

LECTURE SESSION FOUR

POVERTY AND INCOME INEQUALITY

Lecture Outline

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4.1 Introduction

Welcome to this third lecture in Poverty and Income inequality. In this lecture, we shall explain the term Poverty and Income inequality. As we explain this term, we shall gain an understanding of poverty and how income inequality contributes to poverty. Finally, we shall learn the Vicious circle of poverty and the various factors contributing to poverty.



4.2 Learning Outcomes

At the end of this lecture, you should be able to:

- i. Define poverty and income inequality
- ii. List factors contributing Poverty and Income inequality
- iii. Explain the Vicious circle of poverty
- iv. Explain the challenges of hunger

4.3 Poverty and income inequality

Let us start our discussion by asking ourselves this question.



Question 1: What factors would you consider to identify people facing poverty?

Well done. I believe you have identified these factors based on some features that people are lacking or are inadequate but are necessary for life sustenance. Poverty is the state of lacking resources that would provide people with basic necessities or that force people to go without certain needed things like three meals a day or shelter. Most developing countries are having a low poverty line.

On the other hand, income inequality is often associated with the idea of income "fairness." Most people consider it "unfair" if the rich have a disproportionately larger portion of a country's income compared to the general population. The causes of income inequality can vary significantly by region, gender, education and social status.



Take Note

Poverty threshold/poverty line is the minimum level of income deemed necessary to achieve an adequate standard of living in a given country. Poverty line is significantly higher in developed countries than in developing countries. This is why you have been able to identify a number of factors that show the state of poverty.

Having looked at the meaning of the poverty and income inequality, we shall now turn our attention to outline the measures of poverty.

4.3.1 Measures of poverty

Poverty is generally measured based on two perspectives:

i. Absolute poverty

Absolute poverty is defined as the number of people who are unable to command sufficient resources to satisfy basic needs. They are counted as the total number living below a specified minimum level of real income, an international line, which is living below a dollar a day.

ii. Relative poverty

Relative poverty refers to a standard which is defined in terms of the society in which an individual life, and which therefore differs between countries and over time.

However, the other measures can be used include;

iii. Chronic poverty, and

When poverty is handed over to individuals and families from generations before them, it becomes chronic or generational poverty.

iv Situational poverty.

People can be in transitory or situational poverty because of one unfortunate event. People can help themselves out of this type of poverty quickly if they are given a bit of assistance.

We have discussed the measures of poverty. We shall now shift our attention and ask ourselves the following question



Activity

Explain the kind of poverty associated with rural people

Well done. You have been able to explain the kind of poverty in the rural set up. Let us now discuss the factors contributing to poverty and income inequality.

4.3.2 Factors contributing Poverty and Income inequality

Factors causing poverty include:

- i. Limited Economic Diversity Overreliance of one sector-the agriculture sector will enhance poverty. But with erratic weather patterns the sector is unstable. Periods of drought can be crippling, not only in terms of food supply, but in jobs as well.
- ii. Lack of Opportunities
- iii. Weak overall infrastructure in a country, little opportunity for employment and presence of obstacles in starting a small business contribute to poverty.
- iv. Lack of Education. This is contributed by culture, or lack of school fees hence the person lack relevant technical skills required in labour market
- v. Culture. Polygamy gives rise to many children (dependants) and cultural biases towards women create limitations for the growing number of female-led households. Cattle rustling also cause poverty.
- vi. Government Corruption .Bribes, fraud and tribal favoritism are common within the all levels of government, which hampers any attempt to improve conditions across the country.
- vii. Unfair Tariff Walls by Rich Countries. Protection of their own economies through tariff walls poses another problem. An increase of international trade has proven beneficial for many developing countries. Rich countries protect their own industries against competition this way.
- viii. Overpopulation Overpopulation, the situation of having large numbers of people with too few resources and too little space, is closely associated with poverty.
- ix. Accidental causes, such as drought, disease, birth defects, handicaps etc.
- x. Historical causes, such as colonialism
- xi. Economic causes, such as energy prices, food prices etc.
- xii. International political causes, such as trade policy, protectionism etc.
- xiii. Social causes, such as racism, sexism, discrimination, ethnic division
- xiv. Individual causes, irresponsible behavior, self-destructive behavior
- xv. Geographic causes such as access to fertile land, fresh water, minerals, energy, and other natural resources
- xvi. Environmental causes, such as climate change, soil erosion and desertification etc.
- xvii. Poverty traps

4.3.3 Contributing Factors to Income Inequality

Factors contributing to income inequality include:

- i. Education is known to affect societal equality. Certain social-economic groups do not have access to quality education in the United States, particularly at the secondary school level.

In countries that provide higher-quality secondary education across the economic spectrum, there is much less income disparity.

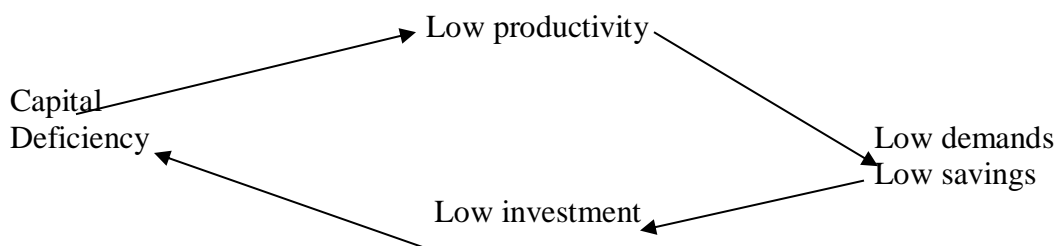
- ii. Competition for talent creates a salary divide. There is much more competition for high quality executive talent, which has driven salaries for executives higher relative to the level of generated productivity. Big bonuses and other incentives have led to inflated executive salaries.
- iii. Stagnant wages also play a big role in inequality. The median income for low- to middle income workers has been mostly stagnant since 2007 while executive compensation has increased. The diminished influence of labor unions has also led to flat or declining wages among workers.
- iv. Family and social interactions impact earning potential. Social and emotional skills critical to leading a quality life are not sufficiently developed in economically distressed areas with a high percentage of low-income families.
- v. Increased demand for high-skilled workers adds to a widening wage gap. Companies are investing heavily to develop a highly skilled workforce, which is driving wages up for high-skilled workers. This leads to the de-emphasis or automation of low-skilled functions pushing down wages for low-skilled workers.

Let us now learn our last subsection in this lecture on Vicious circle of poverty

4.4 Vicious circle of poverty

The theory of the vicious circle of poverty "which is one of the most quoted theories, explains under-development with the simple proposition that "a country is poor because it is poor". It implies that a circular pattern of forces tends to act and re — act upon one another in such a manner that keeps a poor country in perpetual state of poverty. Poverty is seen both as the cause and consequence of a country's low rate of capital formation. Poverty is therefore considered self-perpetuation.

The basic vicious circle stems from the fact that total productivity in the LDCs is low due to “deficiencies” in capital, market imperfections, and general economic backwardness. The vicious circle operates both on the demand and supply side so that low productivity implies low income - which in turn implies low demand and low saving, which in turn means, low output due to low investment.



This model affects persons, groups and communities. Poverty and underdevelopment in the model are considered to be synonymous terms.

The Vicious Circle of Poverty: A Critique:

The shortage of capital is considered the only obstacle to development- The theory therefore suggests massive injections of capital as a solution to underdevelopment. This is valid but only to an extent since the shortage of capital is a serious obstacle but not the only obstacle to development. Experience also refutes this claim. For instance, there are innumerable cases of individuals, groups and communities both in the rich and poor countries which have risen from glaring poverty to riches. Secondly, many nations started off poor. Thirdly, the model assumes a closed economic system and therefore excludes the important role played by international contact and the foreign exchange constraints.

4.5 Challenges of Hunger

Besides acute famine, there is a much bigger problem of chronic hunger in developing countries.

Hunger has been described as a condition in which people lack the basic food intake to provide them with the energy and nutrients for fully productive lives. Effects of hunger include: -

- High mortality rate
- Susceptibility to diseases
- Less schooling



4.6 Summary

We have come to the end of lecture three. This lecture laid the background for this unit course by defining the term poverty and income inequality. We have said that poverty is a state of lacking resources that would provide people with basic necessities. Income inequality is the unfair distribution of resources. We have also outlined the causes of poverty and income inequality.



4.7 Review Activity

1. Explain the meaning of income inequality
2. Outline the various measures of poverty.
3. List the various factors contributing to poverty and income inequality
1. Explain the demand and supply side of vicious circle of poverty



4.8 References and Further Reading

Byrd, M. & Edwards, S. (2014). *Leadership Development Studies: A Humanities Approach*. (5th Ed.). Plymouth, USA: Hayden-Mc Publishing. ISBN-13: 978-0738066042.

Spear, J. & Williams, P. D. (2012). *Security and Development in Global Politics: A critical Comparison*. Washington, DC: Georgetown