3.1.5.7 An inequitable distribution of income and wealth

- Income refers to a flow of money, for example from a job, interest payments, rents or dividends.
- Wealth refers to a stock of assets, such as holding shares in a company or owning a house.
- In the absence of government intervention, the market mechanism is likely to result in a very unequal and inequitable distribution of income and wealth.
- An unequal distribution can lead to negative externalities, such as social unrest.
- In a market economy, an individual's ability to consume goods and services depends upon their income and wealth and an inequitable distribution of income and wealth is likely to lead to a misallocation of resources and hence market failure.
- Some consumers might not be able to buy goods and services at all.
- Those with the lowest incomes are the unemployed, the underemployed, the elderly and low skilled workers.
- Governments can use progressive taxes and government spending to reduce inequality.
- Progressive taxes take more income from the rich less from the poor. In the UK, income tax is progressive.
- With government spending on welfare payments, the inequality between the richest and poorest can be reduced.
- An example of a welfare payment is when the unemployed receive Job Seeker's Allowance, to help support them whilst looking for a job.