Inequality - Poignant Phenomenon of the Beginning of the 21st Century

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Abstract

Inequality is unfortunately a phenomenon of great relevance for the contemporary period. The increasing differences between the incomes of various social classes have prompted the multiplication of manifestations of individualism, selfishness, etc., thus jeopardizing social stability.

The eternal dispute between the liberalism imposed by markets and the need for state intervention to a certain extent in the economy must bring to the fore – together with economic growth – the interests of all the citizens of a country.

The accentuation of economic and social inequality over the last decades, the causes that led to this phenomenon and the context where such an evolution of inequality took place represent the main issues addressed in this paper.

I wanted to join those who try to draw the attention to the issue of increasing economic and social inequalities among the members of society, in order to raise the awareness of the decision-making factors on the chronicization of a phenomenon that could harm everyone on a long-term, including the wealthy citizens of the planet

Key words inequality, social exclusion, redistribution, middle class
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1. Introduction

One of the issues that marks the beginning of this century is represented by increasing economic inequalities in most world countries, including the developed ones, with old democratic traditions.

Getting a well-paid job depends on the professional and behavioral skills acquired by the individual during childhood and adolescence. These skills are based essentially on one's education level, family health and general atmosphere within it. Strong financial shortages usually lead to social exclusion for a large share of the population in a country.

Contemporary elites, which are quite numerically low, hold very powerful transnational companies, being thus able to influence and even to force politicians to promote laws that are favorable to them. It is noteworthy that the process of concentrating the economic power in the hands of several multinationals was also favored by the action of some global institutions. (Claire Sevrac, 2010, p.11)

The scientific approach is focused on the radiography of inequality, a phenomenon that significantly marks the beginning of this century, as well as on the need to find solutions for the mitigation of the current situation.

2. Theoretical background

From a conceptual perspective, inequality is equivalent to the lack of equality. The approach to inequality in this paper has not been made from this perspective. A certain level of inequality is even necessary for a number of reasons. It is essential not to overcome that inequality threshold that would trigger poverty and social exclusion for a large number of citizens.

The significant increase in the wealth of a relatively small number of people was made at the cost of strong environmental pollution, worsening food quality, stimulating the widespread use of medicines or dietary supplements, etc. Under these circumstances, most of the planet's citizens are in a state of accentuated economic and social discomfort.

We are witnessing a reduction in the labor force share in the total newly created value, in parallel with the increase in the capital share in the total newly created value. Consequently, the inequality degree has increased, and this phenomenon must be tempered if we want mankind to benefit in the next period from a balanced economic development and a reasonable living standard for as many as possible citizens.

To answer questions such as "Why and how was it possible to accentuate inequality?", besides using the didactic tool, I have turned to the relevant scientific literature in the field. From the issues raised by Karl Marx in his work, some of which are pertinent, to the group of 1% identified by Joseph Stiglitz or to the inequality of patrimonies debated by Thomas Piketty, the challenges of inequality have been numerous over time. These challenges have intensified in the current period given the issues the world faces in this area.

3. Increasing inequality in recent decades

Apart from some positive aspects, the significant economic development recorded globally during the current period – marked by the intensification of globalization – has entailed several shortcomings, including in terms of the equity in the distribution of income. Additionally, the GDP growth in many countries of the world has been based on questionable phenomena.

The expenditures related to the wealthy's personal security, the expenditures for the protection of private property and the arming expenditures are highlighted in the GDP structure. From this perspective, an increase in the GDP does not mean an increase in the population's living standard or a decrease in inequality.

The exploitation of natural resources such as crude oil, forests, etc. entails an immediate GDP growth for a limited period, in parallel to the diminishing of the national wealth. If we add the rents perceived by the state for the unjustified exploitation of natural resources, we find that the national interest is seriously damaged, even if the leading elites' interest is fully satisfied by the high commissions received.

The rapid increase in the world GDP per capita, comparable with the increase in the average salary per person, has led, since 1990, to a reduction in the share of labor force expenditures to the GDP in most countries of the world. This phenomenon was mainly determined by the ability of the capital to move freely around the globe to find the best capitalizing conditions. At the same time, a significant part of the profits generated by the financial markets and beyond has been removed from the economic circuit. Reducing the share of salary income in total income has led to a rise in overall inequality, favoring capital holders.

The share of budget revenues to the GDP is very low in the poorest countries, increasing gradually as the level of development reaches the highest values in developed countries. This indicator is almost twice as high in rich countries, compared to some poor countries. If a reduced GDP adds to a low collection rate, absolute budget revenues are extremely low in poor countries, leading to under-funding of education, health, pensions, etc. Without a proper tax collection system, the social valences of many developing countries are extremely limited.

The revenue structure of the 10% of the hierarchy has changed over time, and today it continues to dominate labor incomes, compared to capital income, which is largely a common situation. This changes radically in the case of the 1% of the hierarchy, where capital incomes become predominant. (Piketty, 2015, p.375, p. 379)

Interesting aspects of wage inequality can be found in the World Wage Report 2016-2017, developed by the International Labor Organization in Geneva.

According to a survey of 22 European countries (21 EU Member States plus Norway), in 2010, 5.8% of the total salary fund for these countries accounted for 1% of the highest salary earners. The country with the largest salary differences among the European countries for which data was available is the UK, where the 1% group receives 8.4% of the total wages paid in this country. Regarding the inequality in salary incomes, the survey highlighted the ratio between the average salary of the 1% best paid persons and the average salary of the 10% worst paid persons. For all 22 European countries, the average salary of the 1% group is 8.4 times higher than the average salary of the 10% group, the smallest values being highlighted in Sweden (four times), Norway (five times) and Finland (five times) and the highest - in the UK (eleven times), Latvia (eleven times), Portugal (twelve times), Hungary (twelve times) and Romania (fourteen times). For most of the 12 developing countries under analysis located outside Europe, this ratio is much higher, the highest being in South Africa (sixty-nine times). Values close to the European average are in China (ten times) and in Argentina (ten times). It is noteworthy that the analysis did not target the US, perhaps due to the lack of necessary data. (Worldwide Wages Report for 2016/17, Wage Differences at Work, International Labor Organization, p. 41, p. 42)

Table no. 1 Evolution of the GDP per capita (US dollars)

	1990	2000	2010	2017
USA	35601	44809	48206	53023
Japan	25218	38323	44341	38640
Norway	28204	38075	87831	74716

*Source:*www.unctad.org

There are countries with a very good GDP per capita; however, they do not excel in terms of their living standard. It is noteworthy that in the analyzed countries, the GDP per capita reached high values. However, there are notable differences in how revenue has been distributed among the members of the society. Reducing the taxing rate for the rich and reimbursing the bill incurred by the global financial crisis by all the American citizens has led to a rise in inequality in the US, with direct negative consequences for the middle class and especially for the poor. Japan and Norway (generally the northern European countries) recorded diminished inequality levels, compared to most developed countries and especially to the USA. Taxes are high in Norway but, through fair income redistribution, the state ensures a decent living standard for almost the entire population. In Japan, the success is due to the reduced gap between salary incomes before tax. In addition to the fair income distribution within the society, we also need to consider the amount of free time, the way in which leisure time is spent, the environmental conditions in which people work, etc.

4. Causes of increasing inequality

If, during the period following the Second World War, labor productivity registered growth rates similar to the salary growth rate, we have noticed that for the past thirty years, there has been a slight shift between the two labor productivity indicators. This is especially true for developed countries, led by the managers of large companies who have thus maximized profits, generating financial resources to over-size their bonuses. Moreover, managers have turned crises into great opportunities, dismissing many employees; this has led to an increase in labor productivity and implicitly to profits and bonuses, even in such turbulent periods. Of course, the managers' bonuses as rent hunters have also grown directly.

The accentuated market liberalization of the past thirty years has led to a significant increase in the number and impact of financial crises compared to the period stretching from the end of the Second World War to the 1980s. The inability to pay public debt, inflationary crises, currency crises and, last but not least, banking crises are forms of financial crises generated by a capitalism oriented too much towards market liberalization.

Excessive neo-liberalism has led to a rise in inequality, the situation worsening in countries where the most influential personalities in society (the few and the rich) are dominated by greed, corruption, megalomania etc. For economic and social corrections, state interventionism in certain doses becomes necessary. (Kolodko, 2015, p. 35)

A country that applies higher taxes to the rich generates a reduction in economic inequality, i.e. greater social comfort. On the other hand, the states that provide opportunities for excessive income growth without an adequate effort on the part of the beneficiaries, contribute to social inequality. Such privileged persons are in fact the unjustified beneficiaries of rents whereby states redistribute income in favor of the rich and influential. The dissatisfaction of popular masses, which most often materialize in large-scale social movements, also increases.

At the same time, the system has created the conditions for rent beneficiaries or "economic rent hunters", as called by Joseph Stiglitz, to take advantage of undeserved opportunities that have generated large sums of money. The rent beneficiaries are usually business people who hold important political positions or may influence people in such positions. In many cases, rent beneficiaries own media trusts or resort to such trusts to influence public opinion. (Stiglitz, 2013, p. 93-99) Undue benefits, obviously to the detriment of most of the population, can materialize in different forms:

- A monopoly in a certain field, triggering monopoly prices. If this monopoly was acquired following privatization at undervalued prices, then undeserved earnings are all the greater.
- More or less "masked" state aids, to the detriment of competition and population. Thus, for example, in Romania, a domestic chemical fertilizer company received natural gas (to use it as raw material) from the domestic production, through the goodwill of the Romanian government. This happened while the population and the other economic agents largely consumed imported natural gas, whose price was several times higher than the natural gas extracted in Romania. The substantial profit obtained by that company was achieved to the detriment of the Romanian population, which had to pay the bill for more expensive gas. Regarding Romania, we must emphasize that the Romanian state collects among the lowest royalties in the world for the right to exploit its own natural resources. It should also be emphasized that, Romania's natural wealth, compared to that in some countries in Africa or other parts of the world, is easily accessible and safe to exploit. The low level of royalties is doubled by a profit tax of only 16%, which make Romania one of the countries with the lowest level of oil extraction taxation.
- The payment by the rich of significantly lower taxes and charges – in the context of respecting shares – by reference to ordinary citizens. Funding electoral campaigns by strong financial, pharmaceutical etc., companies has led in many countries to the promulgation of laws favorable to the respective funders in terms of tax cuts and beyond. The same legislation allowed banks to generate famous derivatives based on questionable mortgages, products which they sold all over the world, buyers being unaware of the huge risks they faced.
- The right to exploit natural resources in exchange for the payment of unusually small royalties. Almost paradoxically, many countries that are very rich in natural resources are also very poor, one of the causes being represented by the reduced royalties earned for the right to exploit these resources. As an exception, we can highlight the case of Botswana, which, following the renegotiation of the income incurred by the assignment of the right to exploit diamonds, has earned substantial amounts of money, an important part being invested in education and health. The significant increase in Botswana's GDP over the last twenty years is the natural effect of a proper attitude adopted by this African state.
- Large companies imposed extremely high prices to different governments for infrastructure works, purchase of medical equipment, purchase of medicines, etc.

At present, as in the past, the idea that the substantial increase in the wealth of the rich would lead in time to the well-being of the poor has been verified only to a limited extent.

Excessive wealth is a weak incentive for many of its owners in order to make efforts to carry out investment projects with a special economic and social impact.

5 Conclusions

Despite all the progress made globally in the economic field and in raising the living standards of the population, we cannot overlook the large number of poor people on the planet.

About one billion of the world's population lived in 2016 in the extreme poverty areas, which – according to the World Bank standards – targeted people who lived with below $ 1.9 a day. The majority of these people are concentrated in Sub-Saharan Africa and South Asia. Approximately 800,000 of the poor are affected by hunger, which has an impact on their physical and mental development (TVR News, 2016, 1 billion people on the planet in extreme poverty - cause and consequence of social marginalization).

Rich people have access to technically well-equipped hospitals, benefiting from the latest findings in the field, while the poor, including their children, are undergoing ridiculous medical treatments; some are under-fed and therefore their immunity is very low.

Even in the happy situation triggered by the existence of an efficient and free medical system for all the citizens of the country, the physical and mental health of the poor is negatively affected by the financial shortages that they face daily. Life expectancy in many developed countries is by 7-8 years higher in rich areas than in poor countries.

Problems are aggravated by the fact that the people who get rich acquire an important political influence, redirecting the state's financial resources to support the growth of their own patrimony, diminishing the resources of the poor and their access to sanitary or educational services.

The strong rise in salary inequality, including in times of crisis, essentially demonstrates the market's inability to find equitable solutions to the problems it faces.

Limited and rational state intervention to reduce inequality is necessary and welcome. Thus, a state-balanced policy on income redistribution has helped hundreds of millions of people from China and Latin America to get out of poverty over the last thirty years.

In order to reduce inequality, the increase in the poor's income should have an average annual rate higher than the increase in the average national income through a correct substantiation of the investment, fiscal and social policies. The increase in the poor's income is primarily conditioned by the increase in income, in general, over a reasonable period.

This desideratum is difficult to achieve having in view that, according to certain scenarios, between 2018 and 2030 and even later, the average annual increase in the production rate will decrease compared to the period 1950-2018, because the technical progress has slowed down, environmental protection measures must be respected etc.

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