Economics of Inequality

1. Causes, essence and history of economic inequality
2. Approaches to studying problems of economic inequality

Inequality

is the conditions under which people have unequal access to social benefits such as

- **money,**
- **power and**
- **prestige**

Economic inequality

is the difference in economic well-being:

- **between individuals in a group,**
- **between population groups, or**
- **between countries.**

Inequality exists in all societies

In larger and more complex societies, inequality is more pronounced.

The issue of economic inequality relates:

- **to the concepts of fairness,**
- **equality of outcome and**
- **equality of opportunity**

Weber identified three main components of inequality

- **The first component is wealth inequality**.

Wealth means more than just your salary; The rich often do not work at all, but receive large incomes through property, investments, real estate or stocks and securities

- **The second component of inequality is groups of people, status groups,**

That are honored and respected to varying degrees and have unequal prestige.

- The third factor is political power and political influence.

This refers to the ability of a person or group to carry out plans, take action or pursue a particular policy even in the face of objections from other people and groups

Causes of income inequality

1. Economic factors.

- **Diversity of income sources**
- **Differences in labor productivity.**

Productivity is influenced by professional training and level of education, technological equipment and the efficiency of means of production.

- **Property differences**

2. Social factors.

- **Social resources**

Availability of contacts, ability to exert political influence in the process of resource allocation.

- **Differences in people's abilities**
- **People's predisposition to risk**
- **Level of education of workers**

People in countries such as the USA, Great Britain, and Germany strive to obtain the highest level of education, since the incomes of highly educated specialists are several times higher than the incomes of other workers.

- **Location**

Urban residents tend to have higher incomes and opportunities to earn them

3. Demographic.

- **Gender, age, marital status, nationality**
- **Demographic load**

A high demographic burden on the economically active population may be due to children under 16 years of age and pensioners.

Causes of income inequality

4. Political.

- Social transfers and taxes

5. Psychological.

Individuals have new desires, the desire to consume and to receive higher income.

6. Geographical

Natural and climatic conditions and features of regional economics and politics

In all societies there are two main ways to achieve well-being

- ✓ **through labor or**
- ✓ **inheritance**

Each period of human development is characterized by the predominance of one or another type of wealth, which served as the basis for inequality

- **During the feudal period, those who owned large lands were considered the richest**
- **Under capitalism, money rules the world; financial capital is a sign of great wealth**
- **In the period of post-capitalism, the creation and ownership of human achievements: artificial intelligence, robots, modern technologies create new signs of wealth and power**

Kuznets hypothesis on income inequality

- Kuznets's hypothesis is that as a country develops economically, inequality first increases and then decreases.
- With the development of industry and the growth of the country's economy, more and more people are moving from the agricultural sector to the industrial sector, where earnings are higher. Accordingly, inequality increases.
- As the economy continues to grow, Kuznets argues, inequality is decreasing. Most people now work in the industrial sector or in the urban services sector serving the industrial sector, and few remain in the low-wage agricultural sector.
- The result is an inverted U-shaped curve known as the Kuznets curve.

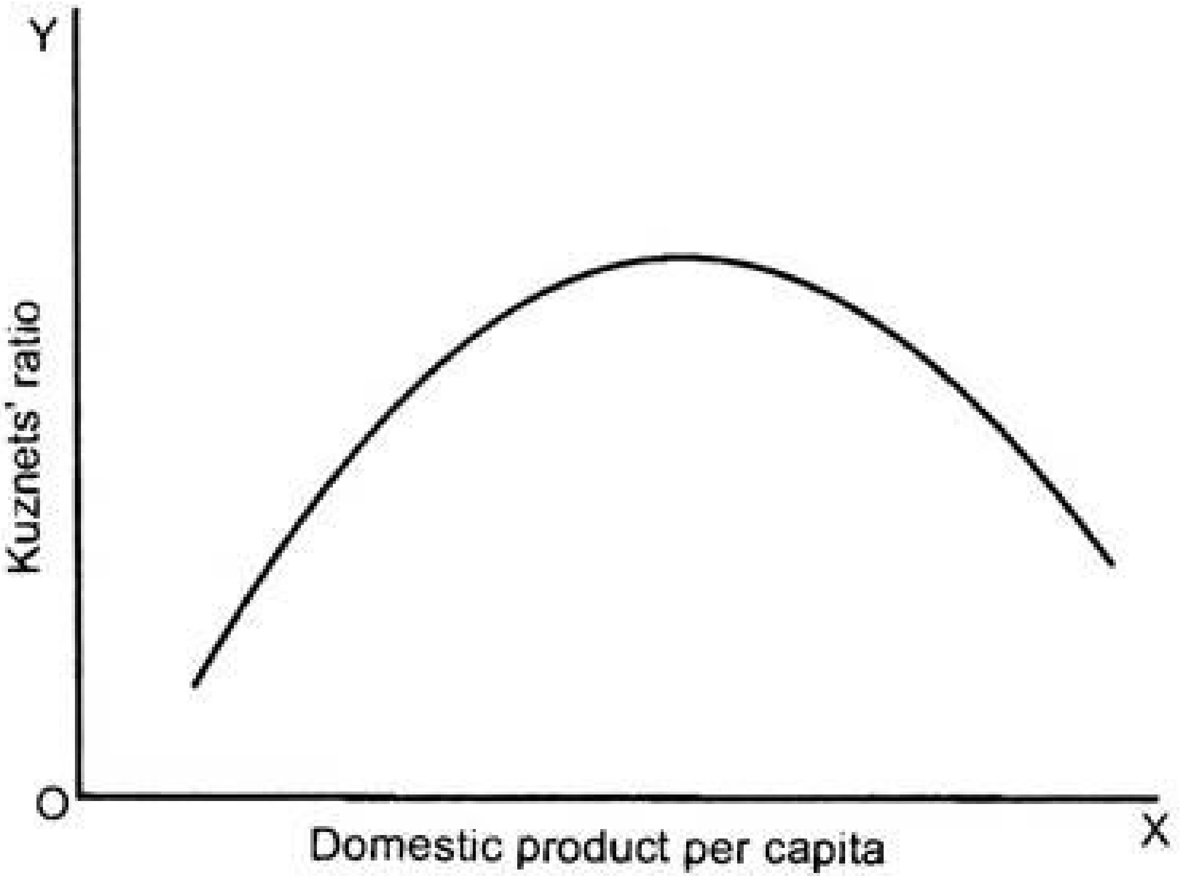
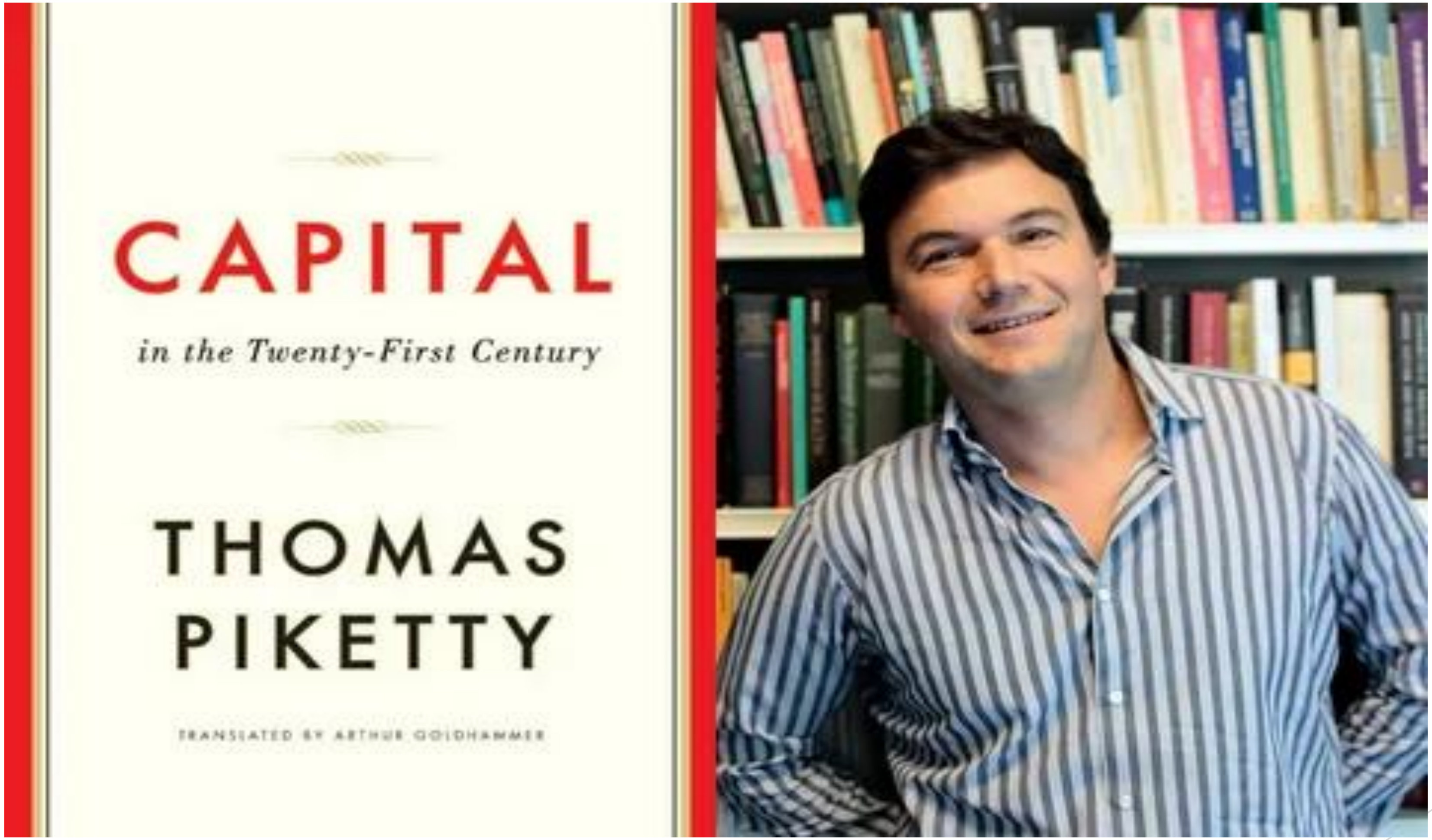


Fig. 65.4. *Kuznets' Inverted-U curve*


CAPITAL
in the Twenty-First Century
THOMAS
PIKETTY
TRANSLATED BY ARTHUR GOLDHAMMER

Piketty's inequality

r > g is the formula:

- Over the last 250 years, it can be observed that the rate of return on capital (r) is consistently higher than the rate of economic growth (g)
- f you look at the history of capitalism over the long term, you can see that inequality is a necessary feature of capitalism.
- Inequality can only be overcome through government policies.

r > g

- Return on capital may include interest, various forms of rent, dividends, and other income from capital, and economic growth is considered as increase in labor income and increase in output.
- As observations show, the slower the economic growth, the faster wealth accumulates.
- At the same time, wealth does not accumulate evenly, but among a fairly narrow circle of families.

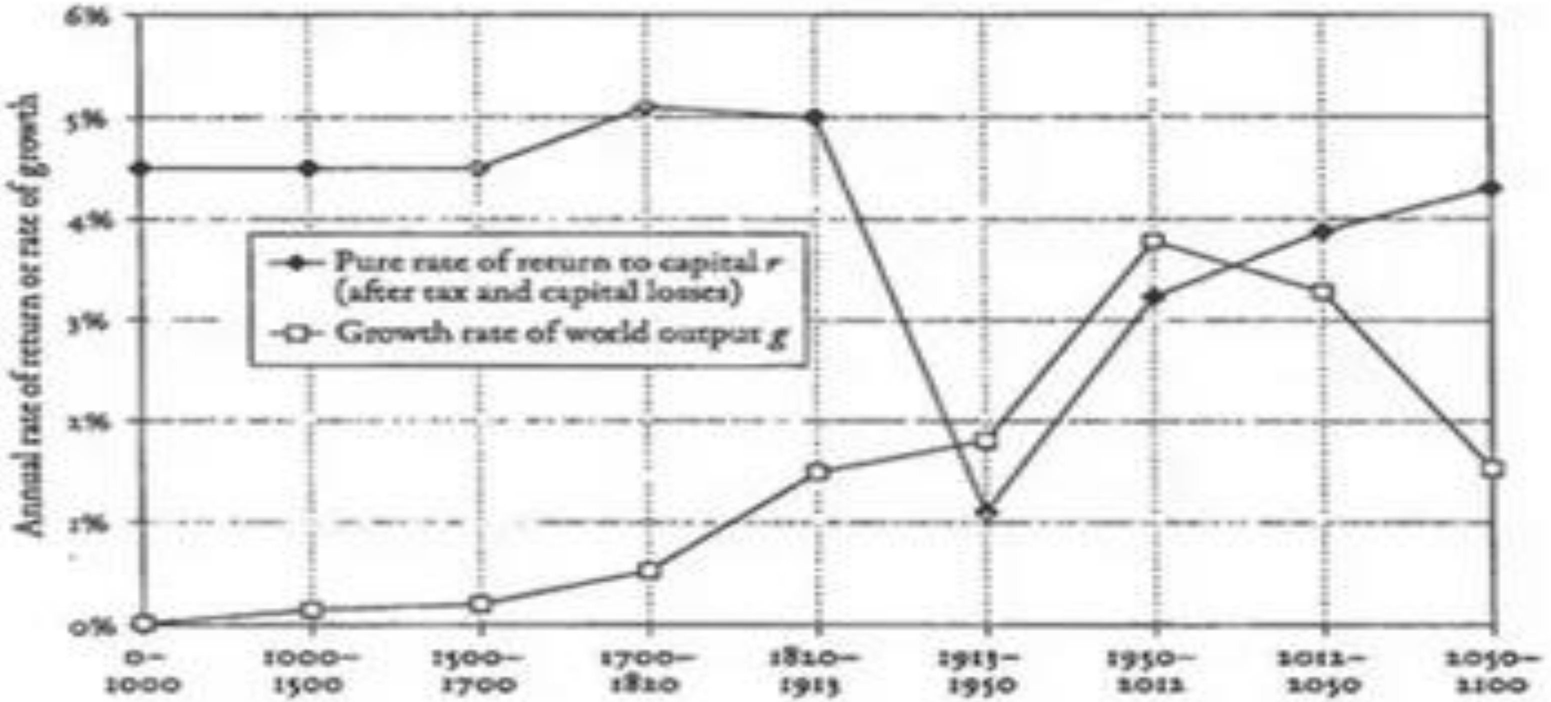
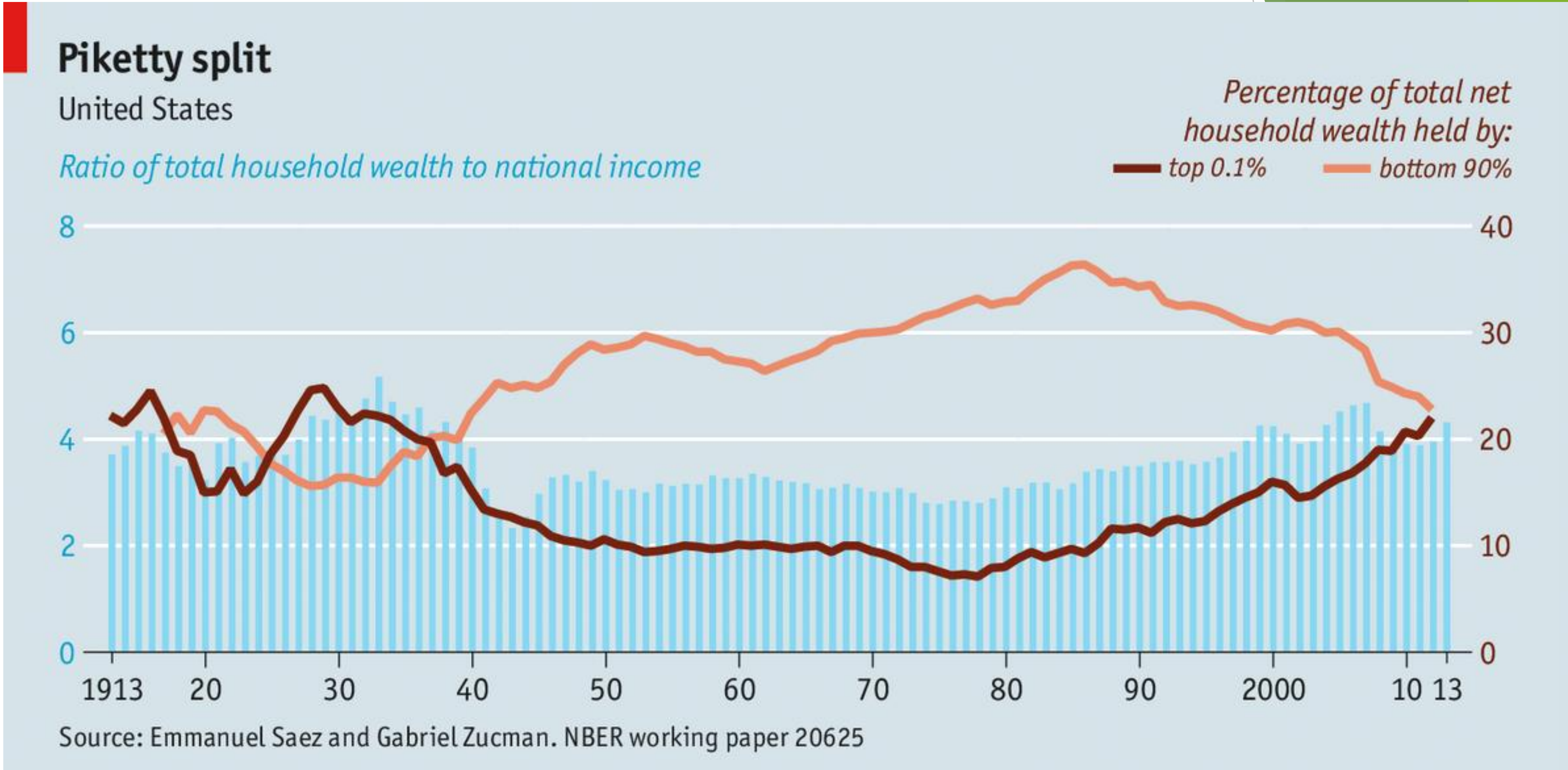


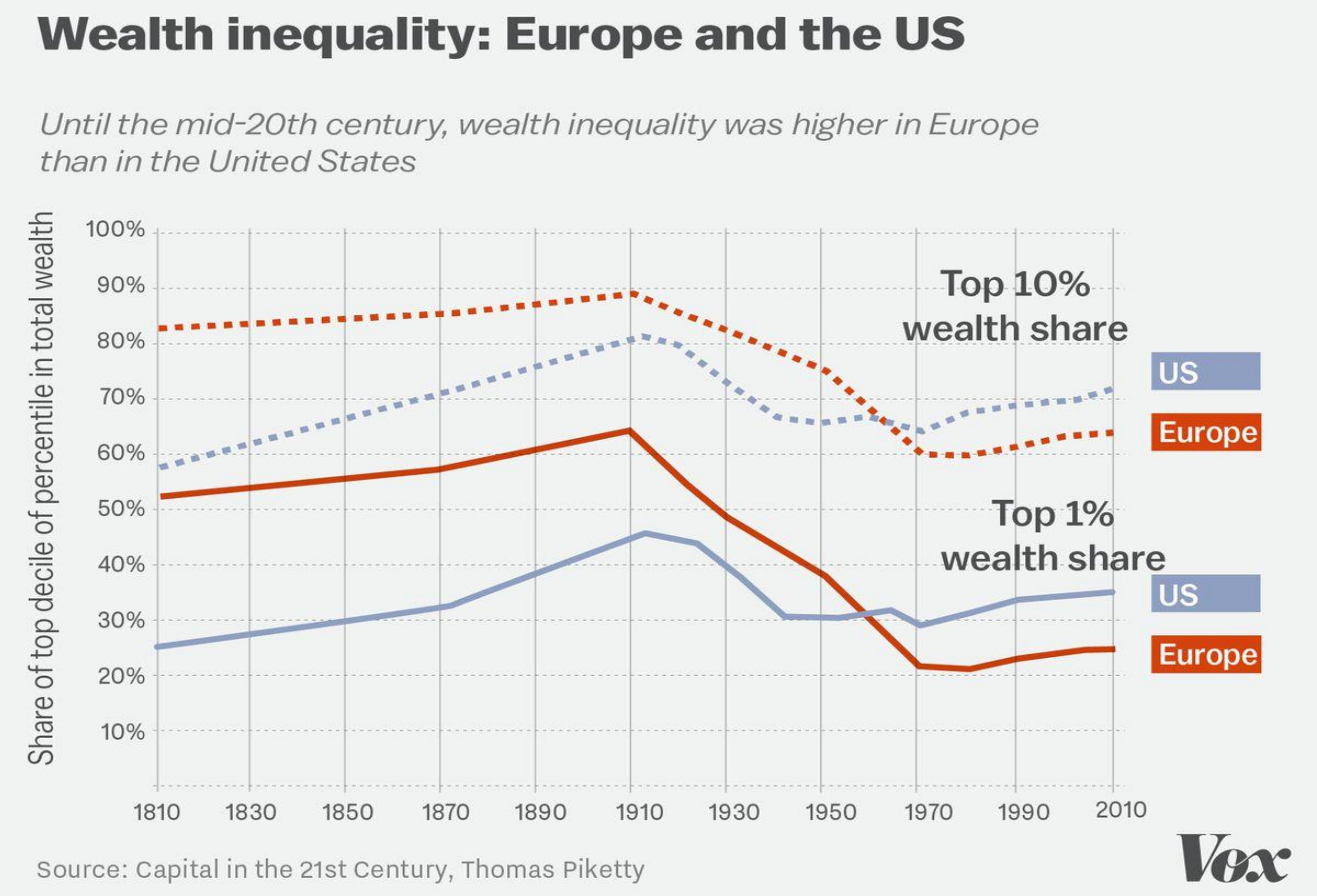
FIGURE 10.10. After tax rate of return versus growth rate at the world level, from Antiquity until 2100

The rate of return to capital (after tax and capital losses) fell below the growth rate during the twentieth century, and may again surpass it in the twenty-first century. Sources and series: see piketty.pse.ens.fr/capital21c.

Piketty calculated the high concentration of wealth

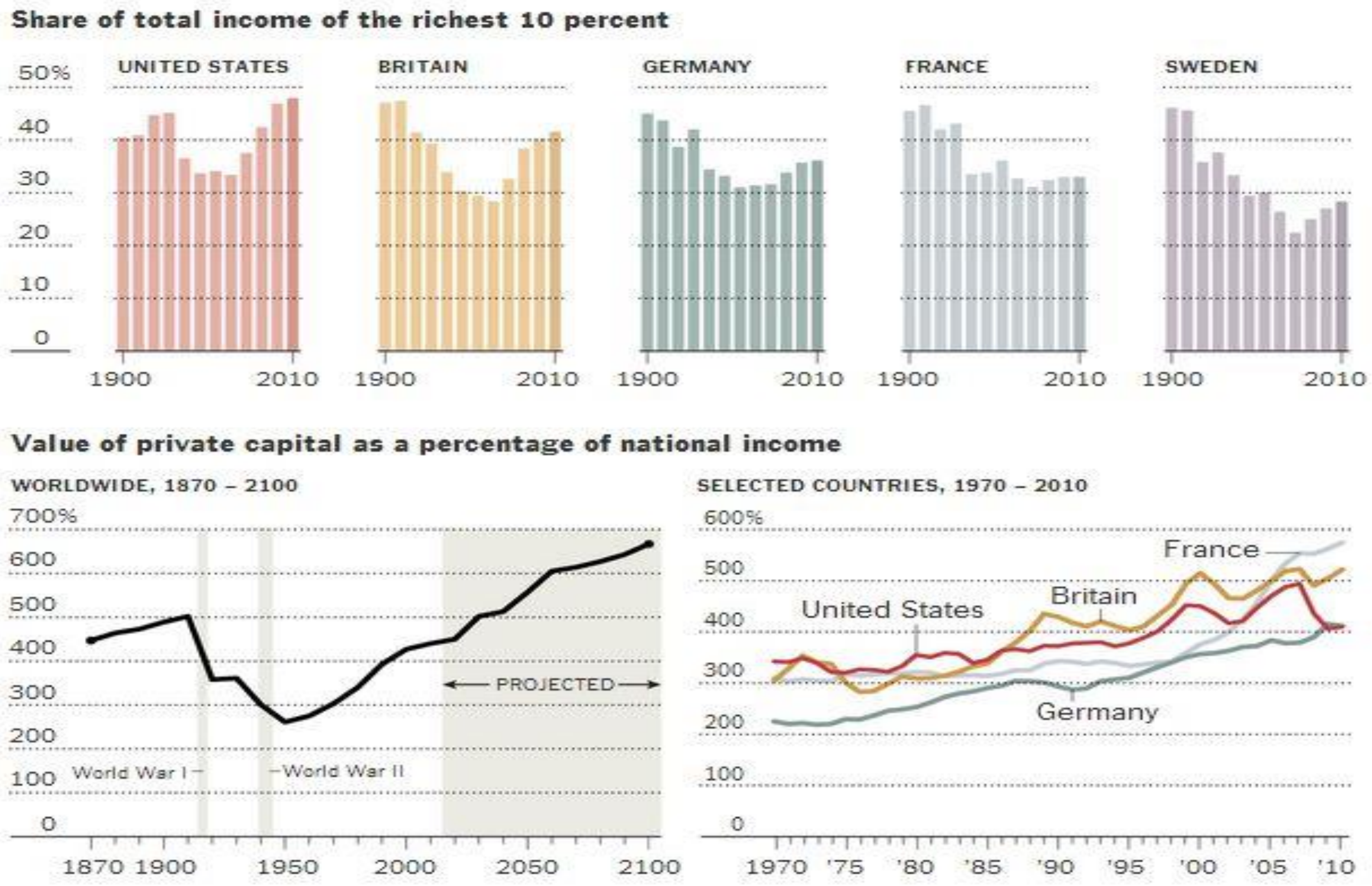
- **In 1910, the richest 10% of the population owned approximately80% of the national wealth, with the richest of them (1%) owning almost half of the national wealth.**
- **Thus, the remaining 90% of the population were content with little, and often nothing at all.**


Piketty split
United States
Ratio of total household wealth to national income
Percentage of total net household wealth held by:
top 0.1%
bottom 90%
8
6
4
2
0
40
30
20
10
0
1913
20
30
40
50
60
70
80
90
2000
10
13
Source: Emmanuel Saez and Gabriel Zucman. NBER working paper 20625


Wealth inequality: Europe and the US
Until the mid-20th century, wealth inequality was higher in Europe than in the United States
Share of top decile of percentile in total wealth
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
1810
1830
1850
1870
1890
1910
1930
1950
1970
1990
2010
Top 10% wealth share
US
Europe
Top 1% wealth share
US
Europe
Source: Capital in the 21st Century, Thomas Piketty
Vox

Irresistible Inequality

The concentration of income and wealth is deepening around the world, driven by more than rising paychecks for top American financiers and chief executives. Returns to invested capital are outstripping economic growth across advanced countries, directing a growing share of economic rewards into the hands of the wealthy.



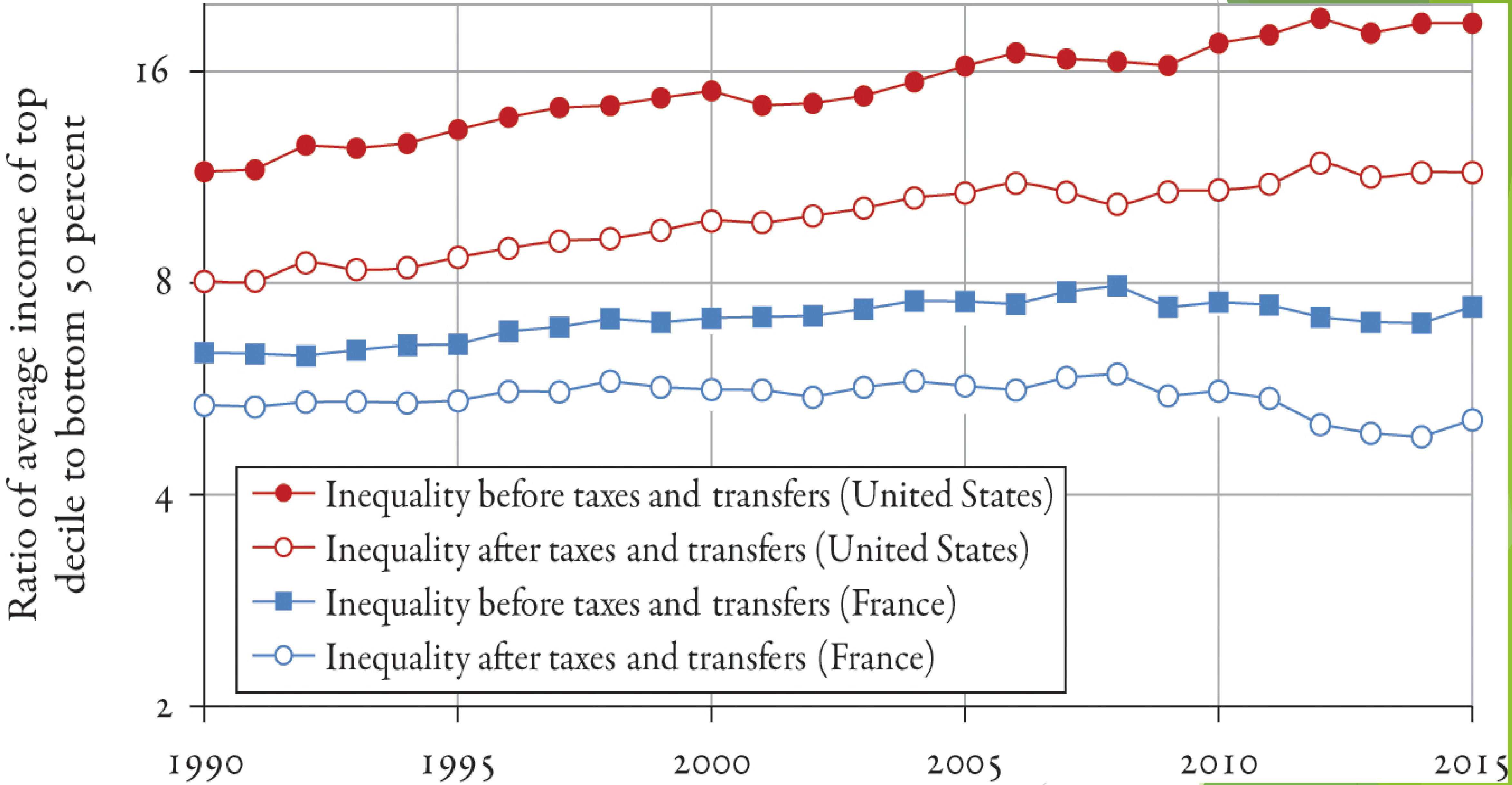
Source: "Capital in the 21st Century," by Thomas Piketty.

Piketty proposed a solution to the problem of inequality

Piketty proposes as the main political solution problems of inequality is to introduce a **progressive tax on wealth**.

For example,

- set a tax rate of 0.1% for capital up to 1 million euros,
- 1% for property from 1 to 5 million euros,
- 2% for properties from 5 to 10 million and, finally,
- a rate of 5-10% for multimillion-dollar states.


Ratio of average income of top decile to bottom 50 percent
16
8
4
2
1990
1995
2000
2005
2010
2015
Inequality before taxes and transfers (United States)
Inequality after taxes and transfers (United States)
Inequality before taxes and transfers (France)
Inequality after taxes and transfers (France)

Read and discuss

1. Social and Economic Inequality https://www.bu.edu/eci/files/2023/05/Inequality-Module-2023.pdf
2. https://www.researchgate.net/publication/318118479_Income_Inequality_Revisited_60_Years_Later_Piketty_vs_Kuznets