3.3 Fair Distribution of Income

Key Words

Distribution of income	How incomes are shared out between individuals and households
Income	The reward for the service provided by a factor of production including labour
Wealth	The market value of all the assets owned by a person or group or country (assets include money, houses and land
Gross income	Income received before any takes are taken or benefits given
Net income	Income available after the effect of direct taxes and benefits. Also known as disposable income.
Poverty	Absolute poverty is where someone cannot afford the necessities to survive whereas relative poverty is where people earn less than 60% of average income.

Income and Wealth

	Income	Wealth
Savings held in bank deposit accounts		✓
Money held in occupational pension schemes and life assurance schemes		✓
Wages and salaries paid to people from their jobs	✓	
Ownership of shares issued by listed companies and equity stakes in private businesses		✓
Profits flowing to businesses and dividends distributed to shareholders	✓	
Interest paid to those who hold money in deposit accounts or who own bonds	✓	
The ownership of property		✓
Rental income flowing to people who own and lease out property	✓	

There are four types of factor incomes (from factors of production) - wages, rent, interest and profit. One of the reasons why incomes are unevenly distributed is that not all households receive all of these income. Most households rely on income from wages. Wages can vary enormously and this is a topic we covered when we looked at the labour market. Some households receive an income from their assets (assets are not income but wealth but they can generate an income). Therefore people with a lot of assets tend to have high incomes.

Consequences of an unequal distribution of income and wealth

Poverty
Some people may live In absolute poverty where they cannot afford to buy the necessities to survive or they may live in relative poverty and have a significantly lower standard of living than average.

Education
In countries with no state education, low incomes may mean families cannot afford education which tends to lead to lower wages and continued poverty.

Poor health
People on low incomes may not be able to afford healthy food or medicines and may have a lower life expectancy.

Poor housing
People on low incomes may not be able to afford to buy a house or may have to live in poor quality housing

Social Problems
Poor health, housing and education may lead to social unrest

Lower economic growth
Less educated, unhealthy workers tend to be less productive so there is less output in an economy.

Causes of an unequal distribution of income and wealth

- Wage differentials
- Inheritance
- Savings
- Assets
- Enterprise
- Reliance on benefits

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