Understanding Poverty & Inequality

28th October 2019

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Research for new economic policies

Part I: Poverty

Henry George: Progress & Poverty (1897)

- *Progress and Poverty: An Inquiry into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth: The Remedy*

- Probably the most widely read Social Science book in history with millions of copies sold around the world.

- His ideas marked the start of the *Progressive Era* in the USA, the purpose of the book was to solve the riddle of why did poverty persist and grow in one of the wealthiest cities in the World at a time of rapid economic growth.

- His answer was that as the economy grew so did the 'rent' on land/natural resources at a faster rate the increase in wages or growth of capital.

- His remedy was a land value tax by which means he argued society could recapture the value of its common inheritance, raise wages, improve land use, and eliminate the need for other taxes.

Charles Booth: Inquiry Into the Life & Labour of the People in London (1903)

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- Booth attempted to understand the lives of Londoners through a tripartite investigation of their places of work and working conditions, their homes and the urban environments in which they lived, and through the religious life of the city.
- The study began with a close examination of poverty in London; it developed with detailed examinations of every type of occupation, religious influences and municipal effort.
- Undertaken between 1886 and 1903 in London, was one of the first studies of poverty carried out in the 19th century.
- The conclusions from the study were clear.
- Poverty was much more prevalent than it had been believed to be - nearly a third of the population of London was poor - and, although Booth was ready to blame many poor people for their poverty, it was clear that the majority of the poverty arose without individual fault.

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Charles Booth’s Class Classification

A slice of life in Westminster, from Charles Booth's famous map.

The *Maps Descriptive of London Poverty* are perhaps the most distinctive product of Charles Booth's *Inquiry into Life and Labour in London* (1886-1903). An early example of social cartography, each street is coloured to indicate the income and social class of its inhabitants.

Charles Booth's Class Classification

- **BLACK**: Lowest class. Vicious, semi-criminal.
- **DARK BLUE**: Very poor, casual. Chronic want.
- **LIGHT BLUE**: Poor. 18s. to 21s. a week for a moderate family
- **PURPLE**: Mixed. Some comfortable others poor
- **PINK**: Fairly comfortable. Good ordinary earnings.
- **RED**: Middle class. Well-to-do.
- **YELLOW**: Upper-middle and Upper classes. Wealthy.

A combination of colours - as dark blue or black, or pink and red - indicates that the street contains a fair proportion of each of the classes represented by the respective colours.

Booth: The Causes of Poverty

- Booth expected to find that the primary causes of poverty were drunkenness and ‘bad’ behaviour (thriftlessness, loafing, etc.).

- He found to his surprise that the primary cause were low wages, irregular work and unemployment.

Analysis of Causes of "Great Poverty" (Classes A and B).

		Per Cent.		Per Cent.	
1. Loafers	—	—	60	4	
2. Casual work	697	43	878	55	Questions of employment
3. Irregular work, low pay	141	9			
4. Small profits	40	3			
5. Drink (husband, or both husband and wife)	152	9	231	14	Questions of habit
6. Drunken or thriftless wife	79	5			
7. Illness or infirmity	170	10	441	27	Questions of circumstance
8. Large family	124	8			
9. Illness or large family, combined with irregular work	147	9			
	—	—	1,610	100	

Analysis of Causes of "Poverty" (Classes C and D).

		Per Cent.		Per Cent.	
1. Loafers	—	—	—	—	
2. Low pay (regular earnings)	503	20	1,668	68	Questions of employment
3. Irregular earnings	1,052	43			
4. Small profits	113	5			
5. Drink (husband, or both husband and wife)	167	7	322	13	Questions of habit
6. Drunken or thriftless wife	155	6			
7. Illness or infirmity	123	5	476	19	Questions of circumstance
8. Large family	223	9			
9. Illness or large family, combined with irregular work	130	5			
	—	—	2,466	100	

Rowntree study: Poverty a study of Town Life

Slums in York, a 'typical provincial town', circa 1900. Seebohm Rowntree's influential work, *Poverty: A study of town life* (1901), measured, among other things, the cost of 'mere physical subsistence'. He produced measures of numbers in primary poverty (below this level) and in secondary poverty (above this level but living in 'squalor'), attempting to take a more scientific approach to the study of poverty.

Rowntree study: Poverty a study of Town Life

- The study details Rowntree's investigation of poverty in York during the years 1897 & 1898.

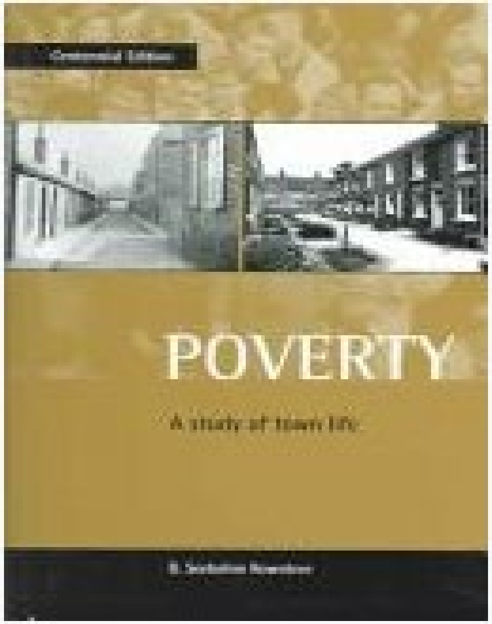
- The methods he used were similar to Booth’s.

- Rowntree alongside a team of researchers surveyed 46,000 people. He carried out house-to-house visits & produced sheets of notes about the accommodation, the numbers in the family & their working occupations & personal remarks including exact details about the income and standard of life, cleanliness and respectability of the inhabitants.

Rowntree study:
Poverty a study of Town Life

Rowntree is best remembered for :

- developing and formalising the concept of the ‘poverty line’;
- distinguishing between what he called ‘primary’ and ‘secondary’ poverty;
- his attempt to measure the causes of poverty.



Rowntree study: Poverty a study of Town Life

Primary poverty: having earnings insufficient to obtain the minimum necessaries for the maintenance of food, clothing and shelter.

Secondary poverty: was where families earned enough to avoid primary poverty but spent their money on things other than the basic necessities.

Rowntree discovered there to be two chief reasons for poverty.

- Unemployment/Illness: Individuals or families were impoverished as a result of an absolute lack of income, on account of the chief wage-earner being either dead, disabled or otherwise unable to work.

- Low wages: the chief wage-earner was employed in regular work, but paid mere pittance, unable to sustain a healthy level of living.

Townsend (1979): Poverty in the United Kingdom

- Townsend undertook review of Rowntree third study of York in the 1950s and was not convinced.
- His central point was that we cannot determine a level of adequacy simply by virtue of some expert calculation of dietary or health or housing needs.
- Poverty not only a relative concept but also a social concept and about the ability of an individual to obtain the minimum standard of living considered decent in that society.
- For Townsend poverty is about more than just physical needs…social needs also important.
- Social custom requires that we share cups of tea with neighbours or buy presents for our children at Christmas, even have the occasional pint.
- To live in poverty, in Townsend’s terms, was to be excluded, by virtue of one’s income, from the normal activities of social life.
- Townsend thought that it should be possible to construct a list of activities which were the ones that people should be able to undertake.

Townsend (1979):
Poverty in the United Kingdom

For Townsend:

"Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities, and have the living conditions and amenities which are customary, or at least widely encouraged or approved, in the societies to which they belong. Their resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary patterns, customs and activities."

Understanding Poverty

- What is poverty?
- How is poverty measured?
- How much poverty is there?
- Why does poverty exist?
- What are the consequences of poverty?
- What can be done to reduce or eliminate poverty?

Before we continue - reflect on what your own answers to the above questions are or what you think the public would answer these questions?

What is Poverty?

- How do we decide what a person needs to participate in the society in which they live in the 21st century?
- What is the minimum standard of living to which everyone should be entitled and below which we could describe that person as living in poverty?
- Concepts & Measurement: Definitions & measures of poverty really matter.
- It is from the particular definition & measurement of poverty that estimates of the extent of poverty are obtained - and importantly, policies to help the poorest made.

What is Poverty?

Definitions set the standards by which we determine whether the living conditions of some people would mean that they could be described as living in poverty.

Literature distinguishes between:

- Absolute poverty.

- Relative poverty.

The ‘operationalisation’ or measurement of our definition however is equally as important. E.g. income is the most commonly used measure of poverty – but income is only a proxy indicator of living standards.

Various different measures of poverty:

- Absolute.
- Income threshold.
- Deprivation.
- Consensual method.
- Social Exclusion.
- Minimum budget standards.
- Consistent poverty.
- Subjective measures.

Absolute vs. Relative approaches to poverty

- Widespread acceptance that poverty is a relative concept and can only be understood in relative terms.
- Absolute poverty has been seen as a matter of acute deprivation, hunger, premature death and suffering. This captures an important understanding of poverty and its relevance remains widespread in parts of the world today. It focuses attention on the urgent need for action.
- However, while there are some circumstances, such as starvation or unsafe water, which do lead to immediate death, most of these criteria require judgements and comparisons.
- What is classed as acute deprivation will vary from society to society and through time, and what is counted as premature death will depend on average life expectancies etc.
- So while there is a core to ideas of absolute poverty relating to the severity of deprivation and the need for immediate action, in practice, it is part of a continuum of a measurement of relative poverty, indicating it is deeper and worse.

Household Income

- Household A - 100
- Household B -150
- Household C - 150
- Household D - 200
- Household E - 250
- Household F - 300
- Household G - 400
- Household H - 450
- Household J - 500

Household Income

- Mean
- $$\frac{100+150+150+200+250+300+400+450+500}{9} = 277$$
- Median
- 100 150 150 200 250 300 400 450 500
- Mean tends to be higher, but both are close to the middle

Household Income

- Household A - 100
- Household B -150
- Household C - 150
- Household D - 200
- Household E - 250
- Household F - 300
- Household G - 400
- Household H - 750
- Household J - 900

Household Income

- Mean
- $$\frac{100+150+150+200+250+300+400+750+900}{9} =$$
355
- Median
- 100 150 150 200 250 300 400 450 500

- Top earners skew mean up, median gives more accurate picture.

Household Income

- Household A - 100
- Household B -150
- Household C - 150
- Household D - 200
- Household E - 250
- Household F - 300
- Household G - 400
- ~~Household H - 450~~
- ~~Household J - 500~~

Household Income

- Median
- 100 150 150 200 250 300 400 450 500

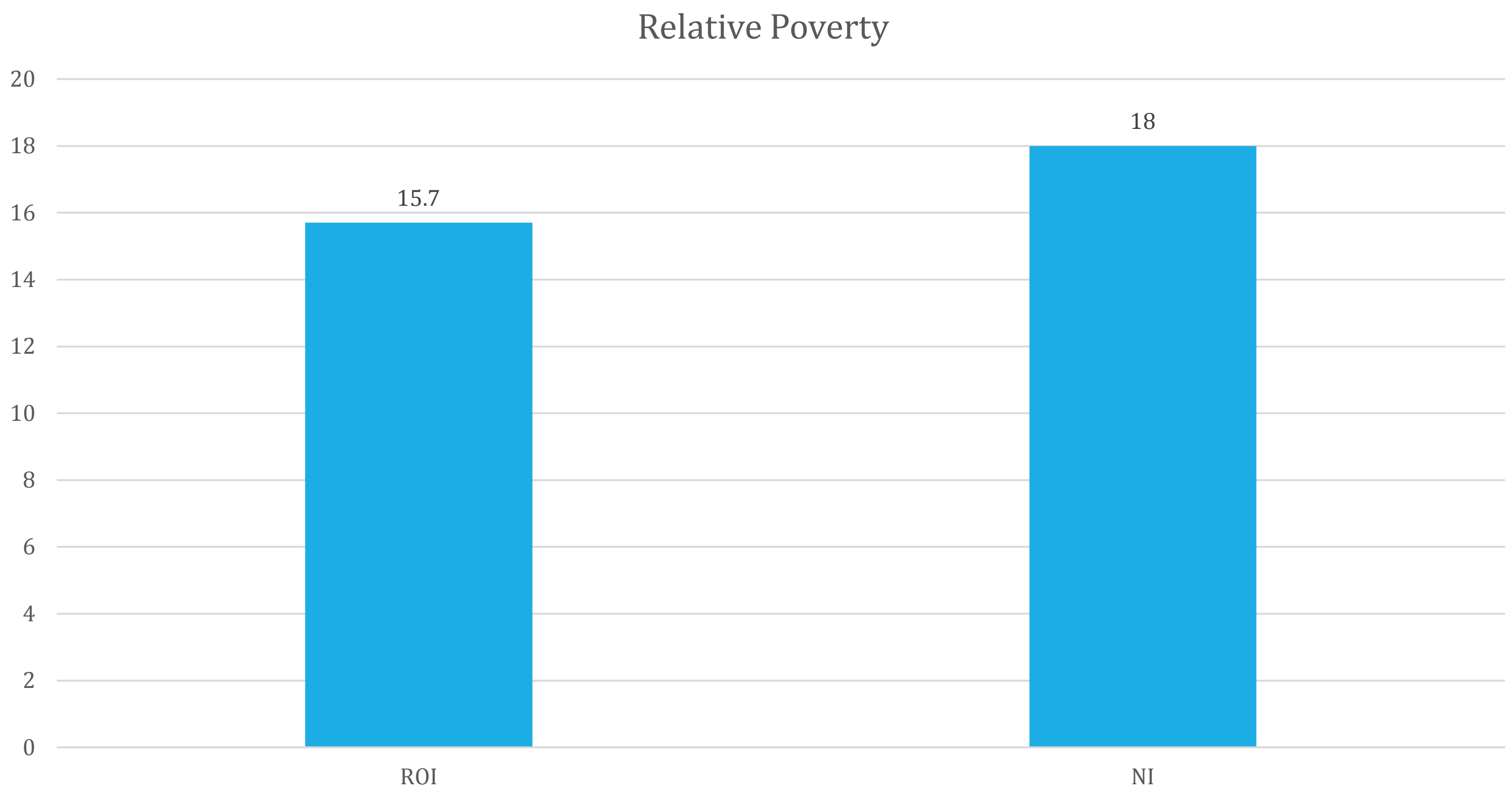
- Median
- 100 150 150 200 250 300 400 ~~450 500~~

- Nobody's income has changed, nobody is better or worse off.

Income threshold approach

- Many poverty measurements use household income, adjusted for household size, to find out who is in poverty.
- A level is set and those who fall below this are seen as being ‘in poverty’ and those above it are not.
- The Irish & UK governments, the European Union and many other countries use 60% of median household income as the poverty ‘threshold’.
  - i.e. households with an income below 60% of median household income would be identified as living in poverty.
- In the past, 50% of mean household income has tended to have been used as a poverty threshold.

Income threshold approach



Income threshold approach

- Indirect measure.
- The threshold's importance is that it does show how the poorest members of society are doing in relation to others, it can be tracked over time, and allows comparisons between different countries.
- Key limitation of using low income as a measure of poverty is that it only provides a proxy of living conditions. Indirect measure.
  - Example 1 Self-employed people have fluctuating income, if one year they have low income they are not necessarily "poor".
  - Example 2 People can have X income and draw their resources from savings, so they will be on X income but not necessarily have a low standard of living.
- Another limitations is that an income threshold is essentially arbitrary. So whilst it is possible to set an income threshold based on the level of income required to meet certain levels of need – this first requires an examination of people's living standards to establish what needs should be met and who falls below this standard.

Deprivation

- Direct measure of living conditions.
- Peter Townsend, in particular, pioneered a relative deprivation approach to poverty that covered a wide range of aspects of living standards, both material and social.
- The relative deprivation approach to poverty examines the indicators of deprivation, which are then related back to income levels and resources.

Deprivation

- To further this relative deprivation approach, Townsend developed a list of sixty indicators of the population's 'style of living' for a survey into standards of living in the UK carried out in 1968/69.
- A lack of or non-participation in these indicators was seen as an indicator of deprivation. A 'score' for different forms of deprivation could be ascertained and related to household income.
- The indicators were built up from items covering:
  - diet
  - clothing
  - fuel and light
  - home amenities
  - housing and housing facilities
  - the immediate environment of the home
  - the general conditions and security of work
  - family support
  - recreation
  - education
  - health
  - social relations.

Consensual method

- The consensual or ‘perceived deprivation’ approach to measuring poverty follows the deprivation approach to measuring poverty by looking at direct measures of living standards rather than indirect income measures.

  But here, deprivation is seen in terms of an enforced lack of ‘necessities’ as determined by public opinion.

  Poverty is where these deprivations impact on a person’s whole way of life and is measured in terms of:

  ‘The numbers of people whose enforced lack of necessities affects their way of living’

Consensual method

- In the consensual approach, the first step is to test various items from a wide range of aspects that make up our standard of living to see which items most people see to be ‘necessities’ – something which everyone should be able to afford and which no one should have to do without.
- The items tested cover both material and social aspects of life, including food, clothing, health, housing, household goods, personal possessions, relations with family and friends, social and leisure activities, savings and financial security. Only those items seen as a necessity by a majority of the population are classed as a 'necessity’.
- Having identified publicly perceived necessities, the consensual method proceeds to find out who lacks these necessities through a large-scale survey of living standards. In this approach, individual lifestyle choices are allowed for by asking people whether they lack necessities because they can’t afford them or whether they lack the necessities from choice. Only those who go without necessities because they can’t afford them are seen as having an ‘enforced lack of necessities’.

Minimum budget standards

- Minimum budget standards aim to establish the budget necessary for different types of households to maintain a minimum standard of living. It does this by determining what it costs to meet minimum standards on food, goods, services, activities and other items – and a minimum weekly budget is drawn up that covers the costs of these items based on actual market prices.
- Those whose incomes fall below this minimum budget are seen to be living in poverty.
- This approach was taken by Joseph Rowntree in his classic study of poverty in York in 1899, where he set out to establish a minimum budget level for subsistence.
- In determining a minimum budget, the key question is how do you decide which items should be included in the basket of goods and services. Broadly speaking there are two approaches: the first draws on expert opinion and the second on public opinion, though there are other possible variations combining both approaches.

Consistent Poverty

- A number of measures of poverty combine different approaches to poverty measurement, in particular income and deprivation measures, to provide what's called a consistent poverty measure.
- In the Republic of Ireland, for example, besides income measures the most commonly used official poverty measure is a consistent poverty measure that combines relative income with deprivation of one of eight basic necessities.

Subjective measures of poverty

- A number of studies have taken a subjective approach to poverty measurement, asking questions such as:
  - Do they see themselves as being in poverty?
  - Is their income below, or a lot below, what is needed or not?
- In this approach people are asked to estimate minimum incomes to avoid 'poverty', though the exact wording of such questions varies considerably.

Causes of Poverty: Individual Behaviours or structural factors?

- Since the work of Charles Booth (1902-03), Seebohm Rowntree (1901) and their Victorian and Edwardian contemporaries (e.g. Webb & Webb, 1909) repeated studies have shown that the primary cause of poverty is not the ‘bad’ behaviour of the poor.

- Poverty in the UK is primarily caused by **structural factors**, such as low wages, a lack of jobs, the lack of state provision to adequately compensate those engaged in unpaid work – particularly caring work, etc. Despite intensive research by often highly partisan researchers, as far as I am aware there are no credible scientific studies which show that any significant group of people are poor as a result of indolent, feckless, skiving or criminal behaviour.

Causes of Poverty: Disease of Fecklessness or structural factors?

- Poverty is not like syphilis a curse across the generations, you cannot catch poverty from your parents nor pass it onto your friends, relatives or children. Research has shown that poor adults and children do not have a ‘culture of poverty’ and tend to have similar aspirations to the rest of the population (Lupton, 2003; Shildrick *et al*, 2012).

- The social security system is reasonably effective and there is virtually no one who is born into poverty, grows up living in poverty and remains poor for their entire lives. There are also virtually no families where members have not been in any paid employment over two or more generations (Shildrick *et al*, 2012).

- For example, Shildrick *et al* (2012) found that “*Despite dogged searching in localities with high rates of worklessness across decades we were unable to locate any families in which there were three generations in which no-one had ever worked.*” Poor children are of course more likely, than their richer peers, to become poor adults but this is largely due to **structural** reasons rather than any ‘cycle of poverty’ or ‘transmission’ of poverty (Townsend, 1974; Scoon *et al*, 2012).

Part 2: Inequality

Understanding Inequality

- What is inequality?
- How unequal are we?
- Why does inequality exist?
- Should we care about inequality?
- What are the consequences of inequality?

Before we continue - reflect on what your own answers to the above questions are or what you think the public would answer these questions?

What is economic inequality?

- Economic inequality refers to the ways in which socially-defined categories of persons (according to characteristics such as gender, age, ‘class’ or ethnicity) are differentially positioned with regard to access to a variety of economic goods.

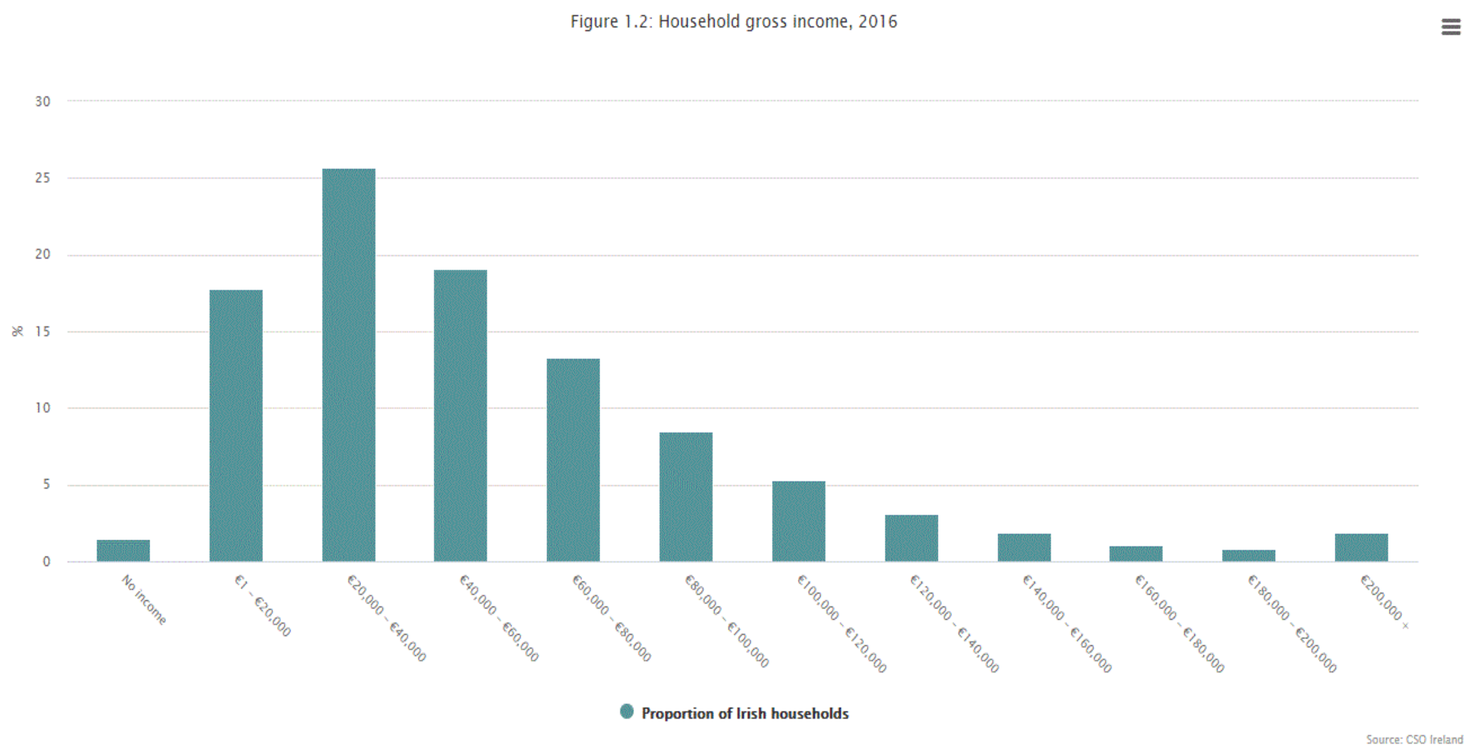
- Economic inequalities are most obviously shown by people’s different positions within the economic distribution - **income,** pay, wealth.

- However, people’s economic positions are also related to other characteristics, such as whether or not they have a disability, their ethnic background, or whether they are a man or a woman.

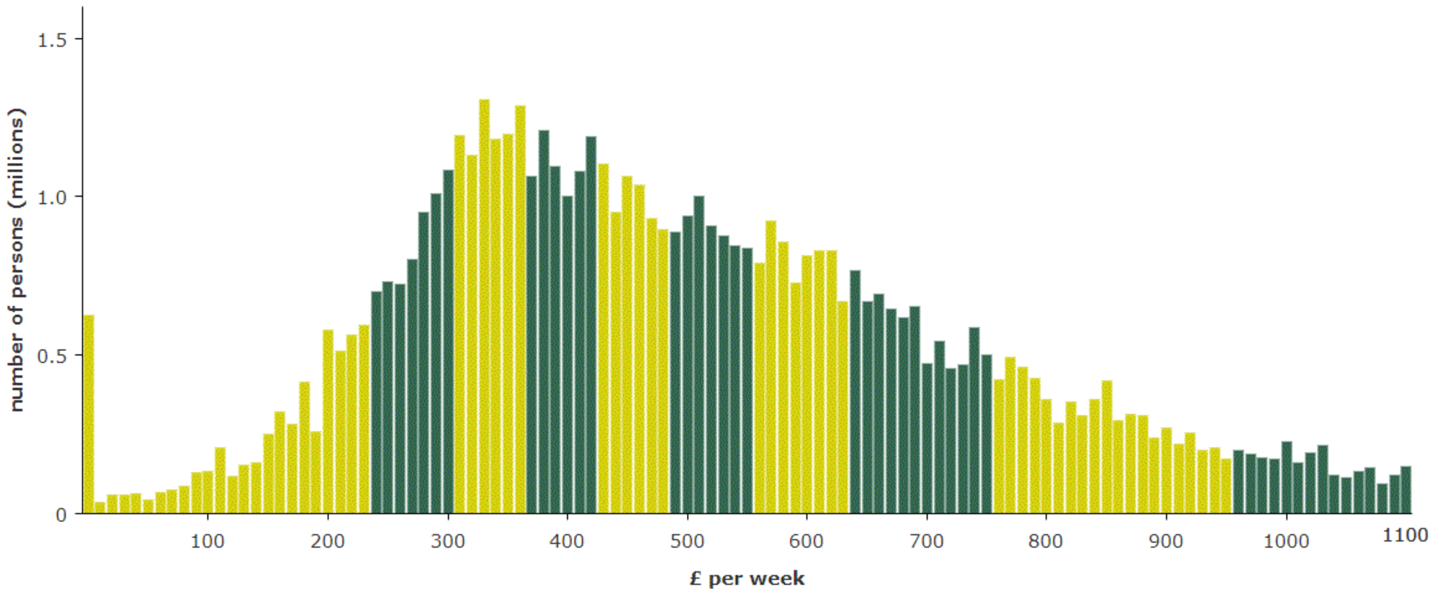
Measuring income inequality

- The best-known and most commonly used measure of income inequality is the Gini coefficient.
- It aggregates the gaps between people's incomes into a single measure. If everyone in a group has the same income, the Gini coefficient is 0; if all income goes to one person, it is 1.
- The level of inequality differs widely around the world Scandinavian countries have the smallest income disparities, with a Gini coefficient for disposable income of around 0.25.
- At the other end of the spectrum the world's most unequal, such as South Africa, has a Gini of around 0.6.

Income distribution – Ireland

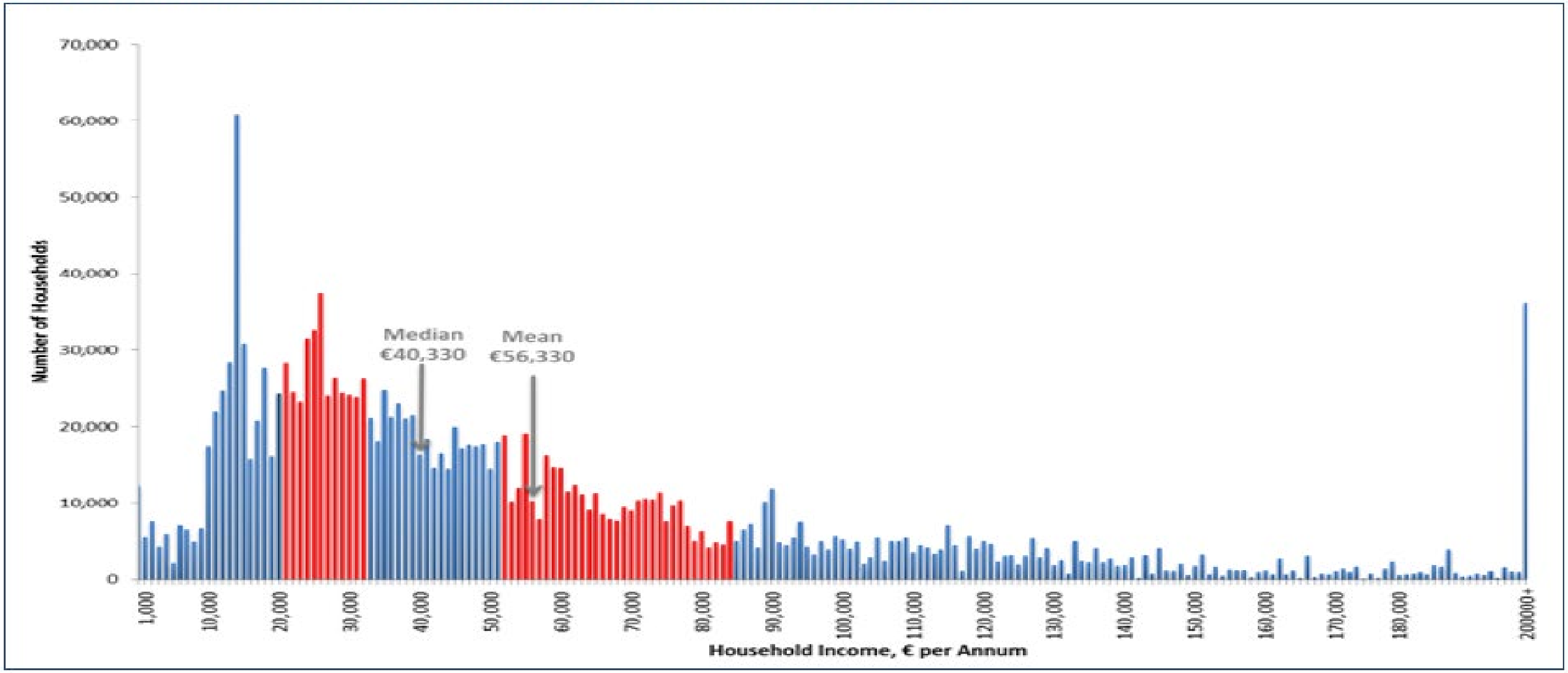


Income distribution – UK



Income distribution – Ireland

Chart 1: Ireland's Gross Household Income Distribution, 2014



Measuring income income inequality

Ratio measures compare how much people at one level of the income distribution have compared to people at another. For instance, the 20:20 ratio compares how much richer the top 20% of people are, compared to the bottom 20%.

Common examples:

50/10 ratio – describes inequality between the middle and the bottom of the income distribution.

90/10 – describes inequality between the top and the bottom.

90/50 – describes inequality between the top and the middle.

99/90 – describes inequality between the very top and the top.

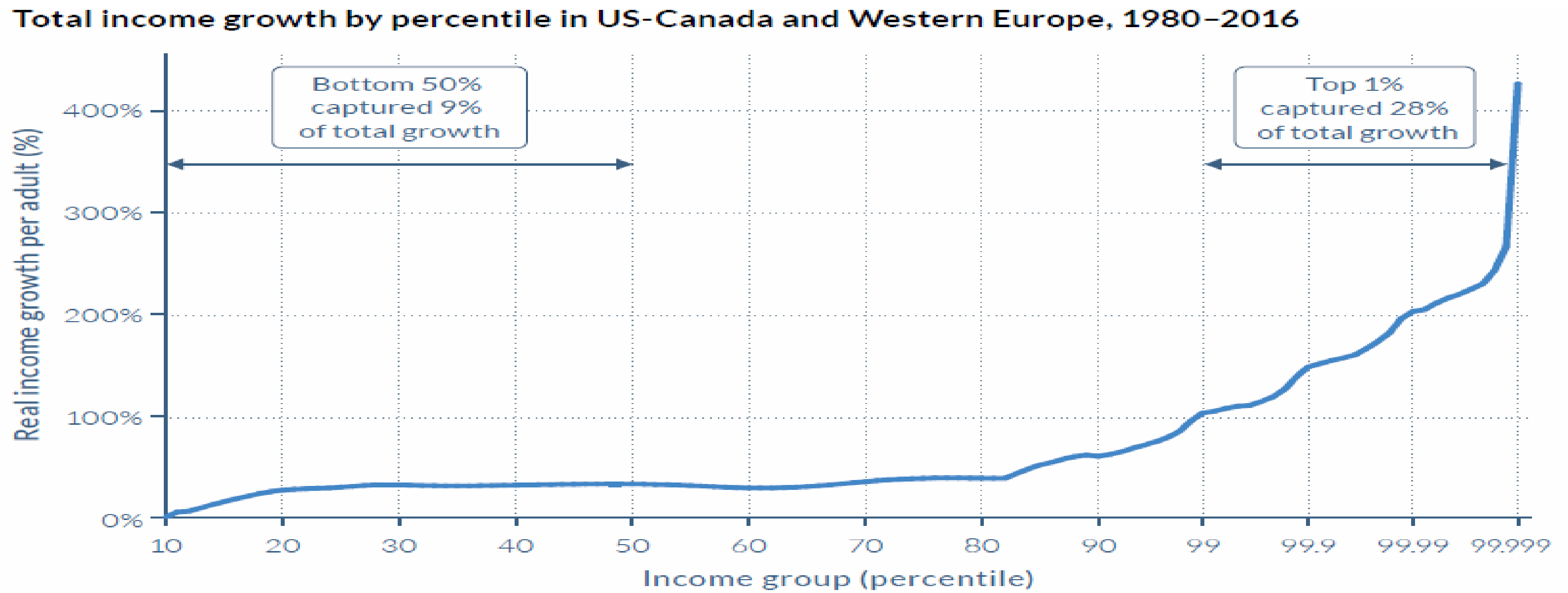
Measuring income inequality

- The Palma ratio is the ratio of the income share of the top 10% to that of the bottom 40%. In more equal societies this ratio will be one or below, meaning that the top 10% does not receive a larger share of national income than the bottom 40%. In very unequal societies, the ratio may be as large as 7.
- The Palma ratio addresses the Gini index's over-sensitivity to changes in the middle of the distribution and insensitivity to changes at the top and bottom.
- The UK Palma ratio is 1.40.
- The Palma ratio is commonly used in international development discourse.

How unequal are we?

- Inequality between and within societies is starkly apparent.
- Despite the vast increases in affluence, the general maldistribution of global income and wealth remains severe.
- Out of all major industrial nations, the levels of income inequality are the widest in the US.
- The gap between the rich and poor in Western European countries, especially in Ireland & the UK is very large and has been widening in recent decades.

World Inequality Report 2018



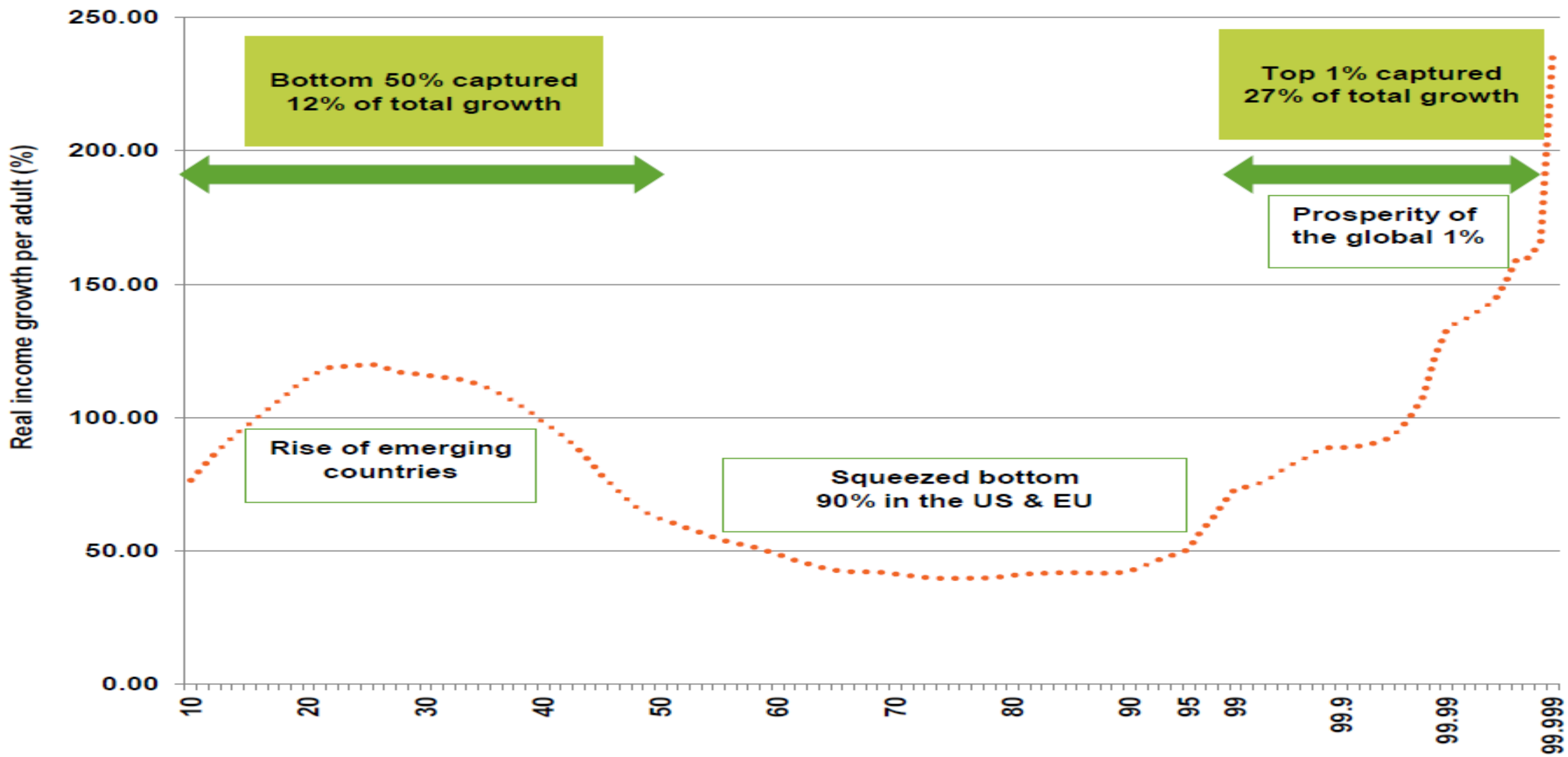
The richest 1% continue to own more wealth than the whole of the rest of humanity

Credit Suisse. (2017). *Global Wealth Databook 2017*

The wealth of the world's billionaires increased by $900bn in the last year alone, or $2.5bn a day. Meanwhile the wealth of the poorest half of humanity, 3.8 billion people, fell by 11%

Lawson *et a*l (2019) *Reward Work Not Wealth*. London: Oxfam

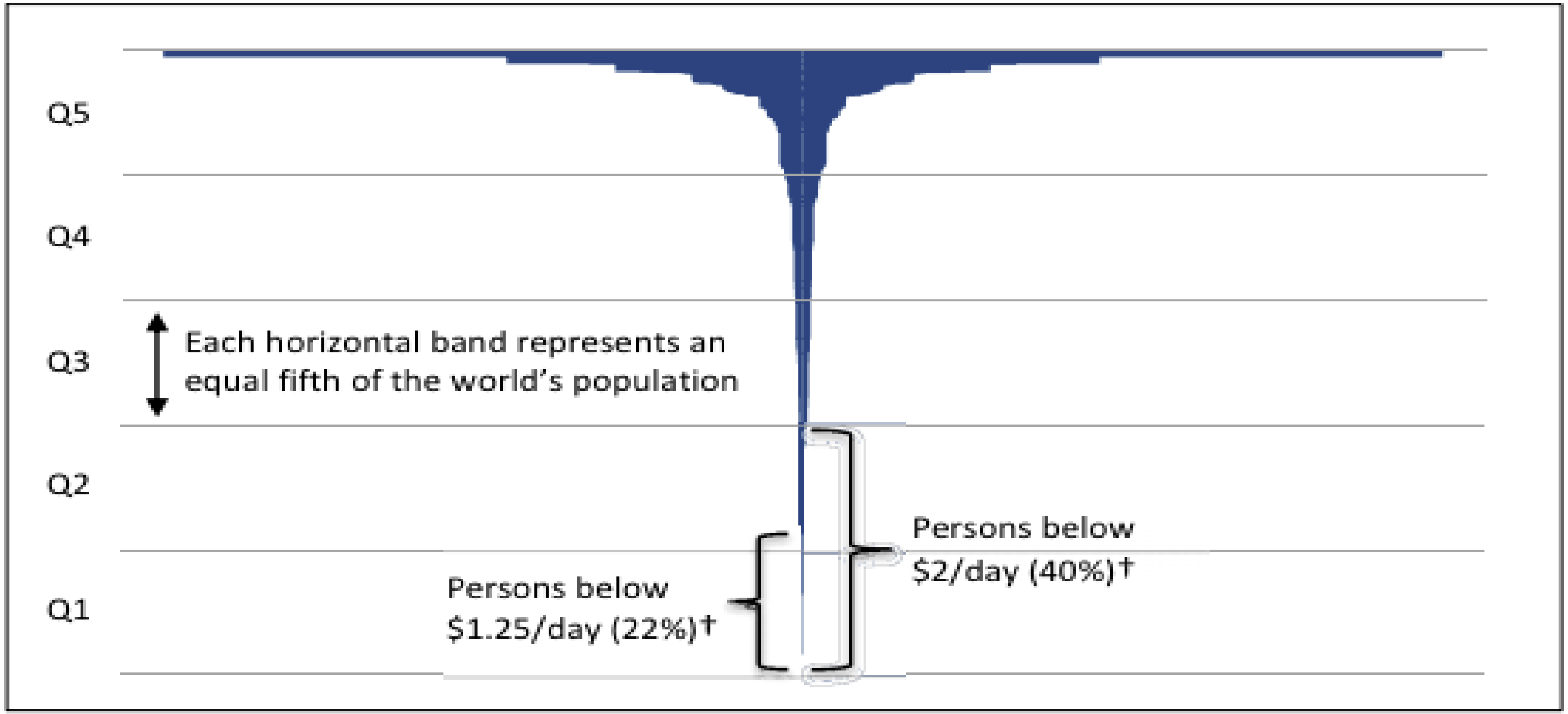
Global Real Income Growth per Adult by Percentile: 1980 to 2016



Source: Made by authors using F. Alvaredo, L. Chancel, T. Piketty, E. Saez and G. Zucman. (2017). *The World Inequality Report 2018*. World Inequality Lab. data available from http://wir2018.wid.world/.

The World is Very Unequal

Figure 7. Global Income Distributed by Percentiles of the Population in 2007 (or latest available) in PPP constant 2005 international dollars*



If current trends continue then the richest 1% will own 64% of the worlds wealth by 2030

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Estimated distribution of global wealth under different scenarios, 2017-2030

	Wealthiest 1%	Least wealthy 99%
Share of total wealth in 2017	**50%**	**50%**
Total wealth, annual rate of increase 2000-17	*6%*	*5%*
Total wealth, annual rate of increase 2008-17	*6%*	*3%*
Share of total wealth in 2030		
Assuming total wealth grows at 2000-17 annual rate	54%	46%
Assuming total wealth grows at 2008-17 annual rate	64%	36%

Note: the composition of each group will change from year to year. Someone who is in the wealthiest 1% in one year may be in the least wealthy 99% in the next.

Source: Estimates based on wealth data for 2000-2017 published in Credit Suisse, *Global Wealth Report 2017* and *Global Wealth Databook 2017*

What are the consequences of inequality?

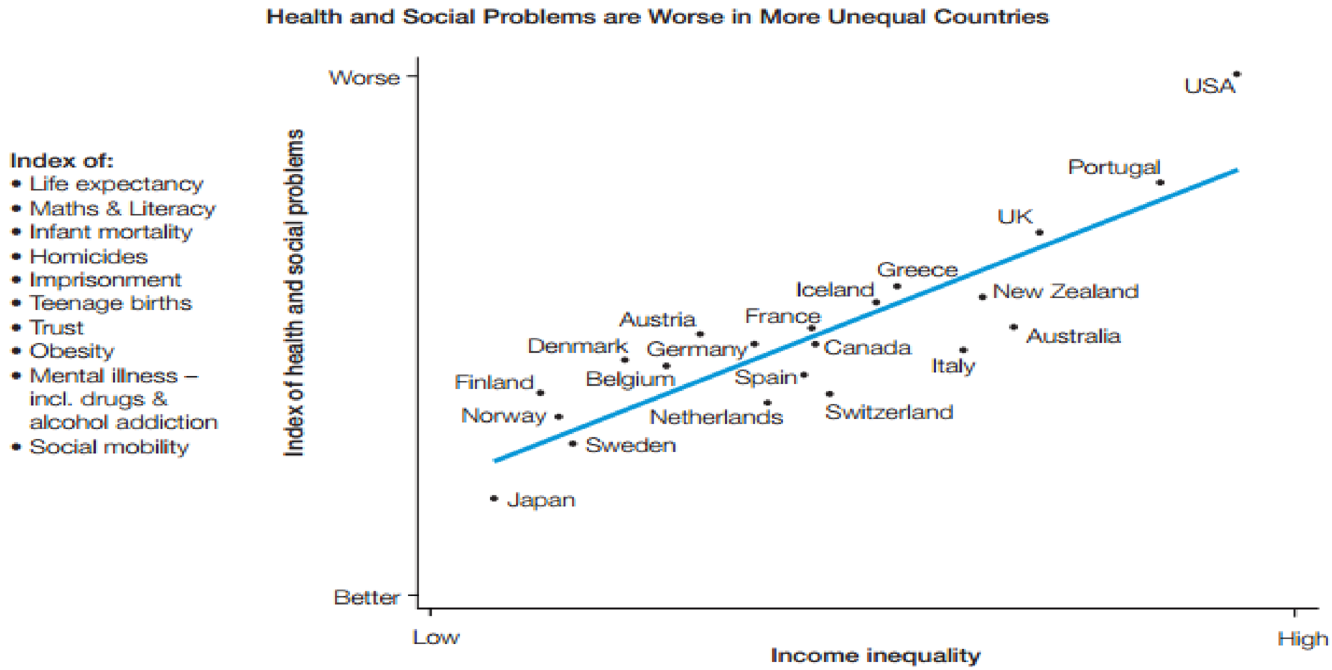
- Economic impacts
- Political impacts
- Social impacts
- Individual impacts

Economic impacts

- There is a growing body of evidence indicating that high levels of income inequality are damaging for a developed economy in the long term.
- Some key research findings show highly unequal economies:
  - Are more unstable and have more crises.
  - Have higher levels of debt
  - Have increased rates of inflation.
  - Have shorter periods of sustained economic growth.
  - More rent seeking.
  - More ‘keeping up with the joneses’

For further info, see: https://www.equalitytrust.org.uk/economic

Social impacts



Source: Wilkinson and Pickett, 2009a

Political impacts

- Income inequality changes the way people interact with other members of their society and engage in society itself. Key findings from the research include:
- People in European countries with higher levels of inequality are less likely to help each other in acts of altruism.
- Unequal societies have lower rates of both social and civic participation (including lower engagement with political parties).
- Higher rates of income inequality are linked to lower levels of voter turnout.
- Inequality is linked to lower levels of cultural activity.

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