Poverty and inequality: the desegregated linkage

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15th February 2007

Abstract

This paper explores the link between poverty and inequality through an analysis of the poverty impact of changes in income-component inequality and in between- and within-group inequality. This can serve to clarify the theoretical and empirical debate on the link between poverty, growth and inequality. It can also help design and implement policies that can improve both equity and welfare. The tools are illustrated using the recently released 2004 Nigerian national household survey. The lessons drawn from the theoretical findings are confirmed by the empirical evidence but new insights also emerge. First, the poverty impact of changing within-group inequality is higher than that of a change in between-group inequality. Second, the size of the elasticities is highly sensitive to the choice of the poverty line, particularly so when living standards are more highly concentrated around the poverty line. Third, restricting the analysis of group-changing inequality to those individuals that are effectively active in some sectors of economic activity changes the resulting poverty elasticities. All of this helps understand better the complex theoretical and empirical linkages between poverty and inequality.

Key words: Poverty, inequality, poverty elasticities, redistribution

JEL Classification: D63, D64.

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