

## **Session Three: POVERTY AND INCOME INEQUALITY**

### **3.1 Objectives**

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

- i. Define poverty and income inequality
- ii. Explain the measures of poverty
- iii. Explain challenges of hunger
- iv. Identify factors contributing to income inequality

### **3.2 Lecture Overview**

Poverty in the world is increasing rather than decreasing. This is the same in Kenya. In Kenya, the increase in poverty is associated with the decrease of social services by the government, skewed allocation of resources, poor performance in national examinations, unequal education opportunities, that has led to income inequalities. The gap between the poor and the rich is increasing rather than decreasing, leading to skewed development in the country.

### **3.3 Difference between poverty and income inequality**

Poverty is about not having enough money to meet basic needs including food, clothing and shelter. However, poverty is more, much more than just not having enough money.

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. Economists are divided on the implications of income disparity and whether it is ultimately positive or negative. Income inequality has become increasingly evident since the 1980s when 30 to 35% of national income went to the top 10% of earners. Since then, the percent of income going to the top 10% has increased to 50% creating a huge disparity between high earners and low earners. The issue has become politically and economically divisive concerning its causes and acceptable solutions. While most economists agree that the growth in disparity is attributable to unequal education, environment and social interactions, economists do not fully agree on the specific mechanisms that are driving the increase.

### **3.4 Measures of poverty**

- 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 lives, and which therefore differs between countries and over time.

### **3.5 Vicious circle of poverty**

This refers to a self-reinforcing situation whereby certain factors exist that tends to perpetuate an undesirable phenomenon. In developing countries, the vicious circle of poverty can be viewed from the demand side and the supply side. The demand side implies that low levels of income lead to low level of demand, which in turn lead to low rate of rates of investment and a corresponding deficiency of capital, low productivity and low income. From a supply side perspective, low productivity implies low real income, which in turn implies low savings and low level of investment that contributes to deficiency of capital. The deficiency of capital contributes to a low level of productivity and low income.

Lack of capital contributes to a low level of productivity which in turn leads to a low income and a low capacity to save. Low savings results in low investments or capital formation which perpetuates the lack of capital.

### **3.6 Poverty and hunger**

- World population is estimated to be 7 billion.
- 795 million people or one in nine people in the world, do not have enough to eat.
- 90% of the world's undernourished people live in developing countries.

#### **Where is hunger the worst?**

- Asia 525.6 million.
- Sub-Saharan Africa 214 million.
- Latin America and the Caribbean 37 million.

Aiming at the very heart of hunger, the Hunger Project launched in 2003, is currently committed to work in Bangladesh, Benin, Ghana, Malawi, Mexico, Burkina Faso, Ethiopia, India, Mozambique, Peru, Senegal and Uganda.

### **Women and children**

- 60% of the world's hungry are women.
- 50% of pregnant women in developing countries lack proper maternal care, resulting in 240,000 maternal deaths annually from child birth.
- 1 out of 6 infants are born with a low birth weight in developing countries.
- Poor nutrition causes nearly half (45%) of deaths in children under five (3.1 million children each year, which is 8,500 children per day.
- A third of all children death in Sub-Saharan Africa is caused by hunger.
- 66 million primary school age children attend classes hungry across the developing world, with 23 million in Africa alone.
- Every 10 seconds, a child dies from hunger related diseases.

The Hunger Project firmly believes that empowering women to be key change agents is an essential element to achieving the end of hunger and poverty. Wherever the Hunger Project works, their programmes aim to support women and build their capacity.

### **HIV/AIDS and other diseases**

- 35 million people are living with HIV and AIDS.
- 52% of people living with HIV and AIDS are women.
- 88% of all children and 60% of all women living with HIV are in Sub-Saharan Africa.
- 6.9 million children died in 2011, each year 19,000 a day, mostly from preventable health issues, such as malaria, diarrhea and pneumonia.

The Hunger Project's HIV/AIDS and gender inequality campaign works at the grassroots level to provide education about preventive and treatment measures.

## **Poverty**

- 1.4 billion people in developing countries live on \$1.25 a day or less.
- Rural areas account for three out of every four people living on less than \$1.25 a day.
- 22,000 children die each day due to condition of poverty.

Rural Hunger Project partners have access to income-generating workshops, empowering their self-reliance. Their Micro-finance programme in Africa provides access to credit, adequate training and instilling in their partners the importance of saving.

## **Agriculture**

- 75% of the world's poorest, 1.4 billion women, children and men, live in rural areas and depend on agriculture and related activities for their livelihood.
- 50% of hungry people are farming families.

In each region in which the Hunger Project works, the project provides tools and training to increase farming production at the local level in Africa. Their epicenter partners run community farms where they implement new techniques while producing food for the epicenter food bank.

## **Water**

- 1.7 billion people lack access to clean water.
- 2.3 billion people suffer from water-borne diseases each year.
- 12% of the world's population uses 85% of its water and none of the 12% lives in developing countries.

The Hunger Project works with communities to develop new water resources, ensure clean water and improved sanitation, and implement water conservation techniques.

### **3.7 Challenge 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 this are: -

- High mortality rate

- Susceptibility to diseases
- Less schooling

### **3.8 Contributing Factors to Income Inequality**

- 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.

### **3.9 Summary**

In summary, the lecture aimed at defining Define poverty and income inequality, identifying measures of poverty, Vicious circle of poverty, Poverty and hunger, challenges of hunger and discussing factors contributing to income inequality

### **3.10 Self-Assessment Questions**

- i. Explain five groups that are mostly affected by poverty in developing countries.
- ii. Discuss issues that brings about income inequality?

### **3.11 Further Reading**

Sowell, T. (2015). *Wealth, Poverty and Politics: An International Perspective*. New York: Basic Books. ISBN-13: 978-0465082933.