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Economic inequality and justice

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Abstract

The problem of economic inequality has attracted much attention in recent years. Economic inequality (also defined as the gap between rich & poor, Income inequality, wealth disparity, wealth and income differences or wealth gap) is the difference between individuals of populations in the distribution of their assets, wealth or income. It refers to inequality among individuals and groups within a society but can also refer to inequality among countries. The present paper aims to study about the existing economic disparities in the society and focuses on justice as a toll for narrowing this gap between different economic classes. The issue of economic inequality, equality of outcome, equality of opportunity and life expectancy. The author in the present paper emphasizes the inequality is a growing social problem as too much inequality is destructive. In this context, the justice is defined as existence of opportunities for meaningful work and employment and the dispensation of fair rewards for the productive activities of the individuals. In the present study the highlighted areas are 'Inequalities in the distribution of income', 'Inequalities in the distribution of assets (including not only capital but also physical assets such as land and buildings)', 'Inequalities in the distribution of opportunities for work and remunerated employment', 'Inequalities in the distribution of access to knowledge', Inequalities in the distribution of health services, social security and provision of a sage environment' and 'Inequalities in the distribution of opportunities for civic and political participation'. Further the author presents her views about the role of justice in dealing with all the above mentioned areas.

Keywords: economic inequality, Income inequality, wealth disparity, justice

Introduction

Economic inequality is defined as a large contrast in the distribution of personal income and economic assets within a social group. When different people have different levels of income (or wealth) in a society, there is economic inequality. The term typically refers to inequality among individuals and groups within a society, but can also refer to inequality among countries. The issue of economic inequality involves equity, equality of outcome equality of opportunity, and life expectancy. Opinions differ on the utility of inequality and its effects. Some studies have emphasized inequality as a growing social problem. While some inequality promotes investment, too much inequality is destructive. Economic inequality can hinder long term growth. Statistical studies comparing inequality to year-over-year economic growth have been inconclusive; however in 2011, researchers from the International Monetary Fund published work which indicated that economic inequality increased the duration of countries' economic growth spells more than free trade, low government corruption, foreign investment, or low foreign debt. Economic inequality varies between societies, historical periods, economic structures and systems (for example, capitalism or socialism), and between individuals' abilities to create wealth. The term 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. A prominent one is the Gini coefficient, but there are also many other methods.

Measurement of inequality in the modern world

A study entitled "Divided we Stand: Why Inequality Keeps Rising" by the Organisation for Economic Co-operation and Development (OECD) reported its conclusions on the causes, consequences and policy implications for the ongoing intensification of the extremes of wealth and poverty across its 22 member nations (OECD 2011-12-05) [4].

A study by the World Institute for Development Economics Research at United Nations University reports that the richest 1% of adults alone owned 40% of global assets in the year 2000. The three people in the world possess more financial than the lowest 48 nations combined. The combined wealth of the "10 million dollar millionaires" grew to nearly $41 trillion in 2008. A January 2014 report by Oxfam claims that the 85 wealthiest individuals in the world have a combined wealth equal to that of the bottom 50% of the world's population, or about 3.5 billion people. According to a Los Angeles Times analysis of the report, the wealthiest 1% owns 46% of the world's wealth; the 85 richest people, a small part of the wealthiest 1% own about 0.7% of the world's wealth, which is the same as the bottom half of the population.

Factors impacting economic inequality

There are many reasons for economic inequality within societies. Recent growth in overall income inequality, at least within the OECD countries, has been driven mostly by increasing inequality in wages and salaries. Economist Thomas Piketty, who specializes in the study economic inequality, argues that widening economic disparity is an inevitable phenomenon of free market capitalism.

Common factors thought to impact economic inequality include

The labor market

A major cause of economic inequality within modern market economies is the determination of wages by the market. Some small part of economic inequality is caused by the differences in the supply and demand for different types of work. However, where competition is imperfect; information unevenly distributed; opportunities to acquire education and skills unequal; and since many such imperfect conditions exist in virtually every market, there is in fact little presumption that markets are in general efficient. This means that there is an enormous potential for government to correct these market failures. In a purely capitalist mode of production (i.e. where professional and labour organizations cannot limit the number of workers) the workers' wages will not be controlled by these organizations, or by the employer, but rather by the market. Wages work in the same way as prices for any other good. Thus, wages can be considered as a function of market price of skill. And therefore, inequality is driven by this price. Under the law of supply and demand, the price of skill is determined by a race between the demand for the skilled worker and the supply of the skilled worker. "On the other hand, markets can also concentrate wealth; pass environmental costs on the society, and abuse workers and consumers". "Markets, by themselves, even when they are stable, often lead to high levels of inequality, outcomes that are widely viewed as unfair". Employers who offer a below market wage will find that their business is chronically understaffed. Their competitors will take advantage of the situation by offering a higher wage to snatch up the best of their labour. For a businessman who has the profit motive as the prime interest, it is a losing proposition to offer below or above market wages to workers.

Taxes

Another cause is the rate at which income is taxed coupled with the progressivity of the tax system. A progressive tax is a tax by which the tax rate increases as the taxable base amount increases. In a progressive tax system, the level of the top tax rate will often have a direct impact on the level of inequality within a society, either increasing it or decreasing it, provided that income does not change as a result of the change in tax regime.

Education

One important factor in creation of inequality is variation in individuals' access to education. Education, especially in an area where there is a high demand for workers, creates high wages for those with this education, however, increases in education first increase and then decrease growth as well as income inequality. As a result, those who are unable to afford an education, or choose not to pursue optional education, generally receive much lower wages. The justification for this is that a lack of education leads directly to lower incomes, and thus aggregate savings and investment.

Education is very important for the growth of the economy, however educational inequality in gender also influence towards the economy. Lagerlof and Galor stated that gender inequality in education can result to low economic growth, and continues gender inequality in education, thus creating a poverty trap. It is suggested that a large gap in male and female education may indicate backwardness and so may be associated with lower economic growth, which can explain why there is economic inequality between countries.

Globalization

Trade liberalization may shift economic inequality from a global to a domestic scale. When rich countries trade with poor countries, the low-skilled in the rich countries may see reduced wages as a result of the competition, while low-skilled workers in the poor countries may see in increased wages.

Impact of gender

In many countries, there is gender income gap which favors males in the labor market. For example, the median full-time salary for U.S. women is 77% of that of U.S. men. Several factors other than discrimination may contribute to this gap. On average, women are more likely than men to consider factors other than pay when looking for work, and may be less willing to travel or relocate. Thomas Sowell, in his book Knowledge and Decisions, claims that this difference is due to women not taking jobs due to marriage or pregnancy, but income studies show that does not explain the entire differences. A U.S. Census's report stated that in US once other factors are accounted for there is still a difference in earnings between women and men.

Gender inequality and discrimination is argued to cause and perpetuate poverty and vulnerability in society as a whole. Gender Equity Indices seek to provide the tools to demonstrate this feature of equity.

Development patterns

Economist Simon Kuznets argued that levels of economic inequality are in large part the result of stages of development. According to Kuznets, countries with low levels of development have relatively equal distributions of wealth. As a country develops, it acquires more capital, which leads to the owners of this capital having more wealth and income and introducing inequality. Eventually, through various possible redistribution mechanisms such as social welfare programs, more developed countries move back to lower levels of inequality.

Diversity of preferences

Related to cultural issues, diversity of preferences within a society may contribute to economic inequality. When faced with the choice between working harder to earn more money and enjoying more leisure time, equally capable individuals with identical earning potential may choose difference strategies. The trade-off between work and leisure is particularly important in the supply side of the labour market in labour economics.

Likewise, individuals in a society often have different levels of risk aversion. When equally able individuals undertake risky activities with the potential of large payoffs, such as starting new business, some ventures succeed and some fail. The presence of both successful and unsuccessful ventures in a society results in economic inequality even when all individuals are identical.

Initiatives taken by Government to reduce Economic Inequality

- **Public education:** Increasing the supply of skilled labor and reducing income inequality due to education differentials.
- **Progressive taxation:** The rich are taxed proportionally more than the poor, reducing the amount of income inequality in society if the change in taxation does not cause changes in income.
- **Minimum wage legislation:** Raising the income of the poorest workers (for the ones that don't lose their jobs due to the minimum wage).
- **Nationalization or subsidization of products:** Providing goods and services that everyone needs cheaply or freely (such as food, healthcare, and housing), governments can effectively raise the purchasing power of the poorer members of society.

Effects of inequality

Among the effects of inequality researchers have found include higher rates of health and social problems, and lower rates of social goods, a lower level of economic utility in society from resources devoted on high-end consumption, and even a lower level of economic growth when human capital is neglected for high-end consumption.

Health and social cohesion

British researchers Richard G. Wilkinson and Kate Pickett have found higher rates of health and social problems (obesity, mental illness, homicides, teenage births, incarceration, child conflict, drug use), and lower rates of social goods (life expectancy, educational performance, trust among strangers, women's status, social mobility, even numbers of patents issued) in countries and states with higher inequality.

Research has shown an inverse link between income inequality and social cohesion. In more equal societies, people are much more likely to trust each other, measures of social capital (the benefits of goodwill, fellowship, mutual sympathy and social connectedness among groups who make up a social units) suggest greater community involvement, and homicide rates are consistently lower.

Crime

Crime rate has also been shown to be correlated with inequality in society. Most studies looking into the relationship have concentrated on homicides – since homicides are almost identically defined across all nations and jurisdictions. There have been over fifty studies showing tendencies for violence to be more common in societies where income differences are larger. Research has been conducted comparing developed countries with undeveloped countries, as well as studying areas within countries.

Social, cultural, and civic participation

Higher income inequality led to less of all forms of social, cultural, and civic participation among the less wealth. When inequality is higher the poor do not shift to less expensive forms of participation.

Utility, economic welfare and distributive efficiency

Following the utilitarian principle of seeking the greatest good for the greatest number economic inequality is problematic. A house that provides less utility to a millionaire as a summer home than it would to a homeless family of five, is an example of reduced "distributive efficiency" within society that decreases marginal utility of wealth and thus the sum total of personal utility. An additional dollar spent by a poor person will go to things providing a great deal of utility to that person, such as basic necessities like food, water, and healthcare; while, an additional dollar spent by a much richer person will very likely go to luxury items providing relatively less utility to that person. Thus, the marginal utility of wealth per person ("the additional dollar") decreases as a person becomes richer. From this standpoint, for any given amount of wealth in society, a society with more equality will have higher aggregate utility. Some studies have found evidence for this theory, noting that in societies where inequality is lower, population-wide satisfaction and happiness tend to be higher.

Meaning and Need of Justice

Justice is a concept of moral rightness based on ethics, rationally, law, natural law, religion, equity and fairness.

Justice takes into account the inalienable and inborn rights of all human beings and citizens, the right of all people and individuals to equal protection before the law of their civil rights, without discrimination on the basis of race, gender, sexual orientation, gender identity, national origin, color, ethnicity, religion, disability, age, wealth or other characteristics.

Justice must be ensured to all citizens irrespective of their caste, race, gender, economic status, religion etc. Everyone should have an easy access to the justice. It can help to a great extent in decreasing the impact of economic inequalities. The justice should not be delayed, especially in case of the down trodden classes of the society.

Conclusion

To conclude we can say that we should draw lessons from successful efforts to reduce inequality. We can also advocate for a range of equity-enhancing policy options inorder to foster enabling environments that allow equity-enhancing policies to succeed. There should be a provision of designing programmes to be highly sensitive to country-specific contexts. There should be new indicators of development that capture intersecting inequalities. The development of strong political intention and action around reducing inequalities can also be proved useful. There is a great need to advocate for balancing strong economic growth with an even stronger drive for equity.

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