

Poverty



Concepts of Poverty - Part F

Social Welfare Function

- ❖ Social welfare Function can be written as

$$W = (Y, I, P)$$

Where:

W = Social Welfare

Y = Per Capita Income

I = Inequality Index

P = Absolute Poverty

Social Welfare Function

Level of per capita income has a positive effect on welfare, whereas inequality (I) and Absolute Poverty (P) negatively affect welfare

That is given the per capita income, the higher income inequality and absolute poverty, the lower will be the social welfare

Why is Relative Poverty Bad?

But what is so bad about Relative Poverty?

- ❖ Relative Poverty causes the income inequality
- ❖ Income inequality increase the gap between the income of rich and poor
- ❖ In fact income inequality is bad for economic growth because it adversely affects the Economic Growth as data collected by World Bank

Why is Relative Poverty Bad?

This is due to the following factors:

- ❖ First, existence of income inequalities lowers the access to credit of those who are relatively poor
- ❖ Further, the recent findings indicate that with high inequality saving rate in the economy tends to be lower

Why is Relative Poverty Bad?

- ❖ In short, the Rich save and invest domestically a relatively smaller proportion of their income
- ❖ Commenting on Worldwide data Bruno and Squire write- “Research shows that developing countries with a more equal distribution of assets grew more rapidly than countries with a less equal distribution of assets

Thank You