

Poverty's relative

Even the poorest people in rich countries generally have much higher incomes than poor people in developing countries—but they still suffer severe deprivation. The reason? As a country gets richer, its inhabitants require more expensive goods and services to take part in normal life. Children may be unable to join in classroom conversations if their parents do not own a television; a construction worker may be unable to get work without a car. Such goods, once luxuries, become necessities as they proliferate throughout society. So, even in a rich country with no absolute income poverty, relative income poverty may lead to absolute poverty in important dimensions of human development—such as education, self-respect or the ability to get decent work.

OECD countries have increased their incomes over the past two decades, but most have seen ris-

ing income inequality—most consistently and dramatically in the United Kingdom and the United States. Between 1979 and 1997 U.S. real GDP per capita grew 38%, but the income of a family with median earnings grew only 9%. So most of the gain was captured by the very richest people, with the incomes of the richest 1% of families growing 140%, three times the average. The income of the top 1% of families was 10 times that of the median family in 1979—and 23 times in 1997.

Canada and Denmark have bucked the OECD trend, registering stable or slightly reduced inequality. This was achieved primarily through fiscal policy and social transfers—indicating that with political will, nothing is inevitable about inequality increasing with rising incomes.