



Overview

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3. Macroeconomics / 3.4 Economics of inequality and poverty



(https://intercom.help/kognity)



# The relationship between equality and equity

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In macroeconomics, it is important for you to understand the difference between equality and equity when studying the economics of inequality and poverty. Equality refers to situations where economic outcomes are the same (or similar) for different people or social groups. Equity refers to the concept of fairness or evenness and is considered an economic objective. This idea of fairness is subjective as it means different things to different people and so is difficult to measure. Economic inequality is usually opposed to equity, as it refers to how wealth, assets or incomes are distributed differently among individuals and the population as a whole. This is often called the 'wealth gap' between the rich and poor and remains a significant issue both within and between societies. There is much debate over how much markets and/or governments should intervene in enabling greater equity or equality in an economy.

### ⚠ Be aware

The word **equal** is not the same as the word **equitable**. Equal implies 'the same', whereas equitable implies *fair*ness or evenness.

## The meaning of economic inequality

There are many different types of economic inequality. The most notable measures used are the:

- unequal distribution of income
- unequal distribution of wealth.



Economic inequality exists between states and nations, but also between different groups of people within a country. Research has provided evidence that greater economic inequality hinders economic growth (<https://www.nber.org/digest/aug99/w7038.html>). Therefore, we will explore the inequalities in the income and wealth distributions below.

## Unequal distribution of income

Market-based systems remain the most efficient way to allocate resources within a society, and equality in distribution of income is no longer considered a viable option. Although we do not think that we should all earn equal incomes, we do tend to agree that incomes should be distributed fairly; that is, there shouldn't be a few people earning a lot while too many people earn too little. The big question is, how much inequality is good for a society and when does it become too much?

In recent years, the topic of income distribution has resurfaced in the political and economic debate, and in the news media. Unfortunately, it looks as though the unequal distribution of income in many countries is rising again (<https://www.theguardian.com/commentisfree/2020/mar/08/inequality-myths-left-right-stop-us-seeing-true-story>), having spent the post-war period falling. You can find recent data in this OECD interactive (<https://data.oecd.org/inequality/income-inequality.htm>).



Behavioural economist Dan Ariely has studied what people think income distribution is and what it should be, and has come to some interesting conclusions.

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**Video 1. Income distribution: Video.**

More information for video 1

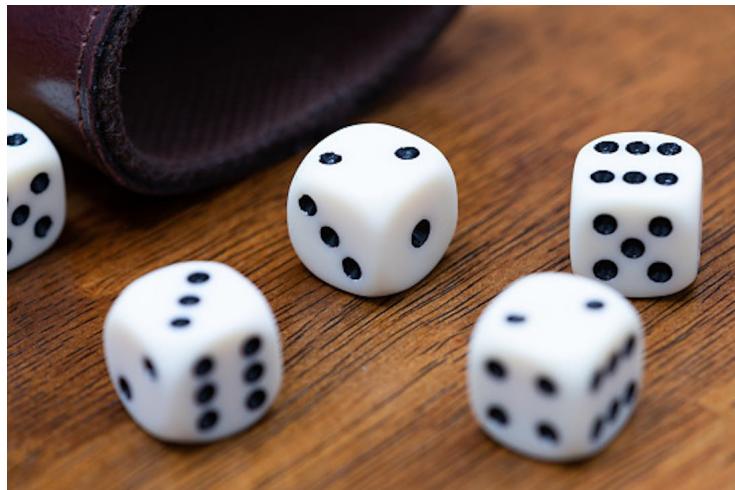
## Activity

Would you like to try to enter a society under what John Rawls called the ‘Veil of Ignorance’? The board game Monopoly was developed in the 1930s. The intent of the game was to illustrate how wealth concentrated in the hands of the few was not beneficial for society.

If you have a Monopoly board at home or at school, you can try and play a game of Stratified Monopoly in small groups. Here is a set of rules (<http://paulsjusticepage.com/elite-deviance/Monopoly-StratifiedSociety.pdf>) and some guiding documents to help you set up the game.



Student view



**Figure 1. Would you be willing to roll the dice and take a chance on your social mobility?**

Credit: Getty Images Marcelo Badaraco

More information for figure 1

Once you have played a game, consider the following questions:

- How does it feel to play the game with different rules?
- In what ways do you think it represents the real world?



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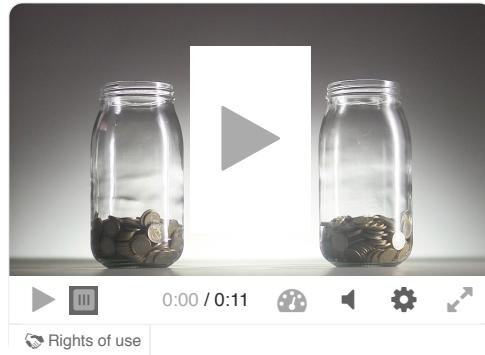
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- What do you think would make the game fairer?

One thing remains true, regardless of what country we look at: no capitalist system will ever achieve a perfect distribution of income. A capitalist (or market) system is based on the ownership of resources remaining in the hands of a small portion of the population, namely business owners. Many of us will never own our own businesses and will instead become employees of a business. Although employees vastly outnumber business owners, the latter will always take home more income than employees, which amounts to a larger proportion of total income earned relative to the rest of the population.

This philosophy is ingrained within a capitalist system. As long as the lowest-income earners take home enough money to live a decent life and there are equal opportunities available for social mobility, then a society might be considered 'fair' as it allows individuals to advance up (or down) the economic ladder.

In other words: does a capitalist society allocate the factors of production efficiently? This might mean providing individuals who are efficient at the labour that they do with higher incomes, while those who are not are rewarded with lower incomes. This would naturally allow the market to sort people to jobs and incomes that best suit their skills and the needs of a society.



**Figure 2. What Is the Gap Between the Richest and Poorest?**

More information for figure 2

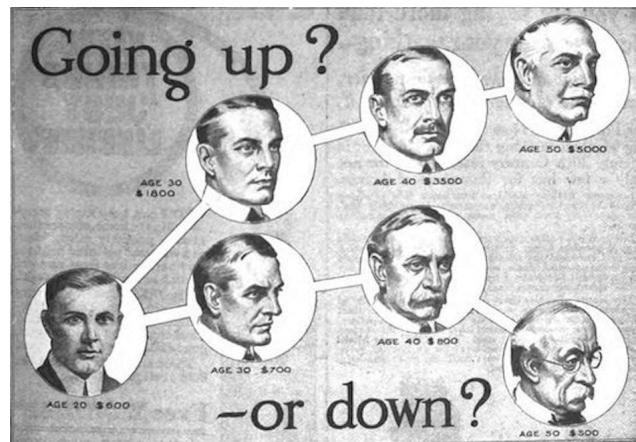
The video provides a visual representation of income inequality by showing two transparent glass jars initially filled equally with coins. As the video progresses, the disparity becomes evident—one jar gradually fills to the top, while the other loses most of its coins. This shift symbolizes how income and wealth accumulate unevenly over time, illustrating the widening gap between different economic groups.

## Case study

### Universal basic income

As you may recall from [section 3.4.0 \(/study/app/pp/sid-186-cid-754025/book/the-big-picture-id-30471/\)](#), inequality and poverty have long been a problem in our societies. Many attempts have been made to solve these social problems and to care for all stakeholders: for example, religious organisations and extended communities

have often been crucial in helping the less advantaged. However, as the role of governments expanded in the late 19th century, many different countries turned to new ways to care for those who needed it.



**Figure 3.** Education has long been seen as a way to lift people out of poverty and close the gap between the rich and poor.

Source: "Going up or down advertisement"

([https://commons.wikimedia.org/wiki/File:Going\\_up\\_or\\_down\\_advertisement.jpg](https://commons.wikimedia.org/wiki/File:Going_up_or_down_advertisement.jpg)) by International Correspondence Schools is under Public domain ([https://commons.wikimedia.org/wiki/Category:PD\\_US](https://commons.wikimedia.org/wiki/Category:PD_US))

More information for figure 3

The image is an advertisement depicting a decision diagram featuring the question "Going up? - or down?" The diagram consists of seven portraits of men, each accompanied by text illustrating a progression path showing upward or downward socioeconomic outcomes based on age and income. The paths are represented by interconnected lines leading to different income outcomes at each stage of life, illustrated by these phrases:

- Age 20 \$600
- Age 30 \$700
- Age 30 \$1800
- Age 40 \$800
- Age 40 \$3500
- Age 50 \$300
- Age 50 \$5000

The diagram emphasizes contrasting life trajectories based on educational and job advancement, presenting potential future scenarios depending on time and decisions made earlier in life.

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Student view

Early examples of government intervention include the introduction of public programmes, such as schools, to provide an opportunity for everyone to receive an education. Throughout the 20th century, more programmes were introduced such as food stamps, old age pensions and unemployment insurance.

One initiative to help prevent economic inequality is the idea of a universal basic income (UBI). This refers to an unconditional, periodic payment that a government provides to individuals without constraints if they meet certain criteria. There have been some experiments with UBI in the recent past and varying reports of its success. Some politicians have even run for office with UBI as a central part of their platform and books have been written to support the idea.

Source: Adapted from One of the world's largest basic-income trials, a 2-year program in Finland, was a major flop. But experts say the test was flawed (<https://www.businessinsider.com/finland-basic-income-experiment-reasons-for-failure-2019-12?IR=T>), Business Insider, Push for universal basic income will outlive Andrew Yang's 2020 presidential campaign (<https://eu.usatoday.com/story/opinion/2020/02/17/universal-basic-income-outlive-andrew-yang-2020-campaign-column/4751726002/>), USA Today and The case for a universal basic income, open borders, and a 15-hour workweek (<https://www.vox.com/policy-and-politics/2019/7/26/8909436/rutger-bregman-utopia-for-realists-ubi-open-borders>), Vox.



**Figure 4.** Universal basic income aims to raise the ability of the poorest in our society to meet their basic needs.

Credit: Getty Images CSA Images

Would UBI lead to less inequality? What effect would this have on other macroeconomic objectives, such as inflation or growth?

## Unequal distribution of wealth

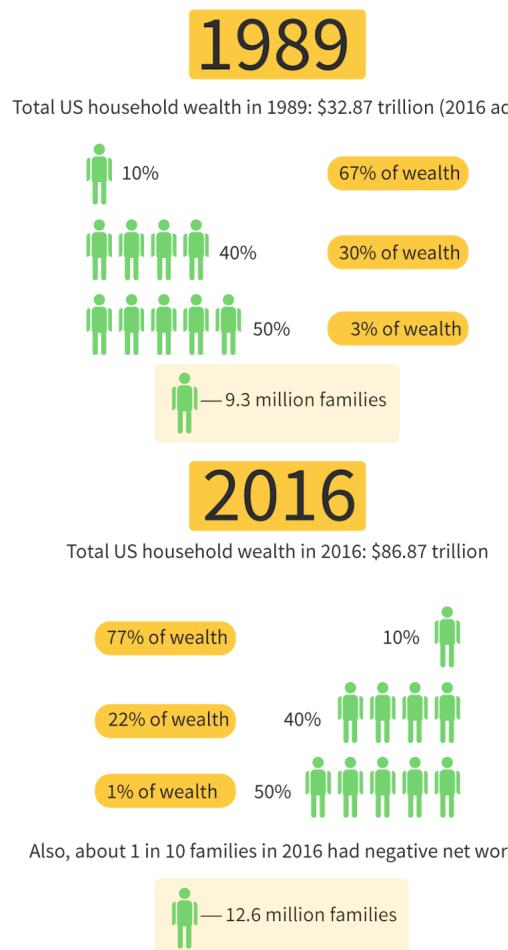
The issue of unequal incomes within societies has been a focus for some time, but so has the amassing of wealth among individuals, both [within a person's lifetime](https://www.barrons.com/articles/global-billionaire-population-reaches-record-jeff-bezos-remains-no-1-01582750426) and with wealth passed on from generation to generation (<https://thehill.com/opinion/finance/431098-fortify-the-estate-tax-to-ensure-equal-treatment-of-wealth-and-wages#.XHBGvtRLKdY.twitter>). In the past few decades, we have seen some individuals amass fortunes rarely seen in the history of humankind (<https://www.forbes.com/billionaires/>). This raises the question of resource allocation in a society and whether it is beneficial for a society if only a few people hold onto a huge fortune.

Unequal incomes can lead to an unequal distribution of wealth, but wealth takes time to accrue and requires access to opportunities to save and invest. This can have a long-term impact on human capital within our societies. Individuals who can save and invest might also have access to greater opportunities and greater security in times of uncertainty. We also know that differences in wealth can also [change people's behaviour](https://www.pbs.org/newshour/economy/why-those-who-feel-they-have-less-give-more) (<https://www.pbs.org/newshour/economy/why-those-who-feel-they-have-less-give-more>), not just financially but socially. What does that mean for society on the whole?

Wealth provides individuals with the power of *opportunity* for them and their families. For example, it can provide individuals with access to decent living standards, education and health care. This will lead to a monopoly of wealth, where economic resources that could be used efficiently by many individuals are concentrated in only a few. It can also hinder social mobility, as those who cannot financially afford to access a higher standard of living might not receive, for example, the best education or health care. This could prevent them from developing the skills or having the ability to climb up the economic ladder in society.

There have been various proposals on how to limit an individual's wealth or intergenerational transfers. Most of these ideas aim to reallocate those resources back into productive uses in the economy. Some wealthy people want to help those who are less advantaged and have joined initiatives (such as the Giving Pledge) to give back to society by distributing their wealth among those who need it, rather than to keep it for their own uses. This is known as philanthropy. If more wealthy individuals did this, perhaps society would be seen as more equitable.

For stark figures and visualisations, see this website ↗ (<https://www.stlouisfed.org/open-vault/2019/august/wealth-inequality-in-america-facts-figures>): since 1989, the wealth of the top 10% of Americans has increased, while middle and lower income earners' wealth has decreased over the same period.



**Figure 5.** Since 1989, the wealth of the top 10% of Americans has increased, while middle and lower income earners' wealth has decreased over the same period.

Source: St. Louis Fed (<https://www.stlouisfed.org/open-vault/2019/august/wealth-inequality-in-america-facts-figures>)

↗ More information for figure 5

The image is a diagram comparing U.S. household wealth distribution in 1989 and 2016. The upper section represents the year 1989, showing that 10% of families held 67% of the wealth, 40% of families held 30% of the wealth, and 50% of families held 3% of the wealth. The wealth in 1989 totaled \$32.87 trillion. There is an icon indicating 9.3 million families in 1989 with negative net worth. The lower section represents 2016, where 10% of families held 77% of wealth, 40% held 22%, and 50% held 1%. The total U.S. household wealth in 2016 was \$86.87 trillion. The icon shows 12.6 million families had negative net worth in 2016. The diagram uses green stick figure icons and yellow text boxes to represent these percentages and statistics.

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view



# Measuring economic inequality

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Notebook It is important to gain an understanding of the factors that contribute to economic inequality so we can try to 'close the gap' between the wealthiest and poorest in society. There are two methods that we will now explore that attempt to measure economic inequality: the Lorenz curve and the Gini coefficient (index).



Glossary

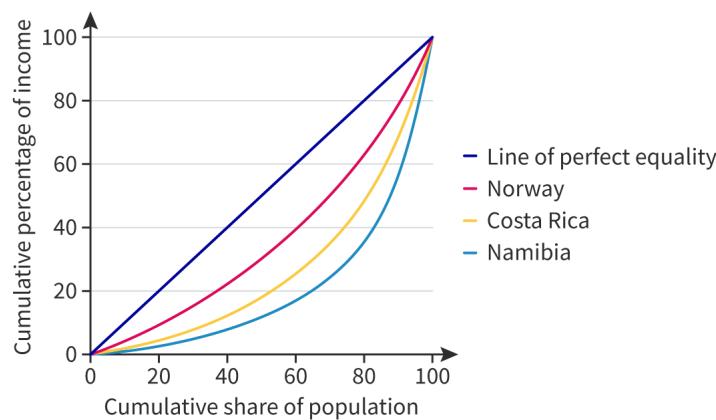
Reading  
assistance

## The Lorenz curve

**Table 1.** Income distribution data for Costa Rica, Namibia and Norway (Source: World Bank).

	Poorest 20%	Second 20%	Third 20%	Fourth 20%	Richest 20%
<b>Costa Rica</b>	3.77	8.42	13.16	21.01	53.64
<b>Namibia</b>	3.15	5.03	8.24	14.96	68.62
<b>Norway</b>	8.9	13.52	16.87	21.52	39.19

**Table 1** gives the distribution of total income earned in three countries at different stages of development. Costa Rica is a middle-income country with a good standard of living for most of its inhabitants. Namibia is an emerging economy with an economy based mostly on resource-gathering activities, such as agriculture, herding and mining for precious metals. Norway might be considered to be at an end-of-history status (the point at which no further upheaval in terms of economics, governance or social make-up occurs or is required), with the highest quality of life recorded by the [Human Development Index \(HDI\)](http://hdr.undp.org/en/content/human-development-index-hdi) (<http://hdr.undp.org/en/content/human-development-index-hdi>). As you can see from the data, Namibia has the worst distribution of income, with the richest 20% of the population earning 68.62% of total income earned in the country and the poorest 20% taking only 3.15%.

Student  
view

**Figure 1.** Lorenz curve for Norway, Costa Rica and Namibia

Source: World Bank

[More information for figure 1](#)

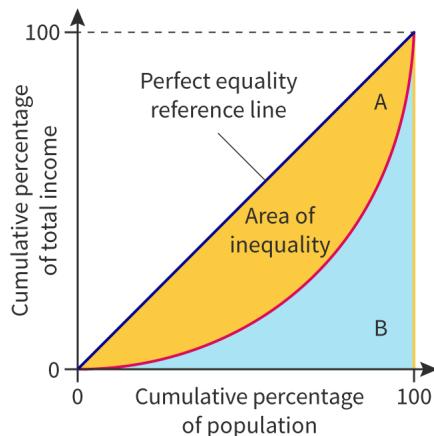
This graph shows the Lorenz curve, comparing income distribution in Norway, Costa Rica, and Namibia against a line of perfect equality. The X-axis represents the cumulative share of the population, ranging from 0 to 100%. The Y-axis represents the cumulative percentage of income, also from 0 to 100%. The line of perfect equality is a diagonal, indicating equal distribution. The Lorenz curve for Norway is closest to this line, followed by Costa Rica, which shows moderate inequality. Namibia's curve is the farthest from the line of perfect equality, indicating the highest level of inequality among the three countries. The curve illustrates that a larger share of total income is concentrated among the richer segments of the population in Namibia compared to the other two countries.

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If we plot the cumulative shares of income (shares added together) we construct what is called the Lorenz curve, developed by Max Lorenz in 1905. We have to include a straight line to indicate an equal division of income throughout the population: that is, the poorest 20% earning 20% of the total income, the poorest 40% together earning 40% of the total income, and so on. Further, we have to add up the shares of total income actually earned by each group cumulatively and plot the points below the line of perfect equality. The further away the curve is from the diagonal, the more unequal the distribution of income.

## Gini coefficient (index)

We can use the Lorenz curve to calculate an easy-to-use statistic called the Gini coefficient. If we look at a simple Lorenz curve as shown in **Figure 2**, we must use the areas under the line of perfect equality to find the proportion of inequality with respect to perfect equality.



**Figure 2.** A simple Lorenz curve.

More information for figure 2

The Lorenz curve is a graph depicting the cumulative percentage of total income on the Y-axis versus the cumulative percentage of the population on the X-axis. It illustrates income distribution where a straight diagonal line from (0,0) to (100,100) represents perfect equality. The actual Lorenz curve is bowed beneath this line, demonstrating income inequality. The area between the line of perfect equality and the Lorenz curve is labeled as the 'Area of inequality,' marked as section A. Below the Lorenz curve, another area labeled B is shown. Labels are provided on axes, with the X-axis marking 'Cumulative percentage of population' from 0 to 100 and the Y-axis labeled 'Cumulative percentage of total income,' also from 0 to 100. The curve and shaded areas visually represent income inequality in the population.

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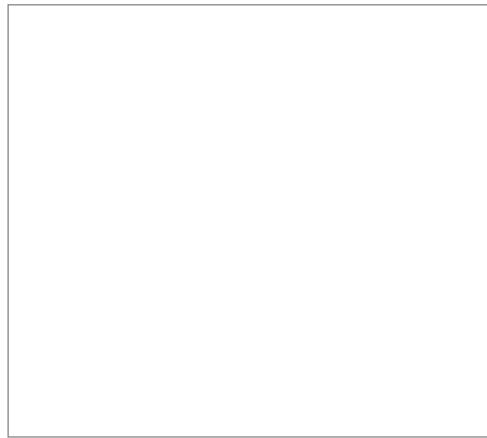
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To calculate the Gini coefficient, we must use the following formula:

$$\text{Gini coefficient} = \frac{A}{A+B}$$



**Figure 3.** The graph illustrates how to calculate the Gini coefficient.

More information for figure 3

An interactive line graph illustrates income inequality using the Gini coefficient and the Lorenz curve. The horizontal axis displays the cumulative percentage of the population, while the vertical axis represents the cumulative percentage of total income.

The graph also includes a slider that shows the Gini coefficient values for various countries like Iceland, the USA, Brazil, Zambia, and South Africa, with the default country set to Brazil. The Gini coefficient is set to 0.5, which is adjustable via a horizontal slider. The slider ranges from a low value, representing more equal societies like Iceland, to a higher value, representing more unequal societies like South Africa. As the slider moves, the Lorenz curve on the right updates accordingly.

The Lorenz curve plots the cumulative percentage of income against the cumulative percentage of the population, with perfect equality represented by the 45-degree diagonal line. The area between this equality line and the Lorenz curve is shaded and labeled as Region A, while the area below the Lorenz curve is labeled Region B. The Gini coefficient is computed as  $\frac{A}{(A+B)}$ , where a higher coefficient indicates greater inequality.

The interactive nature of the graph allows users to explore how income inequality varies across different nations. By moving the slider, users can observe how the Lorenz curve shifts, reflecting differences in income distributions between countries. Simultaneously, the Gini coefficient value updates in real-time, offering a numerical representation of inequality for each nation. This dynamic feature makes it easier to compare inequality levels and understand how the Gini coefficient quantifies disparities in income distribution. The design allows users to observe how income distribution changes across different countries.



This gives a number between 0 and 1. The smaller area A is, the smaller the Gini coefficient will be, indicating a better distribution of income. Looking at **Figure 1**, Namibia would have the largest coefficient, followed by Costa Rica and, finally, Norway. Norway often ends up at the top of the list of most developed countries in the world. Have a look at this [interactive map ↗](https://www1.compareyourcountry.org/inequality) (<https://www1.compareyourcountry.org/inequality>) and find the Gini coefficient for your country.

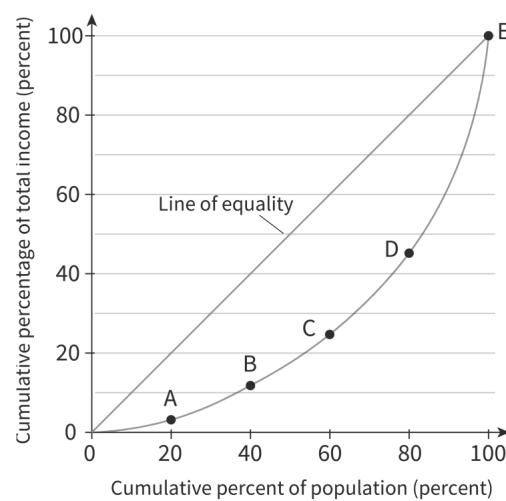
## Lorenz curve from income quintile data (HL)

As you know, a Lorenze curve is constructed using the total cumulative population on the x -axis and the total cumulative income on the y -axis. Given the figures in **Table 2**, we can construct a Lorenz curve.

**Table 2.** Income distribution data for Costa Rica (Source: World Bank).

	Poorest 20%	Second 20%	Third 20%	Fourth 20%	Richest 20%
Costa Rica	3.77	8.42	13.16	21.01	53.64
Cumulative total income	3.77	$(3.77 + 8.42)12.19\%$	$(12.19 + 13.16)25.25\%$	$(25.25 + 21.01)46.26\%$	$(46.26 + 53.64)$
Cumulative total population	20	$(20 + 20)40\%$	$(40 + 20)60\%$	$(60 + 20)80\%$	$(80 + 20)100\%$

Income distribution of Costa Rica

**Figure 4.** The Lorenz curve illustrates the cumulative income of the quintiles of the population of Costa Rica.

[More information for figure 4](#)

The image is a graph depicting the Lorenz curve of income distribution in Costa Rica. It has two labeled axes. The X-axis represents the cumulative percent of the population in percent, ranging from 0 to 100 percent. The Y-axis represents the cumulative percentage of total income in percent, ranging from 0 to 100 percent.

Student view

A diagonal line labeled 'Line of equality' runs from the bottom left corner to the top right corner of the graph. This line represents perfect income equality. The Lorenz curve starts at the origin, moves upwards, and is positioned below the line of equality, indicating income inequality.

Key points (A to E) are marked along the Lorenz curve. Point A is at roughly 20% of the population, accumulating less than 5% of the income. Point B is near 40% of the population, with about 15% of the income. Point C is around 60% of the population with approximately 30% of the income. Point D is close to 80% of the population, with about 55% of the income. Point E reaches 100% of the population, accumulating 100% of the income, matching with the line of equality in the final segment.

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### ① Exam tip

Remember that when you construct a Lorenz curve, you must have labels for both the y - and x -axis and should enclose the diagram in a square as shown above.

 As each group's percentage of income is reported, the amount indicated on the diagram is *cumulative*. So, when calculating we add previous groups to the total. The bottom 20% has 3.77% of the income. When we reach the bottom 40% of the population, it is that same poorest 20% + the next richest 20%. That means the income accumulates to  $(3.77 + 8.42) = 12.19\%$ , and so on all the way up to 100% of the population.

### Worked example 1:

Now you try. Using **Table 3a**, calculate the cumulative totals.

**Table 3a.** Income distribution data for Norway (Source: World Bank).

	Poorest 20%	Second 20%	Third 20%	Fourth 20%	Richest 20%
Norway	8.9	13.52	16.87	21.52	39.19

**Table 3b.** Income distribution data for Norway (Source: World Bank).

	Poorest 20%	Second 20%	Third 20%	Fourth 20%	Richest 20%
Norway	8.9	13.52	16.87	21.52	39.19
Cumulative total income	8.9%	$(8.9 + 13.52)22.42\%$	$(22.42 + 16.87)39.29\%$	$(39.29 + 21.52)60.81\%$	$(60.81 + 39.19)100\%$
Cumulative total population	20%	$(20 + 20)40\%$	$(40 + 20)60\%$	$(60 + 20)80\%$	$(80 + 20)100\%$

### Worked example 2:

Now, using the data from **Table 3b**, construct a Lorenz curve.



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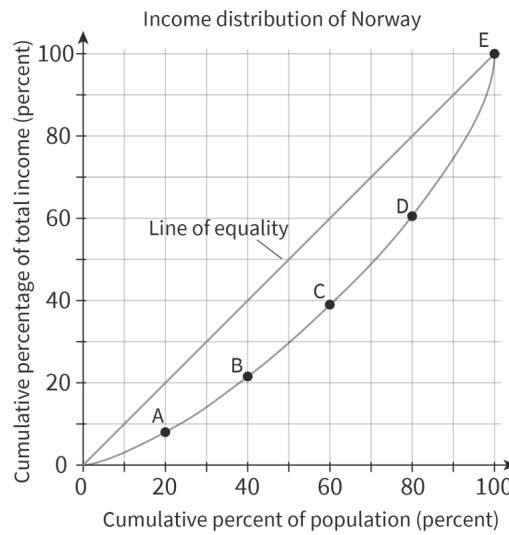


Figure 5. Lorenz curve illustrating the income distribution of Norway.



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3. Macroeconomics / 3.4 Economics of inequality and poverty

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 Reading  
assistance**Figure 1. Absolute and relative poverty.**

Credit: Getty Images Halfpoint

It might be easy to think that developed countries are free from poverty, and you would be right in the sense that people in developed countries are unlikely to be earning less than USD 1 per day. That is why we must distinguish between absolute and relative poverty.

 Student  
view

Absolute poverty refers to internationally defined levels of poverty, where impoverished people earn below a certain level of income and have an unacceptable standard of living. It is an attempt to define a level of income below which people will not be able to survive. In 1995, the United Nations defined absolute poverty as:

*a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services.*

Often, you might read about people earning less than USD 1 or 2 per day, and these levels have been used as targets for poverty reduction. In fact, in 2015 the World Bank updated its definition of extreme poverty income to less than USD 1.90 per day. It might be argued that selecting such an arbitrary number as a target ignores the complexity of the situations faced by people in poverty. It is not as though people are no longer poor if they manage to survive on slightly more than that per day.

Countries that do not suffer from absolute poverty will need to define a different level of income below which their citizens would be struggling. This is known as relative poverty. The way a country decides to set that level is up to the government, and is often the source of much contention in politics. The level can be set relative to an average level of income, or a median level, for example. This level will also need to be changed at regular intervals so that inflation can be accounted for.



# Measuring poverty

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There are a variety of factors that contribute towards poverty, such as financial, socioeconomic and behavioural. These factors can be tracked and measured to provide a holistic understanding of poverty within a society by using different indicators. In a society, communities or regions with multiple indicators of poverty would likely be considered in poverty, while those with just one or two might not. We will examine the differences between single and composite indicators below.

## Single indicators

A single indicator refers to one factor, such as GNP per capita, to measure the development of a country. In this case, we will explore some examples of single indicators that can be used to measure poverty.

The **international poverty line** was updated in October 2015 by the World Bank to USD 1.90 per day per person. It represents a monetary threshold under which an individual is considered to be living in poverty. It is calculated by taking the poverty line for each country and is based on the value of goods needed to sustain one adult. The World Bank updates the international poverty line at regular intervals as the cost of basic food, clothing and shelter changes around the world. Some criticisms of the international poverty line are that the calculation does not take into account basic facilities such as sanitation, water and electricity and their effect on the quality of life. The threshold for poverty also can vary from wealthy nations to countries with more economic hardships. The [World Poverty Clock](https://worldpoverty.io/map) (https://worldpoverty.io/map) is an interactive which visualises this.

**High birth rates and dependency ratios** are an indicator of emerging economies and are potential drivers of poverty. In these countries – for example, Nigeria – income earners are required to re-allocate many of their resources to dependents, such as children and/or the elderly. A high birth rate suggests that there are more children in the population that are financially dependent on their carers as they are unable to work themselves. A high dependency ratio indicates that a larger portion of the population are not employed and, therefore, are unable to be economically productive.

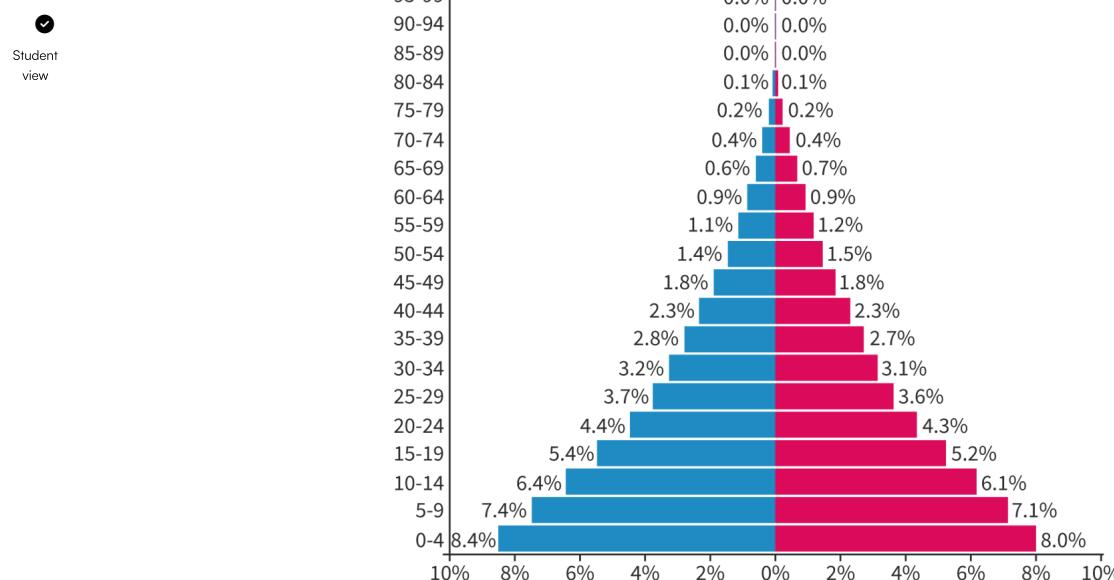


Figure 2. Nigeria has a high dependency ratio (0–19 years), which indicates a higher poverty rate.

Source: "Nigeria Population Pyramid" (https://www.populationpyramid.net/nigeria/2020/) is licensed under CC BY 3.0 IGO (https://creativecommons.org/licenses/by/3.0/igo/)

More information for figure 2

The image is a population pyramid graph representing Nigeria's age distribution in 2020, separated by gender. The X-axis denotes the percentage of the population, ranging from -10% to 10%. The left side (negative values) is for males, and the right side (positive values) is for females. The Y-axis lists age groups in 5-year increments, starting from 0-4 years at the base up to 100+ at the top.

Key observations include: - The largest age group is 0-4 years, with 8.4% male and 8.0% female. - As age increases, the percentage of the population in each group decreases. - There's a noticeable narrowing above age 50, indicating fewer individuals in those age brackets. - The population tapers significantly in the age groups above 80.

This pattern reflects a younger population with high birth rates and lower life expectancy compared to older demographics.

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**Dependence on the primary sector** suggests that an economy (or sections of an economy) is not developed enough in terms of more highly-skilled labour and productivity. You may recall that the primary sector of an economy extracts resources from the earth and includes industries such as agriculture, forestry, mining and fishing. A national dependence on one of these industries can mean that individuals' income is susceptible to environmental factors, such as the weather or climate change. For example, the [bushfires in Australia ↗](https://www.theguardian.com/australia-news/2020/jan/08/economic-impact-of-australias-bushfires-set-to-exceed-44bn-cost-of-black-saturday) (<https://www.theguardian.com/australia-news/2020/jan/08/economic-impact-of-australias-bushfires-set-to-exceed-44bn-cost-of-black-saturday>) have been increasingly more widespread due to climate change, and have had a detrimental economic impact on the country's farming and timber industries. This means that income is dependent upon volatile prices for primary products and is therefore not always stable.

**Large informal economy** refers to the set of economic activities, jobs, workers and enterprises that are not regulated or protected by the state. For example, subsistence agriculture or a lack of formal employment will contribute to an informal economy. As these sectors do not often have the support of the state, they are more [vulnerable to shocks ↗](https://www.cnbc.com/2020/03/25/coronavirus-india-lockdown-to-disproportionately-hurt-informal-sector.html) (<https://www.cnbc.com/2020/03/25/coronavirus-india-lockdown-to-disproportionately-hurt-informal-sector.html>) in the economy than other sectors.



## ⊕ International Mindedness

Economies around the world operate in different ways. Some economies generate huge amounts of national income through the informal sector. Some might take an estimate of that income, while some economies might not do this at all. Take a look at [this article ↗](https://www.forbes.com/sites/niallmcCarthy/2017/02/09/where-the-worlds-shadow-economies-are-firmly-established-infographic/#297656c8742c) (<https://www.forbes.com/sites/niallmcCarthy/2017/02/09/where-the-worlds-shadow-economies-are-firmly-established-infographic/#297656c8742c>) to explore the differences between informal (or 'shadow') economies.

**Minimum income standards** may be at an international or national level when it comes to defining poverty. As you have previously seen, the World Bank has determined the international poverty line at USD 1.90 a day to cover an individual's basic needs. Differences in purchasing power means that income requirements differ from country to country. For example:

- In the US, the poverty line [in 2018 ↗](https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-thresholds.html) (<https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-thresholds.html>) was considered to be USD 25 700 in annual income per household. Those earning less than that per year were considered to be in poverty.
- In China, there is a distinction made between the national level and provinces regarding the poverty line. At the national level, [the line ↗](https://www.statista.com/statistics/866620/number-of-rural-residents-living-in-poverty/) (<https://www.statista.com/statistics/866620/number-of-rural-residents-living-in-poverty/>

[in-china/](#)) is set at approximately USD 0.88 a day (or CNY 2 300 annually), but provinces can have their own levels to assess poverty. For example, in Jiangsu on the eastern coast of China, the minimum is set at USD 2.40 a day (or CNY 6 000 annually).

In the UK, a minimum income standard is applied to determine the levels of poverty. This is not set at a limit or line, but rather a list of criteria that is developed by the members of the communities being examined. The criteria are then assessed to determine whether incomes are enough to reach a socially acceptable living standard in that community. This information is then used to form [the national minimum wage ↗ \(http://www.gov.uk/government/publications/the-national-minimum-wage-in-2020\)](http://www.gov.uk/government/publications/the-national-minimum-wage-in-2020).

## Composite indicators

A composite indicator refers to a number of single indicators that are compiled to form an index, which helps to measure multi-dimensional concepts such as poverty.

The United Nations uses a composite indicator known as the [Human Development Index ↗ \(http://hdr.undp.org/en/composite/HDI\)](http://hdr.undp.org/en/composite/HDI) (HDI), which provides a more holistic representation of the quality of life within a country. It includes three main factors:

1. GDP per capita
2. Life expectancy
3. Years of schooling (mean and expected)

These factors are used to measure a composite number to represent access to health care, education, and incomes. The measures range from 0 to 1. An HDI between 0.8 and 1 is high and between 0.4 and 0.6 is low. For example, according to the HDI, Norway scores very highly (0.953) whilst Niger scores low (0.354).

The United Nations also uses a composite indicator to measure poverty, which is known as the [Multidimensional Poverty Index ↗ \(http://hdr.undp.org/en/2020-MPI\)](http://hdr.undp.org/en/2020-MPI) (MPI). The MPI measures health, education and living standards, such as sanitation levels and access to clean drinking water. The measure is calculated by looking at overlapping factors experienced by households in the region. A score can then be given to determine to what extent poverty exists in the country. People that experience deprivation in at least one third of these weighted indicators fall into the category of 'multidimensional poor'.

Dimensions of poverty	Indicator	Deprived if living in the household where...	Weight
Health	Nutrition	Any adult under 70 years of age or any child for whom there is nutritional information is undernourished.	1/6
	Child mortality	Any child under the age of 18 years has died in the family in the five-year period preceding the survey.	1/6
Education	Years of schooling	No household member aged "school entrance age + six" years or older has completed at least six years of schooling.	1/6
	School attendance	Any school-aged child is not attending school up to the age at which he/she would complete class eight.	1/6
Standard of living	Cooking fuel	The household cooks with dung, wood, charcoal or coal.	1/18
	Sanitation	The household's sanitation facility is not improved (according to SDG guidelines) or it is improved but shared with other households.	1/18
	Drinking water	The household does not have access to improved drinking water (according to SDG guidelines) or improved drinking water is at least a 30-minute walk from home, round trip.	1/18
	Electricity	The household has no electricity.	1/18
	Housing	At least one of the three housing materials for roof, walls and floor are inadequate: the floor is of natural materials and/or the roof and/or walls are of natural or rudimentary materials.	1/18
	Assets	The household does not own more than one of these assets: radio, television, telephone, computer, animal cart, bicycle, motorbike or refrigerator, and does not own a car or truck.	1/18

**Figure 3. Dimensional details of the MPI.**Source: "[2020 MPI](http://hdr.undp.org/en/2020-MPI)" is licensed under [CC BY 3.0 IGO](https://creativecommons.org/licenses/by/3.0/igo/) More information for figure 3

The image is a table detailing the dimensions of poverty, indicators, conditions for deprivation, and assigned weights. It comprises three main columns under the headings: 'Dimensions of poverty,' 'Indicator,' 'Deprived if living in the household where...' and 'Weight'.

**1. Health:****2. Nutrition:** Any adult under 70 years of age or any child for whom there is nutritional information is undernourished. (Weight: 1/6)**3. Child mortality:** Any child under the age of 18 years has died in the family in the five-year period preceding the survey. (Weight: 1/6)**4. Education:****5. Years of schooling:** No household member aged 'school entrance age + six' years or older has completed at least six years of schooling. (Weight: 1/6)**6. School attendance:** Any school-aged child is not attending school up to the age at which they would complete class eight. (Weight: 1/6)**7. Standard of living:****8. Cooking fuel:** The household cooks with dung, wood, charcoal, or coal. (Weight: 1/18)**9. Sanitation:** The household's sanitation facility is not improved (according to SDG guidelines) or is improved but shared with other households. (Weight: 1/18)



10. **Drinking water:** The household does not have access to improved drinking water (according to SDG guidelines) or improved drinking water is at least a 30-minute walk from home, round trip. (Weight: 1/18)
11. **Electricity:** The household has no electricity. (Weight: 1/18)
12. **Housing:** At least one of the three housing materials for roof, walls, and floor are inadequate: the floor is of natural materials and/or the roof and/or walls are of natural or rudimentary materials. (Weight: 1/18)
13. **Assets:** The household does not own more than one of these assets: radio, television, telephone, computer, animal cart, bicycle, motorbike or refrigerator, and does not own a car or truck. (Weight: 1/18)

[Generated by AI]

## Difficulties in measuring poverty

As you have learned, there are a number of ways to measure poverty. However, there are difficulties in providing an accurate measurement that truly indicates how much poverty is prevalent in a society and what form it takes. Below are only a few of the difficulties in measuring poverty, which is a major reason why the measurements described above should be considered with caution:

- Measures of poverty are based on data obtained through surveys, which makes the **data imperfect** due to variations in the type of sampling and weighting given to the data.
- **Intra-household poverty.** Measuring poverty at the level of the household neglects the individual poverty of its members. For example, women in the household might have less access to resources than the average for the household, so their level of poverty will be higher.
- **Urban poverty.** Most measurement methods are based on rural poverty and thus do not take into account some goods and services which are essential in the cities (such as transport). The impact of crime and social tensions, the health consequences of living in a polluted environment and the low social status associated with informal livelihoods and settlements are also not taken into account in the measurement methods and greatly affect people living in cities.
- **Disaggregated poverty data.** Poverty data separated (disaggregated) in relation to age, gender and disability is not produced by countries or at a global level. This prevents a better understanding of poverty and its impact on different groups of people.



2019 global Multidimensional Pov...



Complete section with 2 questions

Start questions



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view



# The role of taxation in reducing poverty, income inequality and wealth inequality



Taxation, especially indirect taxation (see [subtopic 3.6 \(/study/app/pp/sid-186-cid-754025/book/the-big-picture-id-30469/\)](#) to learn more), creates a loss in welfare for markets, and many argue that high income taxes put people off working harder. This can be regarded as inefficient. The Laffer curve provides a theory for why this is so, but the curve is a theoretical idea rather than based on evidence and research. However, an effective tax policy tries to even out the imbalances in income in the country, and can be used to fund an effective system of state provision of essential services.

Instead, governments can tax the population directly through their incomes, which is referred to as direct taxation. Taxes have the ability to redirect money from those with more ability to afford a high standard of living to those who are prevented from doing so for whatever reason.

## ✓ Important

Taxation is part of the fiscal policy of the government, together with government spending, and is a way to redistribute income in society in a more equal way.



There are three main systems for taxing people's incomes: progressive, regressive and proportional.

- Progressive taxation: This refers to people being taxed higher rates of tax the more they earn. The rates for taxation in New Zealand for 2018–2019 are given in **Table 1**.

**Table 1.** Income tax system in New Zealand

Income earned (in NZD)	Marginal tax rate (%)
0 – 14 000	10.5
14 001 – 48 000	17.5
48 001 – 70 000	30
Over 70 000	33

It is very important to note that, as income rises through each level, the percentage rates of tax apply only to the sums within each bracket. That is, in the example in **Table 1**, someone getting a pay rise from NZD 45 000 to NZD 60 000 will not start paying 30% tax on all income earned, but will pay 30% of everything above NZD 48 000 and below NZD 70 000. Many people are easily confused about tax rates in this way.

- **Regressive taxation:** It is unlikely that direct income tax is going to be regressive, but there are plenty of regressive taxes in place. A regressive tax is one where the percentage paid in tax rises the less a person earns.

If a country levies a fixed amount of tax, let us say \$1000, then this will have a regressive impact on the distribution of income. If somebody's income is relatively low, then the \$1000 constitutes a larger proportion of their total earnings, and the percentage of tax paid is larger.

A wealthy individual will have no problem paying this tax. A common example is local taxes, which tend to be based on property values in the area and not directly on people's incomes. In this situation, people can be living in similar properties, paying the same local area taxes, but earning different levels of income.

Value-added tax (VAT) is also an example of a regressive tax. The percentage of tax is levied on the expenditure on goods and services, not on income. The expenditure on goods and services (for example, cinema outings) is unlikely to rise exactly in line with people's incomes (although it does rise), so the VAT paid by someone on a lower income makes up a larger portion of their income compared with a wealthy person.

- **Proportional taxation:** This is when everybody pays exactly the same percentage of tax. A good example of a country that has proportional income tax is the Russian Federation, which levies the same 13% rate on everybody. The total amount paid increases with income, but the percentage rate remains identical.

## Direct taxes

As we have covered previously, governments can tax the population directly through their incomes, which is called direct taxation. These taxes can be levied directly on people's personal incomes, corporate incomes and personal wealth, such as through an estate tax.

**Figure 1.** The top effective marginal tax rates in Europe (2019).

Source: "Tax Foundation (<https://taxfoundation.org/taxing-high-income-2019/>)"

 More information for figure 1

 Student view

The image is a map of Europe that displays the top effective marginal tax rates for various countries in 2019. Each country on the map is color-coded to indicate the level of the tax rate, with a gradient from lighter to darker shades. Above the map is a legend showing a scale from lower to higher tax rates. The tax rates are written on the map, along with an ordinal ranking. For instance, Sweden has a tax rate of 76%, which is the highest (#1 rank) according to the map. Other countries like Belgium (73%, #3), Denmark (66%, #7), and Germany (55%, #18) are also labeled with their respective rates and rankings. The countries are interconnected with lines pointing to their tax rate and rank displayed in percentage with a number signifying their rank in Europe. The map helps visualize the distribution and comparison of tax rates across Europe, with countries like Bulgaria at 29% (#32 rank) and Ireland at 64% (#9 rank).

[Generated by AI]

## Personal income tax

Personal income tax is the tax on income paid by individuals and sole traders in most countries. Personal income tax systems vary from country to country, but it tends to be the most progressive tax. The degree to which personal income tax helps in redistributing wealth depends on the gap between income before tax and disposable income after the tax is paid. The bigger that difference is, the more taxes equalise income, because high-income people pay higher average tax than others.



## Corporate income tax

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Corporate income tax is a direct tax imposed on the income or capital of corporations or companies. Countries may tax net profit of companies and dividends of shareholders. Many countries impose direct tax on net profits but some variations also exist: for example, the tax may be imposed on assets or payroll. Countries' accounting laws vary widely, which leads to wide variation in what is exempt from corporate taxation.

Economic research has shown that corporate tax cuts, despite all the promises that they will benefit the middle class and will create jobs, actually benefit only the top-income people and make them richer. For example, US President Trump and his government passed the [Tax Cuts and Jobs Act ↗](https://inequality.org/research/trump-tax-cuts-inequality/) (<https://inequality.org/research/trump-tax-cuts-inequality/>) with such promises. Despite the promised benefits for the middle class, it has been estimated that the richest 1% will benefit from an average tax cut of USD 50 000 in 2020, while the bottom 80% will gain USD 645 on average. According to researchers, the only way in which corporate tax cuts can reduce inequality is if these gains are reinvested and so create jobs.

## Wealth tax

Wealth tax is a tax on an entity's holdings of assets, such as personal assets like cash, bank deposits and real estate. Wealth taxation seeks to reduce the accumulation of wealth by individuals. Wealth inequality has increased in recent decades and is far greater than income inequality. High earners are able to save more, invest more and ultimately accumulate more wealth.

There exists a debate ↗ (<https://www.ft.com/content/47c4d764-0d32-11ea-8fb7-8fcec0c3b0f9>) whether a net wealth tax is the best way to address wealth inequality and to what extent it distorts market realities. An OECD report found out that a net wealth tax will lead to greater equality and equity when there is absence of broad-based personal capital income taxes. Where the overall tax burden on capital is low or broad-based capital income taxes and inheritance taxes are not feasible, a net wealth tax can serve as a substitute. The overall tax system of a country should be considered carefully in order to determine the merits of a net wealth tax. High levels of wealth inequality can also justify a net wealth tax as a method to reduce the gap.

### Important

Student view

Notice that taxes are classified into two main groups: indirect taxes and direct taxes. Unlike indirect taxes, direct taxes are charged on people's incomes or wealth and are paid directly to the government by the taxpayers, such as income tax or corporate income taxes.

## Indirect taxes

Here, we will discuss the role of indirect taxes in reducing inequality. Indirect taxes are taxes which are not charged *directly* on people's incomes or wealth. They are paid *indirectly* by consumers when they purchase a good, as indirect taxes are included in the price of the good.

For indirect taxes, the tax burden, also called the tax incidence, relates to who bears the cost of the tax. How the cost of the tax is divided between consumers and producers depends on the relative price elasticities of demand and supply, though it is the producers who are in charge of paying the total indirect tax amount to the government.

Most developed countries have well-established tax regimes which raise around 35% of GDP. Indirect taxes are often regressive when these taxes fall on the consumption of goods and services that make the larger share of the household budgets of low-income people rather than high-income individuals. For example, poorer households will pay a bigger



# Calculating income tax rates (HL)

## Section

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## Total, average and marginal tax rates

An individual's average tax rate refers to the share of income that they pay in taxes. In contrast, an individual's marginal tax rate is the tax rate imposed on their last dollar (or alternative currency) of income. Usually, people's average tax rates are lower than their marginal rates. We will continue using the example in [section 3.4.5 \(/study/app/pp/sid-186-cid-754025/book/the-role-of-taxation-in-reducing-poverty-income-id-31071/\)](#) to see how much a person living in New Zealand will actually have to pay if they earned different salaries. You need to be able to calculate this for Higher level Paper 3.

**Table 1.** Income tax system in New Zealand.

Income earned (in NZD)	Marginal tax rate (%)
0–14000	10.5
14001 – 48000	17.5
48001 – 70000	30
Over 70000	33

To work out how much a person needs to pay, you need to take their total income, and apply all the tax brackets in which their income falls. If the person earns over NZD 48 000 but below NZD 70 000, they pay:



- 10.5% on the first NZD 14 000 of their income,
- 17.5% on earnings between NZD 14 001 and NZD 48 000,
- and 30% on everything above NZD 48 000.

Once you have worked out the share of tax paid in each bracket, you sum together the amounts. This would give you the total amount of tax paid.

### ⚠ Be aware

Moving into a higher tax bracket does not mean that you pay the new percentage on **all** your income. Otherwise, what would be the point of earning more money? The higher rate of tax is payable on each unit of currency earned in that income bracket only.

## Worked example 1

A person living in New Zealand earns NZD 45 000. They want to know how much income tax they have to pay, and search online for the above income tax brackets. They think they have to pay 17.5% of all their income in tax. You explain that this is incorrect, because these are marginal tax rates. This means that only each additional dollar earned in each bracket



is taxed the rate in that bracket.

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To calculate how much total tax is paid on NZD 45 000, you perform the following calculation:

$$(0.105 \times 14\,000) + (0.175 \times 31\,000) = \text{NZD } 6\,895$$

Here, 10.5% is paid on the first NZD 14 000 earned, and 17.5% is paid on everything earned in the second income bracket. The resulting amount of tax paid, NZD 6 895, works out at an average rate of tax of 15.32%.

After a few years, this person returns to you for your tax advice. They have had a promotion and are worried that they will lose income. You tell them not to worry because they will only pay the additional rate on the income that falls in the new higher bracket. When their income rises to NZD 60 000, you do the following calculation:

$$(0.105 \times 14\,000) + (0.175 \times 34\,000) + (0.3 \times 12\,000) = \text{NZD } 11\,020$$

This works out at a proportion of total income of 18.37%. Notice how this is much lower than the 30% rate.

If someone living in New Zealand earned NZD 72 000, calculate:

1. The total amount of tax paid.
2. The average rate of tax.

$$1. (0.105 \times 14\,000) + (0.175 \times 34\,000) + (0.3 \times 22\,000) + (0.33 \times 2\,000) = \text{NZD } 14\,680$$

$$2. \left( \frac{14\,680}{72\,000} \right) \times 100 = 20.39\%$$

## Indirect tax rates

Student view

As you have studied in [section 3.4.5 \(/study/app/pp/sid-186-cid-754025/book/the-role-of-taxation-in-reducing-poverty-income-id-31071/\)](#), an indirect tax is paid *indirectly* by consumers when they purchase a good – for example, sales tax or value added tax (VAT). As these taxes are levied on the sale of goods and services, they do not increase or decrease based on income. However, because of relative levels of consumption and income in societies, they tend to be regressive. That is, they tend to take a greater percentage of lower incomes than higher incomes. You can see this in **Table 2a**.

**Table 2a.** The indirect tax in Country X at a rate of 6%.

	Income	Spending (inc tax)	Total tax paid at 6% rate	Tax paid as a percentage of income
Equation			Spending/1.06 =	$\frac{\text{Total tax paid}}{\text{income}} =$
Individual A	\$50 000	\$40 000	\$40 000 – 37 736	\$2 264 / 50 000 = 4.5%
Individual B	\$200 000	\$90 000	\$90 000 – 84 906	\$5 094 / 200 000 = 2.5%

## Worked example 2

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(/study/app/sid-186-cid-754025/) Given the tax rate of 6% in **Table 2a**, determine what the percentage of income a person would pay if they were earning \$100 000 and spending 60% of their income.

**Table 2b.** The indirect tax in Country X at a rate of 6% (with solution).

	Income	Spending (inc tax)	Total tax paid at 6% rate	Tax paid as a percentage of income
Equation			Spending / 1.06 =	$\frac{\text{Total tax paid}}{\text{income}} =$
Individual C	\$100 000	\$60 000	60000 – 56604	\$3 396/100 000 = 3.4%

Mark as complete

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percentage of their income in taxes than richer households if indirect taxes are included in the prices of basic food, medicine, and public transportation. This can be offset by other tax and benefit changes. However, less economically developed countries may lack funds for benefits but may be able to differentiate indirect taxation by taxing necessities at a lower rate than luxuries.

To mitigate the regressive effects of indirect taxes, many OECD countries apply reduced rates and exemptions for goods and services that comprise a large share of poorer households' consumption basket. Examples of such goods and services are food, water, medical care and public transport, which are taxed at a reduced rate. Despite that, richer households benefit more than poorer ones, which is often compensated by in-kind benefits, cash transfers and vouchers to poorer households to reduce inequality.

Another beneficial way that indirect taxes can redistribute income is that they are often levied on demerit goods such as fast food. This will prevent poorer households consuming too much of those goods due to their high prices after imposition of an indirect tax. Therefore, they will better preserve their health and ability to earn income.

**Figure 2.** Indirect taxes can be used to redistribute income and be levied against demerit goods like fast food.

Credit: Getty Images whitewish

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3. Macroeconomics / 3.4 Economics of inequality and poverty



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# Further policies to reduce poverty, income inequality and wealth inequality

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## Inequality of opportunity and human capital

Governments will make efforts to reduce the inequality gap by ensuring that all individuals have fair access to the opportunities available to increase their potential to gain human capital. For example, inequality of opportunity can be addressed by increasing the opportunities available for good education. Governments can provide certain schools with funding and various programmes, such as food voucher schemes, that help students from lower-income backgrounds to receive a better education.

Governments can also provide colleges or universities with scholarships, grants, loans and free or reduced university fees that similarly aim to help those from lower-income backgrounds who might otherwise struggle ([https://nces.ed.gov/programs/coe/pdf/coe\\_tva.pdf](https://nces.ed.gov/programs/coe/pdf/coe_tva.pdf)) to get a university education and/or enter higher-paying professions. Not only is this potentially more fair but it can also be more efficient for the country's workforce, as those with the potential are provided with opportunities to contribute economically.

Health care spending and universal access to health care also reduce the inequality of opportunity and ensure that people have easy and affordable access to health care. This will help them stay healthy, productive and able to earn an income for longer regardless of their income levels.

Labour market policies, such as training programmes and job search assistance provided by the government, can also greatly reduce periods of unemployment for low-income workers and help improve human capital.



**Figure 1.** Attending university is out of reach for many before they even apply, but government programmes can help to reduce inequality.

Credit: Getty Image Jose Luis Pelaez Inc

## Transfer payments

Transfer payments are transfers of money usually from the government to low-income households, but not in exchange for a good or service. This will improve income distribution, because low-income groups can be supported with financial payments from the government, and so their income and ability to consume goods and services increases. Examples of transfer payments include:

- **Old-age pensions:** When you finish work at the age of 65 years (or older in some countries), your earnings will dramatically change. It is unlikely that you will have saved the amount necessary for retirement, and most countries do not have automatic enrolment in private pensions. Instead, people in many countries, when they pay income tax, are also paying contributions into the social security system. Once you reach retirement age, you are entitled to a monthly sum, depending on how long you worked and how much you earned.
- **Unemployment benefits:** Social insurance contributions are another payment that people at work and employers need to cover. Social insurance covers the government expenses if a person becomes unemployed for a period of

time. Many people on low-to-medium incomes do not earn enough or save enough to easily cover the cost of living in times of economic downturn. So, the chance to receive unemployment benefits is a lifeline during those stressful times, as long as the system is not abused and people return to work quickly (although this depends on whether there are jobs to return to).

- **Child allowances:** A child born into poverty is statistically less likely to do well in life. This is because there is less support for them at home if the parents are working a lot or are unwell. They might be less healthy too. Governments can provide child benefit payments to families to support them if they are on low incomes. Schools often provide free meals to students from means-tested families.

Transfer payments are designed to help those most in need and keep them out of poverty, ultimately aiming to reduce the inequality gap in society.

## Targeted spending on goods and services

Sometimes, the government will reallocate spending on goods and services to reduce income inequality. Research shows that reallocating spending towards social protection and infrastructure lowers income inequality. Social protection spending includes spending on health care and education, unemployment and housing benefits. It has a long-term impact on reducing income inequality, although some kinds of spending, such as unemployment benefits and family-related support, might also act as a disincentive to work. Such spending will allow low-income people to benefit from a better health care and education system supported by the government, which will improve their health and skills for work.

Infrastructure spending improves transportation opportunities and information flows. In this way, it enhances labour mobility and helps disadvantaged individuals gain access to productive opportunities.

**Figure 2.** Government spending on infrastructure allows for better labour mobility and more work opportunities.

Credit: Getty Images Eastimages

## Universal basic income (UBI)

Student view

Universal basic income (UBI) is a type of transfer payment that aims to raise lower levels of income by providing a universal payment to every citizen. As you have seen in [section 3.4.1 \(/study/app/pp/sid-186-cid-754025/book/the-relationship-between-equality-and-equity-id-31067/\)](#), UBI aims to guarantee a basic standard of living and attempts to close the inequality gap by eliminating the real threat of poverty. This financial security provides individuals with more opportunities and freedoms to raise their relative positions within society.



## Policies to reduce discrimination

Overview

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Governments also implement policies to try to reduce discrimination. Legislation can be passed to protect specific groups of people in society at risk of discrimination, such as racial minorities, women or senior citizens ↗ (<https://www.straitstimes.com/forum/ongoing-measures-to-protect-seniors-from-workplace-discrimination>). This might be at a national or international level. For example, in Ontario, Canada, the Accessibility for Ontarians with Disabilities Act ↗ (<https://www.ontario.ca/page/about-accessibility-laws>) was passed requiring the government to eliminate any barriers to the participation of individuals with disabilities. The European Union (EU) passed equal treatment legislation which sets out the minimum levels of protection for everyone working in the EU, not just within a specific country. This bans workplace discrimination on the grounds of age, sex, disability, ethnic or racial origin, religion or belief, or sexual orientation.

## Minimum wages

Governments around the world have used legislation to directly address the issues of inequality. One example is the National Minimum Wage ↗ (<https://www.gov.uk/national-minimum-wage-rates>), which is found in countries such as the UK. As you have studied in subtopic 3.3 (/study/app/pp/sid-186-cid-754025/book/the-big-picture-id-30344/), the minimum wage acts as a price floor to keep wages higher than they might be in a free market. While in theory this may result in higher levels of unemployment ↗ (<https://www.theguardian.com/news/2018/apr/13/how-much-is-an-hour-worth-the-war-over-the-minimum-wage>), it does result in a higher living standard for those receiving the minimum wage. **Figure 3** shows the differences in the minimum living wage between countries.

**Figure 3.** Ranking of OECD countries by national minimum wage (2018).

Source: "OECD" ↗ (<https://stats.oecd.org/>)"

🔗 More information for figure 3

The bar chart displays the ranking of OECD countries by national minimum wage in 2018, measured in US dollars. The bars are horizontal, and the X-axis represents the minimum wage value, ranging from 7 to 13 dollars. The Y-axis lists the countries evaluated: Australia, Luxembourg, France, Germany, Belgium, Netherlands, New Zealand, United Kingdom, Ireland, Canada, Japan, Korea, Slovenia, and the United States. Australia has the highest minimum wage at 12.1 dollars, followed by Luxembourg at 11.8 dollars and France at 11.5 dollars. The lowest minimum wages are found in the United States and Slovenia, both at 7.3 dollars. The general trend shows that European countries tend to have higher minimum wages, while the United States is on the lower end of the spectrum.

Student view

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