

# Poverty is Relative Income Gap's Critical Role in the Poverty Issue

Boyang Gao<sup>1,\*</sup>

<sup>1</sup>*ANU College of Asia and the Pacific, The Australia National University, 2601, Australia*

*\*Corresponding author. Email: guanghua.ren@geccademy.cn*

## ABSTRACT

Because of poverty, 854 million people are undernourished, and more people lack education and medical treatment. As a result, the poverty issue is a significant obstacle to the development of human society. This article argues that only by regarding poverty as a reflection of people's low economic status can one realize the nature of poverty. In other words, poverty is relative that depends on the income gap between the rich and the poor. Therefore, narrowing the income gap should be the priority of anti-poverty activities. Additionally, the capitalist system ought to change in order to eliminate the fortune disparity as it is the major reason that leads to the nowadays situation. These results shed light for establishing more effective anti-poverty movements that can eliminate the poverty issue once and for all.

**Keywords:** *Poverty, income gap, relative, Capitalist system, Socialized production.*

## 1. INTRODUCTION

Contemporarily, as a big obstacle to humanity's further progress, poverty remains a major concern for scholars. However, different from most poverty studies, this article argues that poverty is essentially the reflection of people's economic status in current society, which is relative. Therefore, the income gap is a key index to measure poverty. More importantly, because the capitalist system is the main cause of today's huge income gap, only a big reform of the capitalist system can eradicate poverty.

The rest part of the paper is organized as follows: the Sec. 2 will review the former studies of poverty; the Sec. 3 will demonstrate the relativistic of poverty and clarify its importance for ending poverty subsequently; then, the Sec. 4 will demonstrate the intrinsic reason that the capitalist system caused the huge income gap; afterwards, the Sec. 5 will offer suggestions about narrowing the income gap; the Sec. 6 will give a brief summary eventually.

## 2. LITERATURE REVIEW

Adam Smith argued that a man is rich or poor depends on his income level [1]. After Smith, most scholars in capitalist society tend to regard poverty as a certain income level. For example, Rowntree defined poverty as the family's total income is insufficient to cover the cost

of the minimum necessities of life needed of the family members [2]. After WWII, many scholars realized that poverty is not just about low income. Townsend argued that poverty is a situation in which poor people cannot maintain the life standard encouraged by local society and culture [3]. In his famous book *The Life You Can Save*, Peter Singer defined poverty as a situation, where people are short of food and safe drinking water, hard to save money and afford the tuition fee, and living in an unstable house [4].

As a matter of fact, these scholars just regarded poverty as a certain low living condition rather than a reflection of people's economic status. In other words, they ignored the economic gap's influence on poverty. As a result, their suggestions of ending poverty mainly focused on unilaterally improving poor people's income. The problem is: if rich people's income increased much faster than the poor, poor people's economic status in current society would decrease. In short, the enlarged income gap lets poor people remain poor. Besides, the fluctuation of price and improvement of the living standard make a certain living condition cannot provide long-term guidance for anti-poverty movements. All in all, regarding poverty as a certain low living condition is not effective for ending poverty.

In contrast, poverty as the reflection of people's economic status is a better understanding of poverty. It allows people to realize that poverty is relative, which is

the essence of poverty. After realizing the poverty is relative, one can use the income gap as a major index of poverty, providing more stable guidance for anti-poverty movements. More importantly, it offers a path to find the origin of today's large income gap: the capitalist system. Based on analysing the capitalist system, the way to end poverty thoroughly can be found.

### **3. POVERTY IS RELATIVE**

Capitalist society's highly developed market economy allowed people's wealth to be measured through how much money they have, i.e., people's wealth became numeric. On this basis, capitalist society can use a certain level of income to set a poverty line. By helping poor people exceed the poverty line, poverty can be ended. Although scholars like Singer and Townsend added more elements to measure poverty, they still regarded poverty as a certain low-level living condition. Therefore, ending poverty only means making poor people escape their current miserable lives.

However, a certain low-level living condition itself cannot result in poverty. In fact, today, a person who spends less than \$1.9 per day is extremely poor because most people spend much more than that. However, if the richest person in the world only spends \$2 per day, spending \$1.9 per day will not be poor. Therefore, poverty is relative, and it only has practical meaning through comparing. In other words, poverty is essentially a reflection of a person's low economic status in current society. Practically, poverty means part of the population's income is significantly behind others. As a result, if the anti-poverty movement cannot narrow the income gap, it will not end poverty even if it can increase poor people's income. For example, if a poor person's income increased from \$1.8 to \$3, and a rich person's income raised \$1000, the income gap between them will be larger than before, although their income both increased. Because the income gap increase lowered this poor man's economic status in current society, he is still poor. Someone may argue that although the income gap increases, this poor person earned more income than before. However, having more income than before does not let him escape from poverty. The growing income gap will make poor people feel much insignificant because rich people's life becomes much harder to catch up with than before. More importantly, the growing income gap impedes poor people from benefiting from the increase of total social wealth. In this case, compared with the level of material development in current society, they still live poor lives.

Unfortunately, most anti-poverty movements still use certain income or living standards to measure poverty. According to the World Bank, the global poverty line is \$1.90 per day [5]. However, if a person can spend \$2 per day, will he not be poor anymore? It is clear that a cent that helped him exceed the poverty line cannot bring

essential improvement to his economic status. Moreover, the World Bank had to keep moving the poverty line because of the rising prices and the improved average life standard. The international poverty line had increased from \$1 in 1990 to \$1.9 in 2015 [6]. As a result, the rising poverty line will make the poor people who just exceed this line back to poverty again. In short, this flexible poverty line makes it hard to confirm whether the poor actually escape from poverty. Additionally, scholars will find it hard to know what extent of education, housing, and job support poor people need to escape from their marginalized status in current society without considering the economic gap between the rich and the poor.

In contrast, the income gap is a more practical index for the poverty problem. Compared with the poverty line, because the income gap shows how much social resources were distributed to the poor and rich, it can reflect poor people's economic status. To be more specific, if the income gap increases, poor people will have fewer resources to develop themselves than the rich. Thus, their economic status improvement will be slower than the rich. Consequently, their economic status will become lower and lower, i.e., they become poorer than before. On the contrary, if the income gap decreases, poor people will have more and more resources to develop themselves, and their economic status will improve much faster than the rich. Eventually, the distinction between the rich and the poor will disappear, so poverty will end. In addition, the income gap can hardly be affected by other factors such as price level and technology developments, i.e., it is more stable than the poverty line. Hence, the origin of the income gap and end it should be figured out for the sake of ending world poverty.

### **4. CAPITALIST SYSTEM: THE ORIGIN OF TODAY'S GROWING INCOME GAP**

According to Birdsall's research, the ratio of average income of the richest country in the world to that of the poorest has risen from about 9 to 1 at the end of the nineteenth century to at least 60 to 1 in 1998. In the United States, the income of the poorest 20 percent of households has declined steadily since the early 1970s. Meanwhile, the income of the richest 20 percent has increased by 15 percent and that of the top 1 percent by more than 100 percent [7]. Additionally, the market-oriented reform brought the huge income gap to China and former communist states in East Europe. Therefore, the global expansion of the capitalist system significantly increased the income gap at both international and domestic levels.

The capitalist system is essentially a producing system with three primary features: first, the never-ending process of profit-making is the capitalist system aims at [8]. In other words, capital appreciation is the main goal of the capitalist system. Second, the capitalist

system is based on the fact that society is mainly divided into capitalists who own means of production and free labourers selling their labour-power [9]. As a result, the employment relationship between them is the capitalist system's fundamental economic relationship. Third, means of production are separated from labour.

These three features of the capitalist system resulted in today's huge income gap. First, by making part of the population lose their chances of improving their income, unemployment significantly increased the income gap. Nevertheless, pursuing more profit lets the capitalist system have to maintain a certain size of the unemployed population because unemployed people make employees hard to request high wages, i.e., the capitalists can save cost. Besides, a stagnant market will let capitalist enterprises reduce employees to keep profits. Because of the pandemic recession, in April 2020, the U.S. unemployment rate reached 14.8%—the highest rate observed since data collection began in 1948 [10]. More importantly, during the pandemic recession, passive unemployment caused by enterprise closure only caused a 5% drop in employment, while enterprises' active downsizing decreased 15% employment [11].

Second, private ownership of means of production and the employment relationship allows capitalists to occupy surplus value created by employees. Then, capitalists used surplus value to enlarge investment and gain more surplus value. By repeating this process, capitalist's income grows dramatically. In contrast, their employees' wages can only maintain their class's average consumption, so they are hard to accumulate wealth. On this occasion, the capitalists' income is always growing much faster than their employees, and the income gap between the rich and the poor will grow. The adjusted labour shares in selected G20 countries and Spain declined from about 58% in 1960 to about 55% in 2011. In contrast, from 2000-2012, capital share in G20 countries increased from 100% to 103% [12].

Third, the highly developed division of labour in the capitalist system lets a person has to sacrifice his other talents to master one talent that can earn good payments [13]. In this case, people become specialized parts of the economy. For poor people, they are boned to their low-income job. For example, to maintain his life, a textile worker has to spend most of his time doing repetitive, toilsome, and low-paying work in the factory. As a result, he has little resources and time to develop other skills to bring more income. Moreover, because poor people's jobs are usually low-tech, simple, and replaceable, they are always the first to be sacrificed in a crisis. For example, during the COVID-19 outbreak, unemployment rates for low-income Americans are much higher than high-income Americans [14].

## 5. HOW TO NARROW THE INCOME GAP

Narrowing the income gap is critical for ending poverty. In pre-industrial countries, agriculture produced the most social wealth. However, their low producing ability limited the increase of total social wealth. Additionally, landlords, loaners, and local governments occupied most of these countries' very limited social wealth, i.e., the domestic income is large. Thereby, narrowing the income gap for pre-industrial countries contains two aspects: first, narrowing the gap of producing ability between them and industrial countries; second, narrowing the domestic income gap.

Achieving these goals need to reform pre-industrial countries' economic systems and accelerate their industrialization. In practice, the reform needs to transform the private ownership of lands to social ownership. Hence, landlords cannot control most social wealth through their ownership of lands, and more social wealth will be shared by people who actually did most of the agricultural works. Therefore, the income gap can be narrowed. Besides, the social ownership of lands lets the society can use part of social wealth to promote industrialization and social improvements, such as the spread of education and medical treatment, rather than be wasted on rich people's luxury consumption. Subsequently, because it is hard for poor states to improve their technology quickly by themselves, states with advanced technologies need to share them with poor states. As a consequence, poor states' producing ability can improve rapidly. For example, in the 1950s, Soviet Union sent more than ten thousand agricultural experts to China to help China increase its agricultural output and helped China build 156 industrial projects that covered almost all industrial sectors. The agricultural technology improvement in pre-industrial countries will increase the grain output and reduce labour demand in agriculture. In this case, pre-industrial states can gradually develop their own research and industrial ability with foreign technical support. After some time, they will catch up with advanced states and be able to help other pre-industrial states. Eventually, the development gap between industrial states and pre-industrial states will disappear.

Nevertheless, based on the highly developed international division of labour, the global capitalist system impedes pre-industrial countries' attempt to narrow the income gap. During the development of the global capitalist system, most Asia, Africa, and Latin American countries were forced to become industrial countries' origin of raw materials and cheap labours through colonization. For example, Salvador became the country of coffee, and Egypt was forced to produce cotton to support British textile industries. Meanwhile, industrialized capitalist countries can gain high profits by monopolizing high value-added products' production. Therefore, to keep their profits, advanced capitalist states want poor states to just obey the current international

division of labour. For example, the U.S. supported Guatemala's coup in 1954 and overthrew the elected President Arbenz, who tried to nationalize lands and weaken Guatemala's dependence on America. Besides, since gaining profit is the top priority of the capitalist system, advanced capitalist states will not be willing to share their technology with poor states which cannot provide enough profit. Thus, unless major changes have been made to the global capitalist system, poor states can hardly decrease their domestic and international income gap.

Compared with pre-industrial countries, industrial countries have much stronger producing abilities. For example, the United States shared 24.41% of the global economy in 2020 [15]. However, their social wealth is more and more concentrated in the hands of the rich. Hence, narrowing the domestic income gap so everyone can equally benefit from advanced producing ability is industrial states' priority. From my perspective, socialized production is necessary for narrowing the income gap. Socialized production means society rather than individuals control production. Thus, production is for social demand instead of profit. Specifically speaking, products' social meaning and appropriate producing process become the main concern of the production. In other words, products will be designed and produced aiming to improve society's living standards. The production process should be beneficial to people's mental and physical health and the environment. In order to save labour costs and maintain profits, the capitalist system lets part of people work overtime when the rest have no work to do. As a result, it created toil on one side and poverty on the other. In contrast, socialized production can avoid this situation by separating the production to everyone properly. Additionally, since the production is not for individuals to gain profit, the society can arrange production based on a long-term plan. In practice, because socialized production does not chase gaining maximized profit in current society, it only needs to use part of producing ability to fulfill current social demand, i.e., the rest will produce what is necessary for future emergencies like a new global pandemic. Therefore, people's income will not be affected by the fluctuation of production. Second, because society controls social resources, a few rich people cannot monopolize social wealth. Besides, it allows social wealth to be distributed based on labour (mental and physical). As a result, socialized production provides a platform for everyone to maximize their talent to improve themselves and society. Moreover, since most people's physical and mental differences are small, the gap between their labour output will also be small, i.e., the income gap will dramatically decrease. Furthermore, socialized production's emphasis on labour will dramatically promote people's passion for creating and producing, i.e., the total social wealth will also increase rapidly.

In general, socialized production can effectively decrease unemployment and the income gap. Additionally, it can create a more free, healthy, and environmental society.

## 6. CONCLUSION

In summary, poverty is essentially a reflection of people's economic status, i.e., poverty is relative. On this basis, the income gap is the great index for the poverty issue. In other words, the greater the income gap, the more significant the poverty. Therefore, narrowing the income gap is critical for ending poverty. In fact, the capitalist system's development had brought the great producing ability for humanity to end material scarcity. However, under the capitalist system, this ability mainly benefited a few people, attributed to the growing income gap. As a result, the world is divided into the rich and poor apparently, i.e., ending poverty requires big changes in the capitalist system. These results offer a guideline for future studies of poverty issues and the establishment of anti-poverty policies.

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