Chapter 20: Income Inequality and Poverty
Principles of Economics, 6th Edition
N. Gregory Mankiw
Page 1

1. The Measurement Of Inequality
    a. Initially, we address four questions:
        i. How much inequality is there in our society?
        ii. How many people live in poverty?
        iii. What problems arise in measuring the amount of inequality?
        iv. How often do people move among income classes?
    b. U.S. income inequality
        i. **Table 1: The Distribution of *(Family)* Income in the United States: 2008. P. 416**
            (1) A family is defined as a group of two or more persons related by birth, marriage, or adoption and residing together in a household.
            (2) The growth in both two income and single parent families has had a dramatic effect on the distribution of family income, which make comparisons with the past questionable.
        ii. **Table 2: Income Inequality in the United States. P. 417**
            (1) Again, this is based on family income.
            (2) It got more equal between 1935 and 1970, but then became less equal.
    c. Inequality around the world
        i. **Figure 1: Inequality around the world, P. 418**
    d. The poverty rate is the percentage of the population whose family income falls below an absolute level called the poverty line. P. 437
        i. The poverty line is set by the federal government at roughly three times the cost of providing an adequate diet.
        ii. Def: Poverty line is an absolute level of income set by the federal government for each family size below which a family is deemed to be in poverty. P. 437
        iii. **Figure 2: The Poverty Rate. P. 419**
        iv. **Table 3: Who Is Poor? P. 420**
            (1) Based on race: blacks and Hispanics.
            (2) Based on age: the young are poor, while the elderly have become less poor.
            (3) Based on family composition: single parent, usually female, households.
    e. Problems in measuring inequality
        i. Def: In kind transfers are transfers to the poor given in the form of goods and services rather than cash. P. 420
        ii. Def: The economic life cycle is the regular pattern of income variation over a person's life. P. 421

- iii. Transitory verses permanent income
  - (1) Def: Permanent income is a person's normal income. P. 421
  - **(2) Case Study: Alternative Measures of Inequality, P. 421**
- f. Economic mobility
- **g. In the News: What's Wrong with the Poverty Rate? P. 422**

2. The Political Philosophy of Redistributing
   - a. Utilitarianism is the political philosophy according to which the government should choose policies to maximize the total utility of everyone in society. P. 4424
     - i. Def: Utility is a measure of happiness of satisfaction. P. 424
     - ii. Because of the diminishing marginal utility of income, welfare is increased by shifting if from high income to low income people.
   - b. Liberalism
     - i. Based on Rawls, the distribution of income should be based on the agreement we would reach "initially" if we did not know how life would turn out.
     - ii. Def: Liberalism is the political philosophy according to which the government should choose policies deemed to be just, as evaluated by an impartial observer behind a "veil of ignorance". P. 425
     - iii. Def: Maximin criterion is the claim that the government should aim to maximize the well being of the worst off person in society. p. 426
       - (1) The result is a social insurance perspective.
       - (2) Social insurance is a government policy aimed at protecting people against the risk of adverse events. P. 426
   - a. Libertarianism is the political philosophy according to which the government should punish crimes and enforce voluntary agreements but not redistribute income. P. 427

3. Policies to Reduce Poverty
   - a. Minimum wage laws are ineffective, if not, counterproductive.
   - b. Welfare creates incentives for people to become needy.
     - i. Def: Welfare is government programs that supplement the incomes of the needy. P. 428
   - c. Negative income tax provides support for the poor while encouraging them to seek work, a process that is often discouraged by welfare that has a 100 percent marginal tax rate.
   - d. Def: Negative income tax is a tax system that collects revenue from high income households and gives transfers to low income households. P. 429
   - e. In kind transfers have less efficient than cash transfers if the goal is to

increase the welfare of the poor.

f. Anti-poverty programs and work incentives are often in conflict because benefits are withdrawn as incomes increase.

g. **In the News : The Root Cause of a Financial Crisis, P. 430**

4. Conclusion

5. Summary