## Key Concepts and Summary

### 15.1 Drawing the Poverty Line

Wages are influenced by Supply and demand in labor markets influence wages. This can lead to very low incomes for some people and very high incomes for others. Poverty and income inequality are not the same thing. Poverty applies to the condition of people who cannot afford the necessities of life. Income inequality refers to the disparity between those with higher and lower incomes. The poverty rate is what percentage of the population lives below the poverty line, which the amount of income that it takes to purchase the necessities of life determines. Choosing a poverty line will always be somewhat controversial.

### 15.2 The Poverty Trap

A poverty trap occurs when government-support payments decline as the recipients earn more income. As a result, the recipients do not end up with much more income when they work, because the loss of government support largely or completely offsets any income that one earns by working. Phasing out government benefits more slowly, as well as imposing requirements for work as a condition of receiving benefits and a time limit on benefits can reduce the harshness of the poverty trap.

### 15.3 The Safety Net

We call the group of government programs that address poverty the safety net. In the United States, prominent safety net programs include Temporary Assistance to Needy Families (TANF), the Supplemental Nutrition Assistance Program (SNAP), the earned income tax credit (EITC), Medicaid, and the Special Supplemental Food Program for Women, Infants, and Children (WIC).

### 15.4 Income Inequality: Measurement and Causes

Measuring inequality involves making comparisons across the entire distribution of income. One way of doing this is to divide the population into groups, like quintiles, and then calculate what share of income each group receives. An alternative approach is to draw Lorenz curves, which compare the cumulative income actually received to a perfectly equal distribution of income. Income inequality in the United States increased substantially from the late 1970s and early 1980s into the 2000s. The two most common explanations that economists cite are changes in household structures that have led to more two-earner couples and single-parent families, and the effect of new information and communications technology on wages.

### 15.5 Government Policies to Reduce Income Inequality

Policies that can affect the level of economic inequality include redistribution between rich and poor, making it easier for people to climb the ladder of opportunity; and estate taxes, which are taxes on inheritances. Pushing too aggressively for economic equality can run the risk of decreasing economic incentives. However, a moderate push for economic equality can increase economic output, both through methods like improved education and by building a base of political support for market forces.