Economics of Wellbeing– About Inequality

Part I: An Overview

"Since the beginning of this decade, global output has grown by over 3 percent annually and inflation has slowed down in virtually all regions of the world. Although many countries have experienced rising incomes and living standards, this economic expansion has been shared unevenly by the countries, leading to renewed concern that economic growth and equity do not necessarily go hand in hand."*—IMF (International Monetary Fund), Washington DC, June 8-9, 1998.*

This is an extract from a paper published by the IMF in the 1990s, providing an overview of inequality such as unequal distribution of income the world was witnessing over this period of time. However economic inequality is still a particularly pervasive problem around the globe waiting to be addressed by various economies. Economic inequality is the difference in how assets, wealth, or income are distributed among individuals or populations. It is also described as the gap between rich and poor or the "wealth gap". The perception of economic equity derives not from the classical utilitarian side of economics but from social and cultural norms, and it strikes at the core of societal values.

There are many types of inequalities that can generate an economic impact, and income inequality is regarded as one of the most important indicators of inequality in an economy. Income inequality refers to the unequal distribution of income within a society or a population. It refers to the disparities in income levels that exist between different individuals or groups within a given society. Although there are no universally accepted criteria to judge economic equity yet, and the definition of a "fair distribution" seems ambiguous, there is a consensus that equity is improved as the incomes of the least fortunate are raised, especially as families are being raised out of poverty. Next, we will look into some real-world cases and explain to what extent inequality affects different economies.

Part II: Inequality in the Real World

The Gini index is the most common measurement in terms of quantifying inequality. It is the measure of income distribution across a population, expressed as a number between 0, perfect equality, and 1, perfect inequality. In terms of geography, inequality is currently the highest in Latin America and Sub-Saharan Africa, and the lowest in Eastern Europe. South Africa has a high Gini index of 0.63, Namibia of 0.591, and Suriname of 0.579, while Slovakia has a Gini index of 0.232, Belarus and Slovenia of 0.244.

In South Africa, unequal distribution of land has a major impact on its Gini index. Land ownership is highly concentrated in the hands of a small percentage of the population, which has contributed to inequality in wealth and opportunities. Land reform initiatives have been slow to take hold, and many South Africans still do not have access to land ownership or the economic benefits that come with it.

On the other hand, Slovakia has implemented a number of policies aimed at reducing poverty and promoting economic equality. For example, the country has a progressive tax system that places a higher burden on high-income earners, and it has increased the minimum wage in recent years. Slovakia also has a number of social programs aimed at supporting low-income families, such as child benefits and housing subsidies.

In terms of economic structure, we might relate inequality to capitalism and socialism economic forms. In the 20th century, some countries switched to socialism or communism for a variety of reasons including reducing economic inequality. And These two biggest non-capitalist entities, China and the Soviet Union did dramatically reduced inequality. But neither country prospered as much as the he world's leading economies. The Soviet Union collapsed due to economic issues in 1991 and China, in order to grow more quickly, shifted its economy towards capitalism starting in the late 1970s, and its Gini index shot up from under 0.4 to over 0.55. But meanwhile, its income per capita jumped. However, there are also counter-examples in the capitalist world in which their Gini index held steady or decreased. For example, France has kept its Gini index below 0.32 since 1979, and Ireland's Gini has been mostly trending downward since 1995.

An interesting observation is that as income inequality has risen, the growing inequality trend seems to be more pervasive and significant in the former centrally planned economies, where the transitions to a market economy were accompanied by rising inequality. Shrinking budgetary expenditures and public enterprise during the transition has affected the relative income of public part workers. Rising informal activity, together with sectorial shifts have also impacted the relative income shares of the workers.

Another idea argues that globalization accelerated the rate of inequality. The main argument was that with technological advancement and rapid dispersion of existing technologies, globalization could accelerate the