation

- Large cost to govt
- policy has a time lag

Encouraging EG

- reduces unemployment so poverty is reduced

Evaluation

- may result in further inequality
- uses finite resources
- environmental impacts (neg externalities on environment)

Investment in training and creating better opportunities

Evaluation

- cost to govt
- policy has a time lag

JRF report 2019 key takeaways

- rise of in-work poverty due to lack of working hours, catering and accommodation are the most exposed sectors, Solution: increase flexibility of working hours and create better training opportunities
- lack of spending on benefits due to austerity(benefits freeze since 2016) Solution: create a poverty fighting social security system)
- Housing costs have increased in both social housing and private rental, high rents and low-incomes leads to poverty, Solution: increase availability of low-cost housing (especially social housing)

Key stats (from JRF report)

- 1 in 8 workers live in poverty
- 14 million people are in poverty
- Pensioners and children are at most risk
- 7% of individuals have been in poverty for more than 2 years