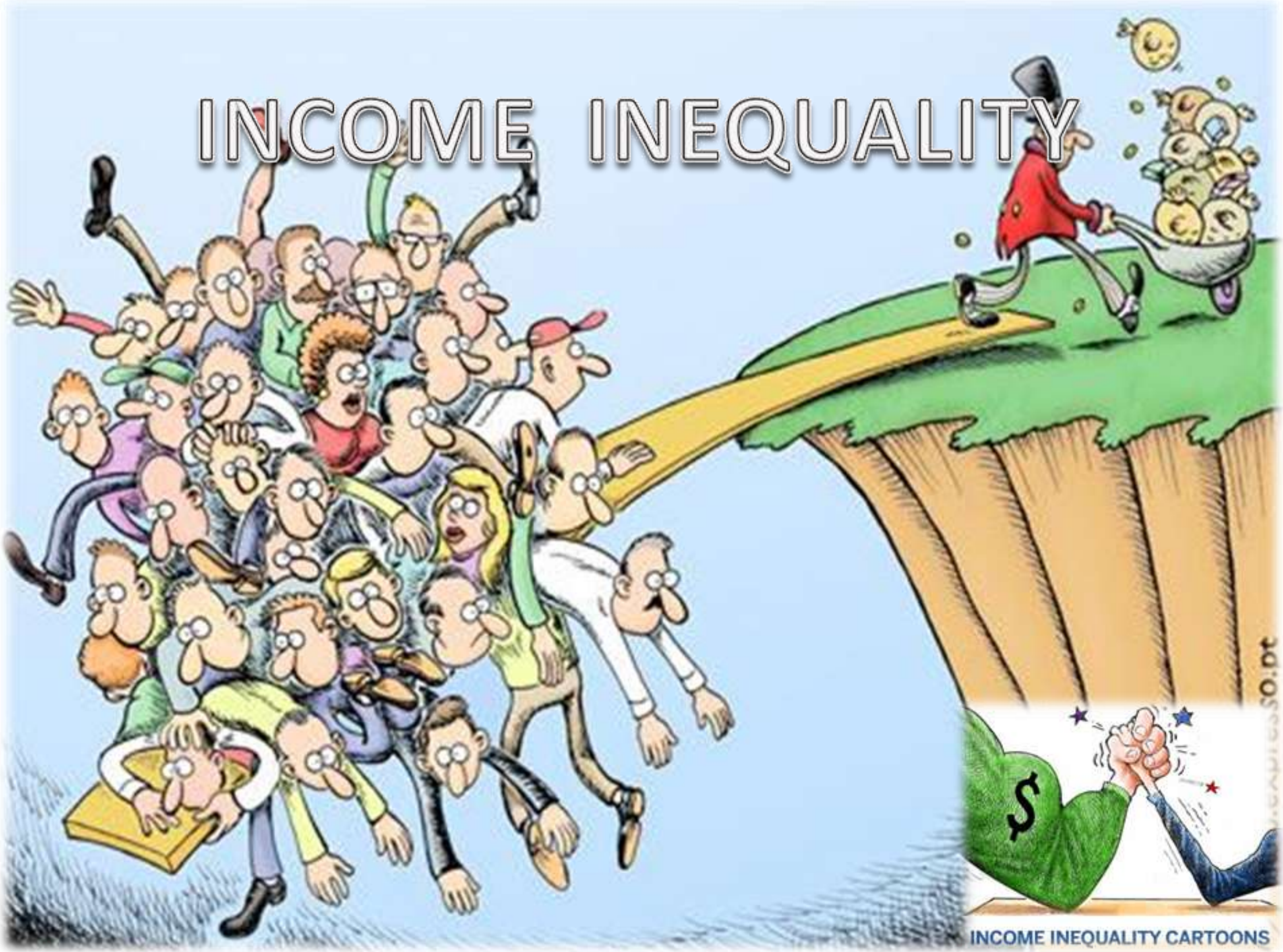
INCOME INEQUALITY



INCOME INEQUALITY

Income inequality is the gap between rich and poor **i.e.** is the differences in the distribution of economic assets (wealth) and income within or between populations or individuals. It is the state of an economy in which the shares of total income earned by the rich and poor are highly unequal

Economic inequality varies between societies, historical periods, economic structures and systems (for example, capitalism or socialism), ongoing and past wars, and between individuals' abilities to create wealth. It can refer to cross sectional descriptions of the income or wealth at any particular period, and to the lifetime income and wealth over longer periods of time There are various numerical indices for measuring economic inequality.

According to the United Nations Human Development Report, the ratio of the income earned by the richest 10% to that of the poorest 10% of the population was 15.9 in the United States in 20017; that ratio was 4.5 in Japan, 9.4 in Canada, 17.7 in Singapore, and 40.6 in Brazil.

Economic policy makers can face a tradeoff between promoting equity and economic growth. As income shares become more equal, the incentive for individuals to accumulate skills, work hard, and take risks might become smaller, thus shrinking the size of the economy.

CAUSES OF INCOME INEQUALITY

TRADE LIBERALISATION

- Labour market outcomes
- Globalization
- Technological changes

CHANGES IN TAXATION

- Policy reforms
- More regressive taxation
- Access to education
- IN MARKET ECONOMIES

Racial discrimination

- Gender pay gap
- Nepotism
- Wealth concentration

CAUSES OF INCOME INEQUALITY IN PAKISTAN

GROWTH FACTOR

As development proceeds, the earnings of different groups rise differently. The incomes of the upper-income and middle-income groups rise more rapidly than those of the poor, during the early stages of growth through which is passing at present shift of population from agriculture which is a slow growing sector to the modern large industrial sector which grows more rapidly. Again, there is the capital-intensive nature of the development of the modern sector.

Since this absorbs less labour, wages form a smaller proportion of total income. Hence, the income spread is not wide enough. On the other hand, the capital-intensive type of growth leads to concentration of income in those few hands who supply capital.

Incomes are derived from two main sources, namely, assets like land, cattle, shares, etc., and labour. In pakistan a few own a large chunk of income –earning assets. Some others, who do not own, or own a part of the assets they operate, organize finances through banks, cooperatives, etc, and acquire/hire productive assets. These inequalities enable the few to get incomes in the form of rent, interest and profit.

HIGHLY UNEQUAL ASSET DISTRIBUTION

As these assets accumulate and pass on from generation to generation, the earning capacity of these increases continuously. As for rural areas, the ownership pattern of the most important asset, namely, land, is highly unequal. The marginal households (with holdings less than 1 hectare), which account for as many as 72 per cent of the rural households own very little about 17 per cent of the land.

Alternatively, there are those with large holdings (of more than 10 hectares) who are about 1 per cent of the rural households. But they have under their ownership as much as 14 per cent of the area.

Private ownership of property and inheritance laws is mainly responsible for highly unequal distribution of assets.

DIFFERENTIAL REGIONAL GROWTH

Of the large many at the bottom rung of incomes, a very great proportion lives in the poor backward states regions, and most of the few at the top live in the high- income states regions.

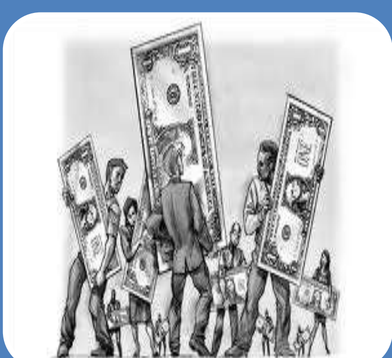
This is the geographical facet of income inequalities for the country as a whole. Within the states also there are inequalities, perhaps larger in the poorer states. Both these aspects are the outcome of the different growth rates of the states, with a few having grown at a fast rate, and many having lagged behind.

INADEQUTE EMPLOYMENT GENERTION

People at the bottom could raise their economic status and to an extent reduce the distance separating them from those at the top, if they could get work. In other words, if they did not possess adequate earning assets, they could at least earn from their labour.

Rising income inequality is a source of social and political unrest as it can lead to social discontent and higher crime rates, in turn undermining investor confidence and adversely affecting the business environment and a country's economic growth.

Higher income inequality can also result in non-income disparities such as health and education, thus hindering a government's effort to reduce poverty. High incidence of poverty remains a severe problem in some Sub-Saharan African and South Asian countries;



A widening income gap can impede the development of a country's consumer markets as purchasing power becomes concentrated among a small elite. I

ADVANTAGES OF INCOME INEQUALITY

High inequality reduces the pool of people with access to the resources—such as land or education--needed to unleash their full productive potential. Thus a country deprives itself of the contributions the poor could make to its economic and social development.

High inequality threatens a country's political stability because more people are dissatisfied with their economic status, which makes it harder to reach political consensus among population groups with higher and lower incomes. Political instability increases the risks of investing in a country and so significantly undermines its development potential.

High inequality limits the use of important market instruments such as changes in prices and fines. For example, higher rates for electricity and hot water might promote energy efficiency , but in the face of serious inequality, governments introducing even slightly higher rates risk causing extreme deprivation among the poorest citizens.

ADVANTAGES OF INCOME INEQUALITY

Rising income disparities around the globe split consumers into two primary groups, the rich and the poor, thus providing more opportunities for both luxury and budget goods. Countries such as China and Russia, for example, are now among the fastest growing markets for luxury goods in the world

Growing income disparities impede the growth of the middle class, an important consumer segment for discretionary (non-essential) goods.

SOCIALIST ECONOMY

Low inequality (with no private profits and minimal differences in wages and salaries) deprived people of the incentives needed for their active participation in economic activities—for diligent work and vigorous entrepreneurship.

The consequences were poor discipline and low initiative among workers, poor quality and limited selection of goods and services, slow technical progress, and eventually, slower economic growth leading to more poverty.

INVESTMENT AND OPPORTUNITIES

Inequality is necessary to encourage entrepreneurs to take risks and set up new business. Without the prospect of substantial rewards, there would be little incentive to take risks and invest in new business opportunities

Advancement through education: it improves standard of living of people and brings prosperity. It rewards actors of the economy for increased investment in future; suppression of inequality has an affect of discouraging output.

MEASUREMENT OF INEUALITY IN THE MODERN WORLD

LORENZ CURVES AND GINI COEFFICIENTS

Lorenz curve: A Lorenz curve shows the degree of inequality that exists in the distributions of two variables, and is often used to illustrate the extent that income or wealth are distributed unequally in a particular society.

Gini coefficient: A Gini coefficient is a summary numerical measure of how unequally one variable is related to another. The Gini coefficient is a number between 0 and 1, where perfect equality has a Gini coefficint of zero, and absolute inequality yields a Gini coefficint of 1.