WEEK 7
INCOME DISTRIBUTION & QUALITY OF LIFE
Di akhir topik ini, pelajar akan dapat menjelaskan:

- Agihan pendapatan
- Konsep and pengukuran kemiskinan
- Insiden kemiskinan dalam dan luar negara
Why is income distribution an important policy issue?

Relevance to efforts to reduce poverty.

- sustained economic growth is a crucial condition for reducing poverty. Poverty reduction achieved only through growth may not be fast enough, particularly when the initial distribution of wealth, including land, is highly uneven. Therefore, a strategy for the alleviation of poverty should focus on both growth and reduced income inequality.

Relates to social justice and to perceptions of social justice

- which can affect harmony among different social groups and the political sustainability of the good economic policies. Broad public support is more likely to come for a wise and sustained course of adjustment and reform when the distribution of income and opportunities to attain economic advancement are seen as relatively "fair," or at least not outrageously biased toward privileged groups.
**Implications of income distribution for economic growth: two competing views**

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| policies that reduce income inequality affect growth adversely for at least two reasons:  
  1. transfers and taxes used to redistribute income may create distortions and disincentives.  
     Moreover, the resources required for redistributive programs may reduce the funds available for public and private investment in physical and human capital.  
  2. since high-income groups tend to save a larger portion of their income, greater distributional equality is likely to decrease aggregate savings and, thus, investment. | an excessively unequal income distribution may itself be detrimental to sustainable growth.  
  reducing excessive income and consumption inequality, in the context of macroeconomic stability and allocative efficiency, promote, not deter, sustainable economic growth |
How economic policies are intertwined with social issues and the political process

Positive effect

on the efficient use and development of human resources. Many East Asian countries achieving remarkably high economic growth, together with declining income inequality, by pursuing good macroeconomic policies and high investment in physical and human capital, with heavy emphasis on primary education.

Negative effects

A highly unequal distribution of income, or the lack of opportunity for large segments of the population, may lead to political and social instability and impede efficient economic activity. In a democratic society, it could generate political pressures for unsound economic policies. Greater income equality achieved through well-designed income transfers (including social safety nets) can help secure support for policies crucial for economic reform and sustainable growth.
Income distribution

1. THE LORENZ CURVE

The percentage of total income earned by cumulative percentage of the population.

In a perfectly equal society, the “poorest” 25% of the population would earn 25% of the total income, the “poorest” 50% of the population would earn 50% of the total income.

The Gini coefficient, value between 0 & 1 or as a percentage.

- A coefficient of 0 = a perfectly equal society in which all income is equally shared.
- A coefficient of 1 (or 100%) = a perfectly unequal society wherein all income is earned by one individual.

Gini coefficient = Shaded area A/Total area BCD
2. ATKINSON INDEX

Inequality “cannot, in general, be measured without introducing social judgments”. This index incorporates a sensitivity parameter (ε); which can range from 0 (meaning that the researcher is indifferent about the nature of the income distribution), to infinity (where the researcher is concerned only with the income position of the very lowest income group).

In practice, ε values of 0.5, 1, 1.5 or 2 are used; the higher the value, the more sensitive the Atkinson index becomes to inequalities at the bottom of the income distribution.

Can be used to calculate the proportion of total income that would be required to achieve an equal level of social welfare as at present if incomes were perfectly distributed. For example, an Atkinson index value of 0.20 suggests that we could achieve the same level of social welfare with only 1–0.20=80% of income. The theoretical range of Atkinson values is 0 to 1, with 0 being a state of equal distribution.
3. COEFFICIENT OF VARIATION (CV)

Income inequality is calculated by dividing the standard deviation of the income distribution by its mean. More equal income distributions will have smaller standard deviations; as such, the CV will be smaller in more equal societies.

4. DECILE RATIOS

Income inequality is to calculate decile ratios. The calculation is done by taking, the income earned by the top 10% of households and dividing that by the income earned by the poorest 10% of households.

5. GENERALISED ENTROPY (GE) INDEX

Incorporates a sensitivity parameter (α) that varies in the weight given to inequalities in differing parts of the income spectrum. 4 GE measures are used: GE(−1), GE(0), GE(1) and GE(2). The more positive α is, the more sensitive GE(α) is to inequalities at the top of the income distribution. The theoretical range of GE values is 0 to infinity, with 0 being a state of equal distribution and values greater than 0 representing increasing levels of inequality.
6. KAKWANI PROGRESSIVITY INDEX

is the difference between the Gini coefficient for incomes and the concentration index. In theory, Kakwani index values range from −2 (indicating severe progressivity) to +1 (indicating strong progressivity).

7. PROPORTION OF TOTAL INCOME EARNED

The proportion of income received by the poorest nth% of the population is one of the most intuitive measures of income inequality. This measure is very similar to the Lorenz framework. The proportion of income received by the poorest 50% does not inform us about how equally income is shared by the poorest 50% and also reveals nothing about the nature of the income distribution among the other half of the population.
8. ROBIN HOOD INDEX

The Robin Hood Index, also known as the Pietra ratio, represents the maximum vertical distance from the Lorenz curve to the 45° line of equality. It is called the Robin Hood index because it can be interpreted as the proportion of income that has to be transferred from those above the mean to those below the mean in order to achieve an equal distribution. As such, higher Robin Hood values indicate a more unequal society, wherein a larger share of income needs to be distributed to achieve equality.

9. SEN POVERTY MEASURE

Amartya Sen has developed a poverty measure that incorporates the Gini coefficient for people living below the poverty line along with the headcount ratio of poverty and the average income of those below the poverty line.
Meaning of poverty: perspectives of the poor

**POVERTY**

- Losing a child to illness brought about by unclean water
- Being sick and not being able to see a doctor
- Not being able to go to school and not knowing how to read
- Not having a job, is fear for the future, living one day at a time
- Powerlessness, lack of representation and freedom
- Lack of shelter
- Hunger
Issues in defining poverty

- Varies from basic subsistence, social psychological self-perception of being poor.
- Frequently the concept refers to economic aspect of living.
- Even economic and socio-cultural are not all inclusive.
- Varies depending on its purpose complex, multidimensional (vary by gender, age, culture & other social & economic context).
Definition of poverty

Lack of multiple resources for material wellbeing (physical deprivation)

Importance of psychological aspects of poverty

Lack of voice, power & independence, exploitation

Vulnerable and exposure to risk

Lack of basic infrastructure

Lack of physical, human, social and environmental asset (focus on asset rather than income)

Vulnerable and exposure to risk
Approaches in poverty study

1. The subsistence
2. The inequality
3. The externality
Measuring poverty

1. Absolute poverty
2. Relative poverty
3. Hard core poor
How to determine absolute poverty

1. Poverty line/ poverty threshold
2. Median income
3. Break-Even Point
Poverty line

The poverty threshold, or poverty line, is the minimum level of income deemed necessary to achieve an adequate standard of living in a given country.