

Essay Title: To what extent is poverty reduction compatible with economic growth?

'Viewed from a distance, everything is beautiful' – Tacitus. At first glance, it may seem clear that if you carry out policies to reduce poverty, then economic growth will benefit through more economically active people entering the workforce. However, life is rarely that simple. There are countless extenuating circumstances which could interfere with government efforts to reduce poverty, from adjusting to a post-pandemic Britain, to absorbing the blow of the war in Ukraine. These factors, paired with the considerable opportunity cost which will arise from a large and broad policy such as meaningful poverty reduction, accentuate the gap between poverty reduction and economic growth. To determine whether the two are in fact compatible, we must look at the following:

First, the state of the economy. Recent years have proven to be turbulent - 'The UK had the largest decline in GDP among the G7 in 2020 (-11.0%) ... and its relatively strong performances in 2021 (+7.6%) and 2022 (+4.1%) were largely a recovery from weakness in 2020 and early 2021' (see footnote 1). This distinctly outlines that there is work to be done to fully recover from this on a national level, and more importantly there is money to be allocated towards policies for getting through this slump. A good first start for the government would be an investment in improving infrastructure like roads and railways. This would create jobs, improve productivity through more reliable and faster transport of goods, and could jumpstart the economy. This explicitly has an overlap with poverty reduction, as it would reduce unemployment and pull people out from an economically inactive state and poverty. This indicates a link of compatibility between economic growth and poverty reduction. However, there are other policies that the government may consider, such as investing in education and training programmes in order to allow the work force to develop more specialised skills. This could have significant ramifications in the productivity of the workforce and economic growth, but not necessarily poverty reduction. Reflecting on this, we can conclude that economic growth and poverty reduction are not commutative policies which will always coincide.

Secondly, current geopolitics ought to be considered. The war in Ukraine has dramatically disrupted energy supply, and thereby caused an unprecedented sharp rise in energy costs last winter. Most production-based business have been burdened, but also 'most people will pay about £1,570 more per year for gas and electricity [see footnote 2, from October 1st, 2022]' – which will certainly increase the number of people struggling to stay out of poverty. To mitigate the effect of this on the British population, the government introduced a subsidy, in the form of a price cap for energy, whereby consumers would only pay a certain amount for their energy needs and the government would compensate the suppliers of this energy for doing so at a lower cost. This sort of policy, despite helping people stay out of poverty and continue heating their homes in the cold winter months, didn't restore economic growth. Therefore, although poverty reduction and economic growth can often overlap, it is not always the case that they are 100% compatible with one another.

Finally, as mentioned above, the cost of poverty reduction has to be weighed up against other, possibly more pressing, costs for the government. Whilst poverty reduction can be a top priority in certain cases (such as the case of soaring energy prices in winter 2022), this is not always the case. Other macroeconomic objectives such as low inflation could be a more front-line issue for the government to tackle to restore stable economic growth, hence giving poverty reduction and low income inequality a more peripheral role. Deciding which is more important will inevitably come down to the context of the situation, and occasionally a conflict between poverty reduction and economic growth will arise, leading to a sacrifice of one of them.

In conclusion, it is visible that economic growth often leads to poverty reduction, but it is not always the case the other way around. Subsidising failing businesses and industries; paying high levels of welfare benefits, which will make people comfortable enough not to be motivated to re-join the workforce (inertia); and over-taxing a country's highest earners, which can lead to them deciding to move overseas and take their income elsewhere, can all adversely affect economic growth. Therefore, to achieve the highest compatibility between economic growth and poverty reduction, government policies regarding the two should be primarily focused on maintaining economic growth, and, if possible, tie in poverty reduction as a secondary benefit.

References:

1 [https://commonslibrary.parliament.uk/research-briefings/sn02784/#:~:text=\(GDP%20growth%20over%20the%20course,in%202020%20and%20early%202021](https://commonslibrary.parliament.uk/research-briefings/sn02784/#:~:text=(GDP%20growth%20over%20the%20course,in%202020%20and%20early%202021)

2 <https://www.london.gov.uk/city-hall-blog/rising-energy-prices-latest-advice#:~:text=Ofgem%20have%20announced%20that%20from,energy%20costs%20for%20energy%20suppliers>