CHAPTER - 6

CAUSES AND AFFECTS OF INEQUALITY
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Inequality of income can be the result of different causes whereas its manifestation can be viewed from the level of international or intra-society dimension. The differences between countries in terms of per capita income are referred to as *International distribution* of income. When we allow for the inequality within countries, then the distribution of income among all the people of the world is expressed as *World distribution* of income. For measuring the size distribution of income among members of a society (i.e. within country inequality) economists use *inequality matrices*.

**Causes of international inequality of income**

There are many causes for the existence of economic inequality among nations of the globe. Natural resources, climatic and geographical condition, quality of human capital and religious faith influence and control man’s economic activities everywhere.

*Natural resources* are one of the most important factors that determine the possibility of creating wealth by the country. Countries those are rich in natural resources like Oil (Viz; Kuwait, Iraq, Iran, Saudi
Arabia, Venezuela, etc), minerals (Viz, USA, former Soviet Union, Canada, Mexico, UK, etc) and water resources/power have a greater chance of earning high as compared to countries that are less endowed. Climatical and geographical condition is also equally important. Climate exerts a great influence on man’s physical and mental capacities and upon all his economic activities. Therefore, people in large numbers have concentrated in such areas where climate is suitable for health and activities. Plains offer maximum facilities for all types of economic activities like agriculture, transport, mining and manufacturing. In this way, such important factors have largely determined the economic/income level of a country\(^1\).

Above all these, at all times and at all places, Human Capital of a country is the most important factor that determines the level of income. Human capital is the sum total of all knowledge, skill, ability, good habits, etc which are conducive to wealth creation in the country. There are vast areas of economic activities which are the concern of a particular topic, but it is outside the purview of the present study and we leave it here. Furthermore, there is a latent factor i.e. Religious factor. If we examine the distribution of income across countries, it is obvious that eastern European

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\(^1\) See: Datta, *Studies in commercial geography* (Imphal: Students store, 1999), p.3,4,5
and North American countries that are dominated by protestant ethics become well placed in regard to income distribution, whereas most of the Asian-Hindu and other Islamic dominated countries' income is quite low owing to the presence of unfavourable social factors, for example, that women are not given equal opportunity with men.

**Causes of intra-country inequality of income**

One of the most important factors in the emergence of inequality is the varying opportunity of individuals to get access to good *education*. Education, especially education in an area where there is a high demand for workers, creates high wages for those with this education. Contrariwise, those who are unable to afford higher-level education generally receive much lower wages. Many Economists believe that a major reason the world has experienced increasing levels of inequality since the 1980s is because of an increase in the demand for highly skilled workers in high-tech industries. They believe that this has resulted in an increase in wages for those who have the required skill or science-literate while the uneducated and unskill workers hardly have pay enhancement.
One of the major reasons why there is economic inequality within modern market economies is that wages are determined by the labour market and are hence influenced by supply and demand. In this view, inequality is caused by the interacting forces of supply and demand for different types of work. What have finally emerge from these supply and demand interactions are a gradation of wages in a gap of significant magnitude leading to income inequality within society. It is globally recognised that there is a connection between differences in innate ability\(^1\), such as intelligence, strength, or charisma and between individuals level of wealth. Relating these innate abilities back to the labour market suggests that such innate abilities are in high demand relative to their supply and hence play a large role in increasing the wage of those who have them. Contrariwise, such innate abilities might also affect individuals ability to operate within society in general, regardless of the labour market\(^2\).

The existence of different genders, races and cultures within a society is also thought to contribute to economic inequality. Scientists such as Richard Lynn argued that there are innate group differences in ability that are partially responsible for producing race and gender group

\(^1\) Innate ability is an ability acquired through genetic heritage.

\(^2\) Dr. Richard Lynn, *The book titled "IQ and the Wealth of Nations".*
differences in wealth\(^1\). \textit{Wealth condensation} is a theoretical process by which, in certain conditions, newly-created wealth tends to become concentrated in the possession of already-wealthy individuals or entities. This is reflected in the common saying \textit{``the rich get richer and the poor get poorer''}. According to this theory, those who already hold wealth have the means to invest in new sources for creating wealth or to otherwise leverage the accumulation of wealth, becoming the beneficiaries of the new wealth. Over time, wealth condensation can significantly contribute to the persistence of inequality within society\(^2\).

\textit{Effects of inequality}

Just as the coin has two sides, the issue of inequality can also be examined with respect to negative and positive aspects and let us first examine the negative side of a high degree of inequality.

1. \textit{Inequality reduces social cohesion}

Researcher has shown a clear link between income inequality and social cohesion. In a more equal societies, people are much more likely to

\(^1\)For more information log on 'race and intelligence, sex and intelligence'.

\(^2\)Main article: Wealth concentration log on 'downloadable international distribution of income 1960 – 1987'.
trust each other, measures of social capital suggest greater community involvement, and homicide rates are consistently lower. One of the earliest writers to note the link between economic equality and social cohesion was Alexis de Tocqueville in his *Democracy in America*.

There is a clear evidence that the more equal in the society the higher is the supply of social capital. The diagram of annexure 6.A depicts the correlation between equality and social capital in 50 states of United states.

In a 2002 paper, Eric Uslaner and Mitchell Brown showed that there is a high correlation between the amount of trust in society and the amount of income equality. They did this by comparing results from the question "would others take advantage of you if they got the chance?" in U.S General Social Survey and others with statistics on income inequality. Robert Putnam, professor of Political science at Harvard, established links between social capital and economic inequality. His most important studies established these links in both the United States and Italy. In a society characterised by equitable distribution of income, there is often a corresponding enrichment of social capital and social security.

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1 Alexis de Tocqueville, Democracy in America (1831)
2 Main article: "Wealth concentration log on 'downloadable international distribution of income 1960 – 1987'.
2. **INEQUALITY INCREASES CRIME RATES**

In addition to effecting levels of trust and civic engagement, inequality in society has also found to be highly correlated with crime rates. Most studies looking into the relationship between crime and inequality 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 less developed countries, as well as cross-section population within countries. It was found that among U.S States and Canadian Provinces there is a ten-fold difference in homicide rates related to inequality. They estimated that about half of all variations in homicide rates can be accounted for by differences in the amount of inequality in each province or state (Daly, et al. 2001). Fajnzylber, et al. (2002) found a similar relationship worldwide. From the study of growing income inequality some scholar hypothesized that there is a high degree of correlation between inequality and the rate of homicide and I quote:
"The most consistent finding in cross-national research on homicides has been that of a positive association between income inequality and homicides." (Neapolitan 1999 pp 260)

"Economic inequality is positively and significantly related to rates of homicide despite an extensive list of conceptually relevant controls. The fact that this relationship is found with the most recent data and using a different measure of economic inequality from previous research, suggests that the finding is very robust."

(Lee and Bankston 1999 pp 50)

2 INEQUALITY AND SOCIAL HEALTH

Recently there has been increasing interest from epidemiologists on the subject of economic inequality and its relation to the health of population. There is a very robust correlation between socioeconomic status and health. This correlation suggests that it is not only the poor who tend to be sick when everyone else is healthy, but that there is a continuous gradient, from the top to the bottom of the socioeconomic ladder, relating status to health. This phenomenon is often called the "SES Gradient". Lower socioeconomic status has been found to have a close link with chronic stress, heart disease, ulcers, type 2 diabetes, rheumatoid arthritis, certain types of cancer, and premature aging.
Despite the reality of the SES Gradient, there is debate as to its cause. A number of researchers see a definite link between economic status and mortality due to the differences of wealth possession, but they find little correlation due to social status differences\(^1\). Other researchers such as Richard Wilkinson, J. Lynch, and G.A. Kaplan have found that socio-economic status strongly affects health even when controlling for economic resources and access to health care. The most well known study which established a definite link between social status with health is a studies conducted by Whitehall on civil servants in London. The studies found that, despite the fact that all civil servants in England have the same access to health care, there was a strong correlation between social status and health. The studies found that this relationship stayed strong even when controlling for health-affecting habits such as exercise, smoking and drinking. Furthermore, it has been noted that no amount of medical attention will help decrease the likelihood of someone getting type 2 diabetes or rheumatoid arthritis - yet both are more common among populations with lower socioeconomic status.

Inequality does not only affect the health of human populations. David H. Abbott at the Wisconsin National Primate Research Center found

\(^1\) A. Leigh, C. Jencks, A. Clarkwest - see also Russell Sage working papers.
that among many primate species, less egalitarian social structures correlated with higher levels of stress hormones among socially subordinate individuals.

The most probable sequel to health effect of income inequality is reduction in longevity. Reducing inequality can increase life expectancy. Diagram in the annexure 6.B suggests that there is an association between GDP/capita (horizontal axis) and life expectancy (vertical axis). Differences in GDP per person indicate inequality between nations. So this graph shows how people in poor countries have shorter lives than people in rich countries. In reality, inequality within each country will exacerbate these differences. Poor people in poor countries live even shorter lives than the average for their country\(^1\).

The factors like better health care, higher income, better provision of water and sanitation condition, etc could provide a positive causal link between GDP/capita and life expectancy. But this is not the complete story. There is a substantial variation around a line that best fits these points.

At similar levels of GDP/capita, people in some countries live much longer than the norm and people in others live much less than the norm.

\(^1\) http://ucahlas.usc.edu/glossary.html#life.
China and Sri Lanka are in the first group, living longer than the norm. Brazil and South Africa, Saudi Arabia and Barbados, are in the second, with shorter lives than the norm.

In the low-income but high well-being countries, public action, often but not exclusively by governments, can reduce material inequalities. Examples of such action would include land redistribution, health care provision for the poor, subsidised food provision, livelihood support and progressive taxation. In the graph of annexure 6.B, China and Sri Lanka are examples where public action enabled high life expectancy despite low GDP/capita. Other examples include Cuba, and the Indian state of Kerala (Sen 1993; Dreze and Sen 1989)

South Africa, Saudi Arabia and Brazil have high levels of income inequality, and governments that have been chronically unresponsive to the needs of the poor. These two deficiencies are often reflected in low life expectancy relative to the GDP/capita of the country. Lack of income in the hands of the poor means they are unable to purchase medical care and other basic needs. Lack of government action to facilitate provision of livelihoods, food, health care, and other needs, also lowers life expectancy among the poor.
3. **Distributive Efficiency**

Income inequality is thought to reduce distributive efficiency within society. That is to say, inequality reduces the sum total of personal utility because of the decreasing marginal utility of wealth. For example, a house may provide less utility to a single millionaire as a summer home than it would to a homeless family. The marginal utility of wealth is lowest among the richest. In other words, 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; meanwhile, an additional dollar spent by a much richer person will most likely go to things providing relatively less utility to that person, such as luxury items. 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 satisfaction and happiness tend to be higher\(^1\).

4. **Inequality is an Economic Incentives**

Now one side of the coin is examined and let us turn the other side of the very same coin.

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\(^1\) Layard (2003); Blanchard and Oswald (2000, 2003)
Many people, especially after the downfall of former Soviet Republic, believe that income inequality provides an incentive for competition and innovation within an economy. It is also believed that a functioning economy requires a certain level of unemployment. These are some points supporting income inequality as an economic incentive. Income inequality

1. encourages labour force to improve their education & skills – better rewards as incentive;

2. encourages workers to work longer hours – higher incomes and so higher economic growth;

3. encourages entrepreneurs to accept more risks – vital to increase productive capacity.

The validity of this point have been rightly proved by the work of –

(a) Papanek and Kyn (1985) using the cross section data of 83 countries, concluded that “rapid growth in a mixed economy is quite consistent with unchanged, or even improved, income distribution even at early stages of development.”

(b) Annand and Kanbur (1993) have tested the robustness of Ahluwalia's estimates (which confirm Kutznet's U-hypothesis) with respect to variations in the functional form and data set. Their study
displayed a reversal of the commonly accepted inverted U hypothesis.

(c) Li and Zhou (1998) and Forbes (2000) find a positive relationship between income inequality and economic growth.
Annexure 6.A
(Correlation between equality and social capital in 50 states of United states)

Source: Main article of Wealth concentration log on 'downloadable international distribution of income 1960 – 1987'.
Annexure 6.B
(Association between GDP/Capita (horizontal axis) and life expectancy (vertical axis).

Source: http://ucatlas.ucsc.edu/glossary.html#life.