

© Springer Nature Switzerland AG 2020

Walter Leal Filho

,

Anabela Marisa Azul

,

Luciana Brandli

,

Amanda Lange Salvia

,

Pinar Gökcin Özuyar

and

Tony Wall

No Poverty

Encyclopedia of the UN Sustainable Development Goals

10.1007/978-3-319-69625-6_110-1

Poverty Premiums: Cost of Being Poor

Dave Beck¹

(1)School of Health and Society, The University of Salford, Salford, Greater Manchester, UK

Dave Beck

Email: d.j.beck@salford.ac.uk

Without Abstract

Definition

“Life is more expensive than we can tolerate” Linda Tirado ([2014](#))

Poverty within a developed country is typically considered within “relative” terms. This means that people experience poverty relative to those within their society. This acknowledges that a certain standard of living is expected within developed countries, yet, simultaneously admitting that poverty persists. Moreover, within developed countries such as the UK, Australia, and New Zealand, or across North America, etc., not all experiences of poverty are shared. What is more common is the fact that being poor in a rich country is hard work; collectively and politically, society places certain expectations upon households, indicative of expected living standards. Unfortunately, however, this burden of expectation is insidious within discourses of poverty, as they normally are met through paying a premium rate for the same services than would be paid by wealthier households.

Operating as a financial penalty, the poverty premium ultimately produces a form of chronic poverty, pushing poorer households further toward deprivation as they struggle to meet these expectations. More specifically, low-income households suffer extended poverty due to a systemic lack of trust and, therefore, become exploited by providers of expected services. A poverty premium recognizes, therefore, the burden of having additional costs applied to accessing services simply

because you already live in poverty. Although on the surface this may seem perverse, to be in poverty in a wealthy country can be expensive.

Introduction

In 1963, American sociologist David Caplovitz conceived the term the “Poverty Premium” (Davies et al. [2014](#)), as a way to describe the financial premium that is paid by people, simply because they are poor or experiencing financial difficulty. Covering essential household items such as food, household fuel, and access to essential services such as telecommunications, insurance, and credit, the poverty premium identifies the social exclusionary factors associated with being poor in a wealthy country, subjectifying relative poverty. Not only this, the poverty premium also illustrates and exemplifies the divide between those who *have* and those who *have-less*, within more economically developed countries. This position builds substantially on the recognized position of a relative poverty discourse. The poverty premium, therefore, makes obvious the difficulties of “getting-by” on low-income in high-income countries, a position much overlooked by higher-income nations when reflecting on their domestic Sustainable Development responsibilities.

Although not simply confined to more developed countries, the poverty premium is, however, most apparent when observed through a lens of “relative poverty.” Focusing on the poverty premium across various developed countries, this entry reflects upon early evidence of relative poverty, serving as a reminder of the seminal work offered by Peter Townsend ([1979](#)). However, divergent from Townsend’s work and observable index, there is no defined list of what constitutes as being a victim of the poverty premium. Therefore, this entry aims to elucidate contemporary arguments, showing how the poverty premium infiltrates the lives of many. It also offers several policy reflections on how poverty premiums can be reduced.

Although the poverty premium has been understood in academia for a while, it is still a relatively new area of sociological research. It is not a uniform phenomenon (Hirsch [2013](#)) and can seem like a slippery subject to grasp, especially for those outside of it. However, what this entry makes clear is that the poverty premium is typified as a significantly elevated cost, consequent of individual vulnerabilities within the market. This entry also shows how the poverty premium manifests differently dependent upon significant factors, such as the individual or their location. As low-income households struggle to meet rising costs of essentials such as food, fuel, and finance, this entry details how some households become a victim of circumstance. Not being able to meet these expected living standards increases the risk of social exclusion and the wider implications which may follow.

It is important to clarify that not all households who are poor will suffer at the hands of a poverty premium, as many households will have strategies in place to cope with low income. For most, however, the experience of the poverty premium is ultimately recognizable. This entry, therefore, provides significant examples of how the poverty premium becomes established and therefore serves as a framework for identifying those most at risk.

The Path to Relative Poverty

Lister ([2004](#)) has described “poverty” as having to walk a fine tightrope, as people in adverse circumstances negotiate complex situations. However, the word “poverty” means different things to different people – it has no simple uniformity. Definitions of poverty range from person to person and from country to country. To provide this situation with clarity, it is first important to identify what is meant by *poverty* and to underline the distinction between the two major schools of poverty discourse: that of *absolute* poverty, and that of *relative* poverty:

Absolute poverty is a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services. (United Nations [1995](#): Annex II, Chapter II, Para 19)

As is clear from the United Nations description above, and reflective of Abraham Maslow’s Hierarchy of Needs ([1943](#)), recognition of absolute poverty develops from the necessity to meet fundamental basic human needs, some of which are significant to sustaining life. Commensurate with this definition, the above description normally encourages us to focus on absolute poverty as being observable within a developing country context. However, it is also important to recognize the official position of absolute poverty within most developed countries. In the UK, for example, absolute poverty is defined as households with an income below 60% of the median average when measured against the baseline year of 2010/2011. This means that in 2020, absolute poverty in the UK currently stands at almost 13 million people, or 20% of the UK population (Francis-Devine et al. [2019](#)).

Relative poverty, on the other hand, is less easily observable than its absolute counterpart. It is, therefore, less definable too, as it reflects both objective and subjective associations of poverty. The denial and exclusion from being able to participate within one’s society draws on the notion of poverty as enduring an insufficient command of resources (Townsend [1979](#)). Sen ([1983](#)), therefore, contends that it is not correct to claim that the poverty felt by those in a developed nation should be considered in an absolutist term. But, due to basic benefits, any argument over relative poverty should be a discussion of “inequality of distribution” instead.

To understand what is *relative* about relative poverty, it is first important to appreciate that this form of poverty mainly follows the development of some form of social security welfare safety net for citizens. Acting as a form of protection against absolute poverty, a welfare state offers some form of economic redistribution of wealth from rich to poor, providing some protection from the most absolute forms of poverty (Beck [2018](#)). Again, using the example of the UK, the number of UK citizens currently experiencing poverty rises to 14.5 million people, or 22% of the population, when seen through the lens of relative poverty (Francis-Devine et al. [2019](#)). Relative poverty, consequently, is measured by calculating the number of households with an income below 60% of the median average in that year after housing costs have been taken into consideration (ibid 2020). The concept of relative poverty is attributable to the seminal work of Peter Townsend in the 1960s and 1970s who argued that:

‘relative deprivation’ - by which I mean the absence or inadequacy of those diets, amenities, standards, services and activities which are common or customary in society. (Townsend [1979](#))

Distinguishing poverty from inequality is the experience of deprivation, both materially and socially (Lister [2004](#)). Clear from the above framework, Townsend’s ([1979](#)) position shows that a proper interpretation of poverty should not be limited to arguments of subsistence, especially when that focus is upon the poverty of developed countries. This addresses issues with deprivation and the acceptance of a form of *exclusion*, and it also acknowledges the motivating force of social inequality. Therefore, taking a Townsendian understanding of relative poverty, we can see how the

poverty assessments of developed countries with a strong social security welfare system are based upon relative deprivation, understood to be the lack-of, or an inadequacy-of socially essential amenities, standards, services, and activities, common or customary in society ([1979](#)).

Within arguments of relative poverty, it is clear to see that some people will be able to meet the expectations of society, while some will not. However, for those who cannot, they still have the burden of societal expectation. Reflecting on a similar theoretical position, Shildrick et al. ([2012](#)) advocate an antagonism of the capitalist system, confirming that it successfully works to leave some people behind. This is true within the poverty premium as acknowledged by Hirsch ([2013](#)), emphasizing that people who are in poverty inescapably are forced to pay more for comparable household services, compared to their more affluent counterparts. Herein lies the genesis of the poverty premium, as relatively poor people aim to meet the expectations of their society, yet with an income that may preclude them from doing so effectively.

Elements of the Poverty Premium

French ([2017](#)) argues that even with the wealth within developed countries, there are pockets of hardship that are hidden from view. In developed countries, it is assumed that citizenship offers people a certain level of economic and social security, away from the most absolute forms of poverty. For example, Esping-Andersen's ([1990](#)) discussion of the "Three Worlds of Welfare Capitalism" recognizes that equality is, theoretically, the *raison d'être* of welfare state development.

However, poverty persists despite the inclusion of a social security safety-net, and many families on low-incomes find that their money simply does not stretch far enough to meet socially accepted basic needs. There is an inherent pressure placed on people in developed capitalist countries to be able to meet the expectations of society. For example, essential goods and services, such as food, electricity, and gas, *must* be purchased by people for them to live as deemed normal, generating social consequences when this is not achieved.

Capitalist economies are driven by borrowing, credit, and debt, which create fertile breeding ground for less financially stable families to fall foul of the poverty premium, especially those already suffering due to relative poverty. Living on the verges of market accessibility, the poor inevitably face the economic violence of market forces, as they are required to live within a market-based system, yet deprived of the income, and the purchasing power to maintain a credible position (Seabrook [2013](#)).

In order to illustrate the power of the poverty premium, and its wider impact on relative poverty, over 10 years ago, Westlake ([2010](#)), writing for Save the Children and using the UK as an example, calculated that simply being poor costs an additional £1,300 per year to live acceptably. Furthermore, Westlake ([2010](#)) considers that low-income families must pay this premium simply to meet the most basic of requirements of the society in which they live. Other more recent sources have estimated the poverty premium at different levels, taking into consideration that not all people will bear the same additional costs. In "Paying to be Poor," again focused on the UK, Davies et al. ([2014](#)) calculate the average poverty premium to be around £490 per household per year. The organization Fair by Design identifies that for 1 in 10 UK households, this can rise to at least £780 per year (Fair by Design [2019](#)). This underscores the broadest awareness of a poverty premium, in that the poor pay more for expected goods and services. It also highlights a catalogue of other

significant areas pertinent to discussions of relative poverty, as the poverty premium intersects within the capitalist economy.

Observed as an exclusion of normal participation available to the rest of society, the poverty premium creates a vacuum, making the potential transition away from poverty unattainable. For victims of the poverty premium, the very presence of low income during difficult times inevitably contributes to an increased financial demand, shocking already potentially precarious financial foundations. At its center, the poverty premium focusses on the cost of living, which is increasingly difficult to meet simply because of external structural factors. For example, geography, household fuel, or housing tenure is commonly associated with increasing the poverty premium and is structural in application.

To explore a geographical notion further, for example, both rural and urban households maybe simultaneously predisposed to the poverty premium, simply because of location (Beck [2018](#)). In rural households, bucolic and pastoral views maybe accompanied by significant additional costs, solid fuel and storage heaters, underfunded bus services and additional transportation costs, limited access to essential services, and issues associated with an aging housing stock. For people living in rural areas, the poverty premium can be significant, if not *the* main driver for an increase in the cost of living (McBride and Purcell [2014](#)).

Transport within rural areas has been positioned as a significant driver for the poverty premium. For example, Tipping et al. ([2019](#)) argue that having access to a car becomes a gateway to preventing further poverty premiums, such as the additional cost of public transport, reliable access to employment, and socializing. Having access to a car also allows for a greater control over market engagement by allowing people in rural areas to take advantage of better access to grocery shopping.

The poverty premium obviously restricts and restrains peoples' abilities to live a normal life. Again, for rural communities, regular purchasing power for essential items can be further hampered, even when no transport is involved. Mains connected gas central heating is considered to be the most cost-effective form of household heating (Ingrams [2017](#)). For people living in many rural communities, however, connection to mains gas may be nonexistent. This means that in most households within these communities, their energy is supplied either through more expensive electricity, through solid fuel such as coal, or through oil central heating systems. This places a significant financial disadvantage to people in "off-grid" rural communities, having to pay more to keep their homes warm, contributing to a rise in the fuel poverty premium.

The fuel poverty premium also identifies households who are not on the cheapest tariff and/or households with prepayment top-up meters. Objectively, Hills ([2012](#)) further identifies levels of fuel poverty vulnerability as households with a "low income-high cost" (LIHC), showing how some households will inevitably fall victim to a fuel poverty premium, given suspected imbalance between income and cost, particularly higher than average fuel costs combined with lower than average incomes. Dealing with the cost of the poverty premium and the subsequent squeeze on incomes and outgoings, Tait ([2015](#)) similarly highlights that low-income households are likely to be paying more for their energy usage through prepayment meters, increasing the total cost of maintaining household expenditure.

The rise in fuel poverty within both rural and urban communities is significant and clearly structural in nature. Subjectively, it is also important to address wider structural decisions that inevitably plunge struggling households deeper into poverty and thus create victims of an ingrained poverty premium. There is an unreasonable psychological motivation attached to the poverty premium that serves to compound any possible transition out of relative poverty. This is manifest in levels of

financial distrust imposed on people, simply because they are poor. For example, the issue of distrust is at the heart of prepaid electricity and gas payment services, common among low-income communities.

Prepaid utility meters have a significant additional cost-bearing over more common payment options such as monthly Direct Debit or payment by Standing Orders. Fair by Design ([2019](#)) has estimated that households subject to prepaid meters for mains utility supply typically pay around 33% more than their better-off Direct Debit paying counterparts on like-for-like usage. The prepaid approach sees that those on low incomes are effectively trusted less by utility service providers as they are asked to pay for their utility upfront.

The Cost of the Poverty Premium

This level of distrust runs throughout the poverty premium and has been known to cause psychological impacts that further damage people's ability to negotiate decisions. Standing ([2014](#)) has written of the "Precariat," with their intermittent working patterns, indeterminable occupational identity, and vague citizenship rights, also fitting within a mold of the poverty premium. Living a precarious existence is psychologically draining; balancing an ambiguous income with unambiguous outgoings means that poverty has a detrimental cognitive effect. Shafir ([2017](#)) notes that cognition is hampered because of this unrelenting juggling of low income and high outgoings, calling poverty to be understood as a tax on cognitive abilities and resultant decisions.

In a similar vein, Linda Tirado ([2014](#)) validates the impact of the poverty premium as a cognitive tax in her book about her own personal strife of living "Hand to Mouth." Confronting society's distrust of low-income people across the USA Tirado ([2014](#)) challenges several presumptions of those in relative poverty, disputing the notion that *poor people make poor choices* when confronted with low income and fixed outgoings. Tirado ([2014](#)) fights the misconceptions and disinformation of relative poverty bluntly, addressing simply that poverty leaves people without the privilege of *choice*. In reality, people with low income are only able to make do with what they have, essentially eliminating choice; it is a residual decision based upon the scarcity of *real* choice, which Tirado ([2014](#)) associates with being poor in the USA in the first place. What we can see is that decisions and choices are simply a means by which people blighted by a poverty premium are able to navigate the difficulty of surviving on a low income.

Moreover, several academic arguments have shown that identities of *the poor* may also depict an internalized social stigma around poverty, and that people vulnerable to the poverty premium act diligently to shift this label (Shildrick et al. [2012](#); Shildrick and MacDonald [2013](#)). For example, in erasing the label of poverty in a wealthy country, people detach any personal association with poverty from themselves. Reflecting poverty onto others, *othering*, allows an individual to detach themselves from the stigma of poverty. This approach also forms part of a social distancing narrative, allowing people to *hide* any association with poverty within a relative context. However, it also significantly increases the likelihood and subsequent impact of the poverty premium. For example, in identifying the *other*," Shildrick and MacDonald ([2013](#)) revealed in their paper "Poverty Talk" that people living in poverty actively reject their hardship. Used as a form of self-preservation, the deflection of poverty may also subsequently reflect the progression of "poverty hiding" as a way of circumventing suggestions of social exclusion.

The social exclusionary aspect of being poor in a wealthy country pervades hidden assumptions of capitalism to an extent. Accepting the position of relative poverty – that norms exist in developed countries identifying certain expectations, and that these expectations, if not met, become a measure of poverty. Countries with significantly developed approaches to capitalism, such as the UK, the USA, and Canada, allow low-income people to still be able to meet these expectations, albeit at a substantively increased cost. Indicative of the idiom *keeping up with the Joneses*, rent-to-own outlets (for example, BrightHouse in the UK, and Aaron's in the USA) are a way for the capitalist system to allow low-income people to have exactly the same as their middle-income counterparts, albeit through a principal of extortion.

Rent-to-own (RTO) shops are known to provide opportunities for low-income people to have access to large-consumer items, relative to those owned by their wealthier counterparts. Owning large-consumer items such as a television, washing machine, beds, sofa, and fridge-freezer, etc., are acknowledged as being both household expectations and necessities within developed economies. RTOs are able to provide low-income people with this access because they have lower credit acceptance thresholds, providing easy access to credit (Lusher [2017](#)). This is then followed by weekly repayment schedules specifically aimed at the illusion of repayment manageability, also mirroring the weekly structure of social security payment schedules. Investigating the financial implications of buying household necessities through RTO providers, Lusher ([2017](#)) shows that RTO shops specifically target low-income consumers, as they know they have little choice. They also have annual percentage rates (APRs) typically in the region of 94.7% (Lusher [2017](#)). Exemplifying a poverty premium, in some cases, the cost of buying from RTO shops, versus buying from other high street retailers, was three times as much. Fovargue (cited in Lusher [2017](#)) furthers that rent-to-own shops are purposely situated in low-income areas. Providing access to household necessities, they are then able to extract large amounts of money out of those who can least afford it, deepening their poverty premium (Fovargue cited in Lusher [2017](#)).

I Have Never Worked So Hard to Be So Poor

As has been shown so far, the poverty premium is distinctive. It exists as a way to punish those living on the margins within wealthier nations. Rent-to-own shops enable the poor to hide the association of poverty, and as such, to refuse the label of *poor*, through access to the same services, albeit at an unsustainable increased cost. The exploitation of the poor is also evident in rent-to-own providers and suggests that for people living in poverty, maintaining a façade of wealth (*keeping up with the Joneses*) can be costly, as the poor inevitably pay more. Yet to not do so risks advancing another significant factor associated with relative poverty – that of social exclusion. To be deprived, or to be excluded from participating within your own society, draws on the implicit notion that poverty displays to others an insufficient command of resources – resources considered customarily necessary within your own society (Townsend [1979](#)). What Townsend is maintaining is that social exclusion can be a consequence of fear, a fear allied with uncertainties and social anxieties of being deemed as “less than” within your own society.

This type of consuming for low-income households is nothing new across developed countries. For example, Bos et al. ([2012](#)) show that pawnshops across Europe have a long history. However, there has been an increase of stores specifically aimed at providing low-income communities with access to consumer electronics built upon the pawnshop model. Cash Converters, CEX, and Cash Generator, all of whom hold prominent positions along many developed economies high streets are

major actors in the Buy-Sell and Buy-Back model (BSaBB). As with RTO shops, pawnbroking, and the BSaBB, stores provide low-income customers access to preowned consumer goods (Bos et al. [2012](#)). Again, an additional premium, to be paid simply for being poor, manifests in an exploitation of the poor by the capitalist economy.

As poverty, relative poverty, and the poverty premium so far have shown, there is no margin for error if you are poor. With an estimated 8.3 million people with problem debts in the UK (Webb [2017](#)), the poorest, the JAMs, “Just About Managing,” and those employed within the “gig economy” bear the brunt of financial insecurity and the poverty premium. In the USA, Tirado ([2014](#)) addresses this issue head-on, describing the inadvertent consequences of surviving in poverty and the impossibility of preventing life from spiraling out of financial control. For those, many of whom are Just About Managing (JAM), they embody a characteristic of having little to no savings, having debts, and living hand-to-mouth (Brambley et al. [2019](#)). They also fit the mold of those likely to be victim of a poverty premium, due to inconsistencies of working patterns, job insecurity, and zero-hour contracts, understood to be synonymous with the “gig economy” worker. Having a zero-hour contract essentially means that an individual may have a job; however, they are not guaranteed any weekly hours or monthly income (Koumenta and Williams [2015](#)), employment policies used across many developed economies. Allied to this, with its focus on small tasks/jobs and a new parceled nature of employment practices (Tassinari and Maccarrone [2020](#)), zero-hour workers typically also exist within the gig economy, whereby workers are typically underemployed, pseudoself-employed, and on low variable pay. They also must jostle with other workers for hours/shifts, and they are expected to be at the beck and call of their employment masters. With little or no employment rights, they are effectively a projection of Standing’s Precariat ([2014](#)).

Accessing Credit: Developed and Developing Approaches

Within the neoliberal capitalist economy, workers who cannot show a guaranteed set income or hours also find it difficult to secure loans or credit and may find it difficult to maintain a credible position. The poverty premium infiltrates the financial management of low-income households. For example, a missed direct debit payment due to insufficient funds normally incurs a charge from the bank, effectively an additional cost for being poor (Tirado [2014](#)). It costs poor people more to lend money; the annual percentage rate (APR) on loans is higher for people with poor credit history (Stepchange [2018](#)). Banks are also not typically located in low-income areas; they are nonexistent in rural areas, and some smaller town center branches have closed, increasing the cost of access (Tirado [2014](#)). This has been known to lead to precarious lending options within poorer communities such as pay-day-lenders or loan sharks which have both seen an increase since the Great Recession (Inman and Treanor [2017](#)).

Loan companies such as pay-day-lenders are known to be providers of “high-cost and short-term” credit. Characterized by high rates of interest, online applications, rapid-automated approval systems, and almost immediate payment transfer, they represent a model primarily focused on lending unsecured personal loans to people from low-income households. As their title suggests, they offer low loan amounts to people with the intention of securing the repayment by the next payday, a payday advance (Langley et al. [2019](#)).

However, payday lenders are also known to “trap” some debtors in a spiral of borrowing, as on payday, paying back the loan maybe achievable but leaves the debtor with another hole in this month’s finances. Refinancing and “rolling-over” loans, therefore, are significant (Langley et al.

[2019](#)), with the core business focused on those who are full-time employed, yet with below average earnings, or those with precarious zero-hour contracts (Stepchange [2018](#)). Known as “survival borrowing,” the cost of living is burdensome for households, as battling with an insecure low income forces some into precarious borrowing practices and a significant poverty premium.

However, this is not simply a situation confined to the UK or the USA; for example, the same situation is seen across the developed world. In Spain, de Barron ([2016](#)) found that almost a third of Spanish families ran out of money before receiving their next paycheck, and to meet the rising costs of living, were similarly turning to payday lenders. In Australia, McNess ([2013](#)) similarly argues that the payday lending landscape is worth over 800 m Australian Dollars. In Russia, payday lending and the poverty premium go hand in hand. Wolf and Vodopinanova ([2013](#)) maintain that, in Russia, payday lenders target potential customers who have low incomes, are financially illiterate, have little to no college education, and are ineligible for bank loans.

In Uganda, however, Kimera ([2013](#)) acknowledges that the power imbalance of irresponsible lending is not simply restricted to developed economies. Irresponsible lending practices are also accompanied by aggressive approaches to lending, both via regulated and unregulated financial services. Unfortunately, as within practices evidenced in Russia, Kimera ([2013](#)) associates this with the financial illiteracy across Uganda and malpractice which encourages households to become excited about credit in order to meet consumption needs. Further to this, Kimera ([2013](#)) similarly argues that Uganda is plagued with fraudulent pyramid schemes, recognizing that a poverty premium flourishes within those who are financially illiterate.

Worse still are households who resort to securing money through illegal lenders such as loan sharks. As the title suggests, loan sharks circle and prey on the vulnerable, those at risk of “going under.” Struggling to keep their head above the financial water, vulnerable people become victims of predatory financial entrapment usually via association. Smith (cited in Kollwe [2017](#)) highlights that vulnerable people do not go looking for loan sharks; it is the shark who comes looking for them, as a predator goes looking for vulnerable and easy-picking prey. Acknowledging a rise in loan sharking, Smith (cited in Kollwe [2017](#)) details the entrapment techniques employed by sharks; both predator and prey have a space in common; perhaps, this is the struggling single mother at the school gate, or friends in common via the local housing estate. Making friendly advances at first, the survival borrower is lured into accepting financial help from the *friendly* shark. The loan shark preys upon anxieties that extrapolate worries of financial social exclusion (or the perceived social exclusion of their children). Offering to loan them money without the need to seek credit through official channels, or the hassle of credit checks and paperwork, the friendly shark eventually turns nasty.

Loans from loan sharks may also become rolled over or consolidated through a debt to another shark, meaning that repayments become interminable. What Ellison et al. ([2006](#)) discovered in their research is that this form of borrowing, in addition to the financial poverty premium of interminable repayments, increases a poverty premium of other tacit areas. As this form of illegal lending is based upon a relationship of fear and intimidation, it leaves people vulnerable to violence, blackmail, and sexual exploitation (Ellison et al. [2006](#)).

However, research from developing countries shows that there is another way. Kay and Lewenstein ([2013](#)) found that significant market driven innovations had erased the poverty premium in the Dharavi Slum, India. Arguing that poorer consumers once were forced to pay high interest rates due to a shortage of lenders, this has now been almost fully replaced with the power of Microfinance Institutions. Emanating from its foundation within the Grameen Bank, microfinance aims to provide the “unbanked” with access to finance, aiding their social inclusion (Dale et al. [2012](#)). This form of competitive lending and interest rates has seen branch openings across Dharavi, working to lift

people out of the exploitive nature of the poverty premium. Meanwhile, the European Commission in 2004 adopted a similar approach to make available microfinance, defining this as loans of up to €25,000 available to those who cannot access mainstream credit ([2016](#)). Much lower figures are also available to EU citizens, a point that Pedrini et al. ([2016](#)) regard as being able to reduce poverty and promote social inclusion. Across the USA, as with many parts of the EU and other developed nations, the authors find that there is a significant proportion of low-income households lacking access to financial services who are at heightened risk of poverty, citing that approx. 35 million people (7%) across EU nations have limited access to manageable finance. In the USA, this is 14% of the population, or 45 million people (Pedrini et al. [2016](#)).

The power of microfinance, aimed at fledgling enterprise can be packaged to individual households. Pedrini et al. ([2016](#)) show that, across several developed countries (France, Spain, UK, and Italy), policies to allow social microcredit to be targeted at the household level have been implemented, providing loans of up to €10,000. In Australia, microfinance schemes, such as the Good Shepard Sisters, can offer women fleeing domestic violence no interest loans, allowing them to live independently. While in New Zealand, the Nga Tangata Microfinance scheme aims to provide credit and asset-building finance to unbanked households (Dale et al. [2012](#)).

The Social Cost of the Poverty Premium

So far, the poverty premium is most easily defined within reference to developed economies, most particularly the UK and the USA where, it seems, a more neoliberal form of capitalism is involved. Evidence of the poverty premium or variants from other developed and developing nations is limited; however, in France, Dalsace et al. ([2012](#)) discuss a “la double peine” translated as a “double penalty,” as an equivalence. This limitation highlights a truncated focus of the intricate lives of those who experience additional poverty premiums and emphasizes the simple aggregated arguments of “poverty.” However, analysis from other nations also finds a similar examination of poverty, the premiums associated with poverty, and the construction of inequality (for example, Wilkinson and Pickett’s [2010](#) “The Spirit Level”).

Pemberton et al. ([2014](#)) describe survival borrowing simply as “poverty coping strategies,” an analogy for “financial decision making,” spreading a low-income household budget as far as possible. For others, the experience of the poverty premium is that it may be paid as a social premium, in that they simply go without (Davies et al. [2014](#)). Poverty and precarity, which exist together with the poverty premium, unfortunately, may no longer be experienced at the extremity, as rising numbers of people in poverty highlight the significance of social policy failures. For example, as highlighted above, the rise of a poverty premium is implicit in survival borrowing to cover immediate need. However, together with rising rates of borrowing is also an increase in the number of low-income households slipping into both relative and absolute forms of poverty, a significant challenge for governments to meet their Sustainable Development obligations.

Further to this, precarity also points to the less obvious social impacts of the poverty premium, albeit from places ostensibly set up to provide aid. The rise of food poverty across developed economies and the corresponding upsurge of charitable food banks provide global acknowledgment of the failure of welfare reform, especially in the USA, Canada, Australia, and the UK (Beck [2018](#); Beck [2020](#)). Food banks in developed economies exist to provide people with access to food in times of acute need, managing to fill the gap left behind by low incomes and the rising cost of living.

However, for all the good they do, there is an interminable manifestation of shame and embarrassment inherent in what is seen to be “begging for food” (Beck and Gwilym [2020](#)). The embarrassment suffered by people having to beg for food while living within a wealthy nation is manifest and has been detailed by many scholars (for example, Purdam et al. [2015](#)). However, as Beck ([2020](#)) highlights, embarrassment within the food bank is the obvious consequence of a neoliberal erosion of the social security safety net, whereby state provision has been rolled back, thus highlighting peoples’ thoughts of *failure* in their ability to be able to provide for themselves.

This has brought far more people into contact with poverty in developed nations as both absolute levels and relative levels of poverty continue to rise. What it also shows is that the poverty premium is not simply experienced in terms of additional financial costs as there is a hidden emotional cost attached to being poor. In terms of food poverty, for example, the embarrassment experienced through accessing charitable food becomes a tax on well-being, or an emotional poverty premium paid to access essential food.

Poverty Premiums and Sustainable Development Goal 1

Developed countries can learn something from developing countries in terms of tackling the poverty premiums that overly affect the poorest. For example, in comparing the Dharavi Slum of Mumbai with the more affluent Warden Road area, Kay and Lewenstein ([2013](#)) found that the poverty premium simply did not exist in Dharavi. Targeted policies such as microfinance, community banking, and subsidies on essentials were used to keep prices low through a mix of policy mechanisms such as India’s Public Distribution System. This policy provides subsidized goods such as food and kerosene via “Fair Priced Shops,” showing the political will of developing countries to help their most vulnerable citizens.

Although developed countries tend to have something similar in terms of independent regulators, government intervention within this area seems to be lacking. Hirsch ([2013](#)) recommends that for low-income consumers, regulators need to be more aware of the impact that a poverty premium has on finances. Further, Mendoza ([2011](#)) recommends the construction of a *Poverty Penalty Index*, as a way to accurately track trends in the poverty premium, data that can be used to challenge financial exploitation.

As poverty premiums are typically associated with developed economies, the focus of ensuring equitable access to services is key to domestic elimination. In general, it is important that all forms of poverty and inequality are eliminated, especially the intricate forms that may only be noticeable via in-depth focus. In already developed countries, however, eradicating poverty requires political will and endeavor to challenge hegemonic markets, a significant approach to meeting domestic Sustainable Development Goals. For example, the Australian government has recently launched the Financial Inclusion Action Plan – establishing a platform of diverse organizations making finance available to the 3.3 million financially excluded Australians (sdgs.org.au. [n.d.](#)). This, combined with improved effectiveness in the National Minimum Wage, is a push to provide income parity. Likewise, the UK Government has committed themselves to promoting fairness in the labor market and committed to building an economy that works to support all households.

Improvements in income maybe welcome, yet, they do not provide guarantees of income parity and an overall reduction in poverty premiums. For example, simply providing low-income families with a paltry improvement in their earned income may go some way to improving *some* households’

incomes. What this does not provide, however, is a parity for those who are out of work, perhaps due to disability, or perhaps associated with the additional costs of rural communities accessing suitable employment opportunities.

Conclusion

This entry has shown how the poverty premium is experienced, from where it has arisen, and who has the potential to suffer at its hands. Detailing the implicit and explicit nature of being poor in a wealthy country, poverty has been long understood as being relative. As Lister ([2004](#)) has shown, poverty is appropriately understood as a function of social, economic, and political structures and processes that produce and prolong the unequal distribution of resources. These resources are unequally distributed both within and across societies, domestically and globally, and thus highlight the structural dimension of poverty, reflective of the individual, group, or society. Townsend's research ([1979](#)) accentuated how poverty, specifically deprivation, also shapes more affluent nations. Moreover, agreement about what should be viewed as "poverty" should not simply focus on international development, but also the experience of deprivation in wealthier countries, as this advances social exclusion and isolation which endure within all countries.

However, the cost of trying to live this expected life on a low income comes at an additional cost. As this entry has shown, this additional cost is borne out of necessity for low-income households, as they are preyed upon by both legitimate and illegitimate sources. Low-income households obviously find surviving in a wealthy nation comes at a premium, and as this entry has also shown, the premium is not always financial. At its heart is exploitation, either legal or otherwise that leads to low-income households experiencing an additional burden, as this form of exploitation leads to other more significant and immoral premiums – emotional and sexual. Yet an answer may lie in the approaches taken by developing nations as the power of microfinance shows how reducing precarity and poverty premiums is achievable, with political will.

Cross-References

- . [Cash Transfer Programs](#)
- . [Global South-Global North Differences](#)
- . [Household Income](#)
- . [Microfinance as a Panacea for Poverty Reduction](#)
- . [Paradigms of Poverty: Concepts and Causes](#)
- . [Perceptions of Welfare](#)
- . [Poverty Lines and Their Role in Reducing Poverty](#)
- . [Social Exclusion and Social Inclusion](#)
- . [Social Security](#)
- . [Washington Consensus, Inclusive Growth, and Poverty Reduction](#)

References

- Beck D (2018) The changing face of food poverty with special reference to wales. PhD thesis. Bangor University. https://research.bangor.ac.uk/portal/files/22198649/2018_Beck_D_PhD.pdf. Accessed 01 May 2020
- Beck DJ (2020) Neoliberal welfare reforms and emergency food aid in the UK. In: Encyclopaedia of the UN sustainable development goals. Zero Hunger. https://doi.org/10.1007/978-3-319-69626-3_87-1. Accessed 01 May 2020
- Beck D, Gwilym H (2020) The moral maze of foodbank use. *J Poverty Soc Justice*. <https://doi.org/10.1332/175982720X15905998909942>
- Bos M, Carter S, Skiba P.M (2012) The pawn industry and its customers: the United States and Europe. *Vanderbilt Law and Economics Research Paper No. 12–26*. <https://doi.org/10.2139/ssrn.2149575> Accessed 24 April 2020
- Brambley W, Akter S, Appleyard L, Aslam H, Degli Esposti S, Dibb S, Monne J, Morris J, Nguyen T, Oliver M, Roby H (2019) Managing my money for the just about managing. https://pure.coventry.ac.uk/ws/portalfiles/portal/24938952/Open_University_Final_Evaluation_Report_Branded_1_.pdf. Accessed 8 May 2020
- Dale C, Feng F, Vaithianathan R (2012) Microfinance in developed economies: a case study of the NILS programme in Australia and New Zealand. *New Zealand Economic Papers*. <https://doi.org/10.1080/00779954.2012.687543>
- Dalsace F, Vincent CE, Berger J, Dalens F (2012) the poverty penalty in France: how the market makes low-income populations poorer. *Field Actions Science Reports*. *J Field Actions (Special Issue 4)*. <https://journals.openedition.org/factsreports/1537>. Accessed 14 July 2020
- Davies S, Finney A, Hartfree Y (2014) The poverty premium when low-income households pay more for essential goods and services. The University of Bristol Personal Finance Research Centre. <https://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1614-poverty-premium-key-findings.pdf>. Accessed 15 May 2020
- de Barron N (2016) The payday lenders making a killing in Spain. https://english.elpais.com/elpais/2016/01/13/inenglish/1452690153_179436.html. Accessed 13 July 2020

Ellison A, Collard S, Forster R (2006) Illegal Lending in the UK. DTI. <https://www.bristol.ac.uk/media-library/sites/geography/migrated/documents/pfrc0707.pdf>. Accessed 15 May 2020

Esping-Andersen G (1990) The three worlds of welfare capitalism. Polity Press, Oxford

Fair by Design (2019) What's the Poverty Premium?. <https://fairbydesign.com/whats-the-poverty-premium/>. Accessed 5 May 2020

Francis-Devine B, Booth L, McGuinness F (2019) House of commons library briefing paper: number 7096, 5 September 2019: Poverty in the UK: statistics. <https://dera.ioe.ac.uk/34239/1/SN07096%20%281%29.pdf>. Accessed 28 May 2020

French F (2017) The hidden pockets of poverty from Cornwall to Northumberland. The Guardian online. 5 October 2017. <https://www.theguardian.com/voluntary-sector-network/2017/oct/05/poverty-austerity-england-charity-support>. Accessed 18 May 2020

Hills J (2012) Getting the measure of fuel poverty Final Report of the Fuel Poverty Review. <https://sticerd.lse.ac.uk/dps/case/cr/CASereport72.pdf>. Accessed 24 April 2020

Hirsch D (2013) Addressing the poverty premium: approaches to regulation. Loughborough University. Report. <https://hdl.handle.net/2134/16999>. Accessed 08 May 2020

Ingrams S (2017) Home heating systems The best heating for your home. Which Online. <https://www.which.co.uk/reviews/home-heating-systems/article/home-heating-systems/the-best-heating-for-your-home>. Accessed 11 May 2020

Inman P, Treanor J (2017) Britain's debt time bomb: FCA urges action over £200bn crisis. The Guardian Online. 18 September. <https://www.theguardian.com/business/2017/sep/18/britain-debt-timebomb-fca-chief-crisis>. Accessed 8 May 2020

Kay E, Lewenstein W (2013) The problem with the "poverty premium". Harv Bus Rev 91(4):21–23. <https://hbr.org/2013/04/the-problem-with-the-poverty-premium>. Accessed 16 Aug 2020

Kimera HR (2013) Responsible lending: the Uganda experience. In: Hubbard-Solli J (ed) Responsible lending: an international landscape. Consumer's International, UK. <https://www>.

[consumersinternational.org/media/2246/ciresponsiblelending_finalreport_06-11-13.pdf](https://www.consumersinternational.org/media/2246/ciresponsiblelending_finalreport_06-11-13.pdf). Accessed 13 July 2020

Kollewe J (2017) Loan sharks are circling, says one of UK's biggest doorstep lenders. The Guardian Online. 20 September 2017. <https://www.theguardian.com/money/2017/sep/20/loan-sharks-uk-biggest-doorstep-lenders-morses-club>. Accessed 11 May 2020

Koumenta M, Williams M (2015) An anatomy of zero-hour contracts in the United Kingdom. https://www.cipd.co.uk/Images/an-anatomy-of-zero-hour-contracts-in-the-united-kingdom_2015_tcm18-15580.pdf. Accessed 26 May 2020

Langley P, Anderson B, Ash J, Gordon R (2019) Indebted life and money culture: payday lending in the United Kingdom. *Econ Soc* 48(1):30–51. https://www.tandfonline.com/doi/pdf/10.1080/03085147.2018.1554371?casa_token=9q3cuI1WifwAAAAA:yIKToKHLd3RaFWwEN5NQEI-CwZ_-_pW89ZgNeRWeyl-uvvwGV-AIX6CwBHdNgiKR33pKrYvqLQ. Accessed 01 May 2020
CrossRef

Lister R (2004) *Poverty*. Polity Press, Cambridge, MA

Lusher A (2017) Has the Queen's BrightHouse investment helped make Britain's poor even poorer? The Independent Online. 11 November 2011. <https://dev-web.independent.co.uk/news/uk/home-news/queen-bright-house-investment-paradise-papers-poor-poverty-premium-impact-a8048901.html>. Accessed 15 May 2020

Maslow AH (1943) A theory of human motivation. *Psychol Rev* 50(4):370–396. <https://doi.org/10.1037/h0054346>. Accessed 08 Apr 2020
CrossRef

McBride K, Purcell, S (2014) Food, fuel, finance: tackling the poverty premium. Church action on poverty. http://www.ekklesia.co.uk/sites/ekklesia.co.uk/files/poverty_premium_report.pdf. Accessed 24 Apr 2020

McNess E (2013) The Australian responsible lending act: the verdict is cautiously optimistic for the consumer. In Hubbard-Solli J *Responsible lending: an international landscape*. Consumer's International, UK. https://www.consumersinternational.org/media/2246/ciresponsiblelending_finalreport_06-11-13.pdf. Accessed 13 July 2020

Mendoza RU (2011) Why do the poor pay more? Exploring the poverty penalty concept. *J Int Dev* 23:1–28. <https://doi.org/10.1002/jid.1504>
[CrossRef](#)

Pedrini M, Bramanti V, Minciullo M, Ferri LM (2016) Rethinking microfinance for developed countries. *J Int Dev* 28:281–302. <https://doi.org/10.1002/jid.3205>
[CrossRef](#)

Pemberton S, Sutton E, Fahmy E, Bell K (2014) Life on a low income in Austere Times. http://poverty.ac.uk/sites/default/files/attachments/Life%20on%20a%20low%20income%20in%20austere%20times_final_report.pdf. Accessed 01 Apr 2020

Purdam K, Garrat E, Esmail A (2015). Hungry? Food insecurity, social stigma and embarrassment in the UK. *50(6):1072–1088*. <http://journals.sagepub.com/doi/abs/10.1177/0038038515594092>. Accessed 22 May 2020

SDGs.org.au (n.d.) Financial inclusion action plan. <https://sdgs.org.au/project/financial-inclusion-action-plan/>. Accessed 16 Aug 2020

Seabrook J (2013) *Pauperland poverty and the poor in Britain*. C. Hurst and Co. Publishers LTD, London

Sen AK (1983) Poor, relatively speaking. *Oxf Econ Pap* 35(2):153–169. www.jstor.org/stable/2662642. Accessed 25 Apr 2020
[CrossRef](#)

Shafir E (2017) Decisions in poverty contexts. *Curr Opin Psychol* 18:131–136. <https://reader.elsevier.com/reader/sd/pii/S2352250X17301926?token=DEACF32272DE9417055E49CF57FD4F0845CB16898590FB974E4DA783525495E7E7651DA73088CC8EFAF05CA12663E158>. Accessed 26 May 2020
[CrossRef](#)

Shildrick T, MacDonald R (2013) Poverty talk: how people experiencing poverty deny their poverty and why they blame ‘the poor’. *Sociol Rev* 61(2):285–303. <https://journals.sagepub.com/doi/abs/10.1111/1467-954X.12018> Accessed 03 May 2020
[CrossRef](#)

Shildrick T, MacDonald R, Webster C, Garthwaite K(2012) Poverty and insecurity life in low-pay, no-pay Britain. Policy Press, Bristol

[CrossRef](#)

Standing G (2014) The precariat. Contexts 13(4):10–12. <https://journals.sagepub.com/doi/10.1177/1536504214558209>. Accessed 11 May 2020

[CrossRef](#)

Stepchange (2018) The high cost of credit. <https://www.stepchange.org/Portals/0/documents/Reports/stepchange-affordable-credit-discussion-paper-july2017.pdf>. Accessed 01 Apr 2020

Tait C (2015) Hungry for change. The Fabian Commission on Food and Poverty. <https://www.fabians.org.uk/wp-content/uploads/2015/10/Hungry-for-Change-web-27.10.pdf>. Accessed 25 May 2020

Tassinari A, Maccarrone V (2020) Riders on the storm: workplace solidarity among gig economy couriers in Italy and the UK. Work Employ Soc 34(1):35–54. <https://journals.sagepub.com/doi/10.1177/0950017019862954> Accessed 20 May 2020

[CrossRef](#)

Tipping S, Kelley N, Toomse-Smith M, Crossley T, Levell P (2019) Advice on the measurement of the poverty premium across UK markets final report. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/782513/natcen_report.pdf. Accessed 12 May 2020

Tirado L (2014) Hand to mouth. The truth about being poor in a wealthy world. Virago, London

Townsend P (1979) Poverty in the United Kingdom. Penguin, Middlesex

United Nations - UNWSSD, General Assembly (1995) Report of the world summit for social development, Copenhagen. UN Doc A/RES/S-19/2. 19 September 1997. <https://www.un.org/development/desa/dspd/world-summit-for-social-development-1995.html>. Accessed 2 May 2020

Webb A (2017) Are you one of the 8.3 million adults with problem debt? <https://www.moneyadvice.service.org.uk/blog/are-you-one-of-the-8-3-million-adults-with-problem-debt>. Accessed 8 May 2020

Westlake A (2010) The UK poverty rip-off: the poverty premium 2010. Save the Children, London. Online. <https://resourcecentre.savethechildren.net/node/13400/pdf/uk-poverty-rip-off-poverty-premium.pdf>. Accessed 11 May 2020

Wilkinson R, Pickett K (2010) The spirit level. Why equality is better for everyone. Penguin Books, London

Wolf E, Vodopianova T (2013) Consumer lending practices in Russia and its effects on Russia's consumers. In: Hubbard-Solli J (ed) Responsible lending: an international landscape. Consumer's International, UK. https://www.consumersinternational.org/media/2246/ciresponsiblelending_finalreport_06-11-13.pdf. Accessed 13 July 2020