

Poverty, the state and development

Edexcel IAL Economics WEC14 sections 4.3.4-4.3.6 full package - completes the qualification

1. Topic 8 at a glance

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WEC14 second half: spec sections 4.3.4 to 4.3.6 - poverty and inequality, the role of the state (expenditure, taxation, borrowing, policies) and growth and development in developing, emerging and developed economies.

Must-know: Gini = $1 - 2 \times$ area under the Lorenz as a share of the square - quintiles 5/10/15/20/50 give 0.40; the Laffer curve $R = t(1-t) \times 400$ peaking at 100 when $t = 50$ percent; the HDI's geometric mean of education, health and income; deficit a flow, debt a stock; structural versus cyclical.

2. Poverty

Poverty

Absolute poverty is inability to meet basic needs (the 1.90-a-day line); relative poverty is income below 50-60 percent of the median - deprivation against the society's norm.

Seven drivers of change: growth lifts absolute poverty; education and training; welfare benefits; tax structure; structural change can deepen relative poverty regionally; aid; civil wars.

3. Inequality

Inequality

Wealth is a stock, income a flow. The Lorenz curve plots cumulative income against cumulative population from the poorest; the Gini is the area between the equality line and the curve over the whole triangle - $1 - 2 \times$ area under the Lorenz over the square.

Quintile shares 5, 10, 15, 20, 50: the area under the Lorenz is $50 + 200 + 450 + 800 + 1500 = 3000$ of 10000, $Gini = 0.40$. Causes run from skills and wealth-holding to globalisation's premium; impacts touch enterprise, incentives, savings, education, migration and life expectancy; development first widens then may narrow it; capitalism generates it by design.

4. The state's balance sheet

The state's balance sheet

Capital expenditure buys assets; current runs services; transfers redistribute. Its size moves with incomes, age structure and expectations; its GDP share matters for productivity, crowding out and taxation.

Direct taxes on income and wealth, indirect on spending; progressive, proportional, regressive - 1k/8k/30k on 10k/40k/100k is progressive (10/20/30 percent). Tax changes move incentives, revenue (Laffer peak 100 at 50 percent), distribution, output, prices, trade and FDI. Deficit versus debt; stabilisers versus discretionary; structural versus cyclical; interest rates, debt servicing, intergenerational equity.

5. Macroeconomic policies

Macroeconomic policies

Five families - fiscal, monetary, exchange-rate, supply-side and direct controls - aim to cut deficits and debt, control inflation, absorb external shocks and reduce poverty and inequality. The 2008 crisis brought bank rescues, near-zero rates and QE worldwide.

TNC control: anti-avoidance rules and transfer-pricing regulation, with the limit that footloose firms relocate. Policy ripples local, national and global economies; policymakers face inaccurate information, uncertainty and uncontrollable shocks.

6. Growth and development

Growth and development

The HDI geometrically combines education (years of schooling), health (life expectancy) and income (GNI per capita at PPP, log-scaled); broader than GDP but blind to distribution and freedom. Other measures: agricultural labour share, clean water, energy, internet, phones, doctors.

Constraints: economic - commodity volatility, primary product dependency (Prebisch-Singer), the savings gap (Harrod-Domar $g = s/v$), currency gap, capital flight, demography, debt, credit, infrastructure, skills; non-economic - corruption, governance, civil wars, migration, terrorism. Strategies: market-orientated (liberalise, FDI, privatise, float, microfinance), interventionist (human capital, protect, manage rates, infrastructure, joint ventures, buffer stocks), other (Lewis-model industrialisation, tourism, debt relief, aid); World Bank, IMF, NGOs.

Check yourself

Check yourself

Absolute versus relative poverty with measures and seven causes.

Lorenz and Gini with the 0.40 calculation; causes, six impacts, development's effect, capitalism.

Expenditure types; tax classifications with the 10-20-30 example; the Laffer peak; deficits, debt, stabilisers, structural versus cyclical.

The five policy families and 2008; TNC control; HDI and other measures; the sixteen constraints; the three strategy families; World Bank, IMF, NGOs.