

# ECONOMIC INEQUALITY

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## Abstract

The concept of equality/inequality is an important subject of study in modern times. It is my endeavour to study one of the most important aspects of inequality. Visibly the concept of inequality seems to be very simple but actually it is quite a complex concept. Economic inequality is unequal distribution of income and opportunity between different groups in society. It is concern in almost all countries around the world and often people are trapped in poverty with a little chance to climb up the social ladder.

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The idea of inequality is both very simple and very complex. At one level it is the simplest of all ideas and has moved people with an immediate appeal hardly matched by any other concept. At another level, however, it is an exceedingly complex notion and consequently makes statements on inequality highly problematic. There are many different forms or aspects of inequality e-g. The relational and distributional aspects of inequality. In the first case we are dealing with inequalities inherent in the relation among people, such as those of super ordination and subordination i.e. inequalities built into the structure of rights of obligations by which they are bound: the sociologist is much concerned with the nature and forms of these inequalities viewing them as a part of what may be called the social structure or social morphology. But it is impossible to fully understand the relation among people. The pattern of rights and obligations by which they are bound of independently the distribution of material and other resources among them. The economists attend to the complex task of describing, measuring and comparing various patterns of distribution of wealth earning among men. Wealth refers to the various types of privately owned asset that yield income. Earning refers to economic rewards accruing to individual in returns for the contribution they make of various types to labour services. Income refers to amounts accruing of household from all sources and shared by all its members. The three size distribution of wealth earning and income portray the distributional consequences of the economic processes for the generation and disposal of income and hence we take them to constitute economic inequality.

It is found that complete economic equality would adversely affect both the incentive to work and the propensity to save. It is maintained that given the observable differences in the productive contribution of economic performances of different individuals equalisation of rewards, irrespective of contribution or performances would adversely affect the incentive to put in one's best. It is also maintained that the propensity to save is higher at higher levels of income and that equalization of income would adversely affect saving and investible surplus and hence economic growth. Consequently economic inequality resulting from the production process has been Justified in the interest or both efficiency and growth.

The work incentive effect is based on the idea of capacity to work and in results leads to productivity. It not only forces the person to do a given job but it also stimulates the efficiency with which he works. In this way he puts his efforts for complete work. In this way he puts his efforts for completion of work. It can be regarded a motivational factor for the economic rewards. We may thus conclude that the work incentive effects provides the most plausible arguments for the social acceptance of economic inequality since it justifies that inequality in terms of both economic efficiency and economic growth. It is obvious that inequality may be necessary as a method of developing the requisitive skills and abilities to promote economic growth. The efficiency leads to social Justice as the level of economic development rises. it becomes possible to achieve greater justice at the expense of further growth. But we must keep in our mind that "incentives can be regarded as means rather than an end in themselves".<sup>1</sup>

The acceptance of the work incentive effect rests on some general agreement regarding differential inter-personal abilities. The differential related to the work incentive effect provides quite effective argument for the social acceptance of economic inequality. For John Rawls, "the difference principle removes the indeterminacy of the

Paretian efficiency concept by singling out particular position from which the social and economic inequalities or the basic structure are to be judged. In essence the difference principle is equivalent to an asymmetrical use of the compensation principle with the provision that compensation

must be paid. For the principle enunciates that the higher expectation of those better situated are just if and only if they work as a part of a scheme which improves the expectation of the least advantaged members of the society.”<sup>2</sup> Expectations in the Rawls sense are to be measured in terms of income and wealth. so we conclude that interpersonal differences in ability lead through the work incentive effect, to differential reward and provide the most basic rational for the social acceptance of inequality. Hence inequality may be necessary as a method developing the requisite skill and abilities to promote economic growth.

Having examined the rational for the social acceptance of the economic inequality, we now turn to the question of determining its socially acceptable level or degree or measurement of inequality. Conceptually a distinction may be drawn between the objective and the normative approach of the measurement of inequality of income distribution. Sen has also proposed these two approaches for measuring the inequality or income. "In objective sense, it is usually employing some statistical measures of relative variation of income, and, on the other there are indices that try to measure inequality in terms of some normative notion of social welfare so that a higher degree of notion of social welfare so that a higher degree of inequality corresponds to a lower level of social welfare for a given total of income.”<sup>3</sup> Dalton's suggestion in his pioneering paper that "any measurement of inequality to be relevant must be concerned with economic welfare and that the problem must be looked at in terms of the form of the welfare function.”<sup>4</sup>

The alternative measures of inequality cannot be evaluated through the approach of the social welfare function without admitting interpersonal comparison of welfare. Not only does this imply strict concavity of individual utility function, but it also rules out treating social as a sum of individual welfare components with each judged without reference to the welfare components of others. Equity consideration can be incorporated into the form of social welfare function only through the assumption that the social valuation of the welfare of individuals should depend on the welfare of others.

This is the basis of Sen's suggestion that measures of inequality need not even be a function of individual utilities i.e. need not even be individualistic. Sen's own formulation based an 'as if comparison ( i.e. putting oneself in the position of another) and (preferring) to be person A rather than B in a particular situation implies concept of justice different than the one underlying the formulations developed in the utilitarian framework, yet Sen also chooses to use his framework of distributional judgement for a given definition of real income and of its the ground that the effect on welfare of size of real income and of its distribution cannot be split. In fact in the context of Rawl's maximum rule implying the concept of justice as fairness whereby the social objective, is to maximize the welfare level of the worst off individual, (implying much stronger criteria than Sen himself uses.”<sup>5</sup>

The evolution of the present capitalistic economies, the classic laissez faire system to various versions of the modern welfare state can be characterised in terms social acceptability of progressively more liberal ethical principals which seek to constrain the operation of market through equity based consideration. The essence of forces the efficiency-equity trade off involved in this connection consists basically of reconciling the claims of merits on ground of efficiency and economic growth with those of need on grounds of distributional justice.

The classical laissez-faire system based on unlimited acquisitive instinct as its motivating force has been recognised for its high efficiency and economic growth by its severest critics, including Marx. If Marxist writings closely studied, it will be found that nowhere is equality of income considered as an existing phenomenon or even as an objective. To Marxist "the trend of economic evolution is in the direction of age of plenty in which each will contribute according to his ability and receive according to his needs.”<sup>6</sup>

It should be noted that nowhere is an assumption that abilities and needs will be equal as between persons. Marx, for instance, accepted that one man is superior to another physically or mentally and interpreted equality at least in the first phase of socialism as opportunity for each to occupy the position corresponding to his ability but ridiculed the demand for equal rights and fair distribution is obsolete verbal rubbish. Justice has no place in the analysis of

economic relation by Marx and Engles. they ridiculed the term because according to them of focus on attention on the inequalities of distribution is to obscure the nature of the problem, to concentrate on the appearance at the cost of the reality of the mode of production of which it is a consequence.

As he puts it "Any distribution whatever of the means of consumption only consequences of the distribution or the condition of production themselves. The latter distribution however, is a feature of the mode of production itself. The capitalist mode of production for example rests on the fact that the material conditions of production are in the hands of non-worker in the form of property in capital and land, while the masses are only owners of the personal conditions of production of labour power. If the elements of production are so distributed then the present day distribution of the means of consumption results automatically vulgar. Socialism has taken over from the bourgeois economists, the consideration and treatments of distribution as independent of the mode of production and hence the presentation of socialism as turning principally on distribution."<sup>7</sup>

Marx's attack on the contradiction an revealed in the Gotha program between the principle of the workers right to get the undiminished proceeds of labour and that of giving equal right to all the members of society to the output of the society needs to be understood in the content of his emphasis on the relation between the mode of production and the distribution of the means of consumption. "A communist society which has not developed on its own foundation is economically morally and intellectually stamped with the birth marks of the old society from whose womb it emerges. Equal right 'stigmatised bourgeois limitations can imply only the "application of equal standard. Marx visualized only distinct prospect the possibility of crossing the narrow horizon of bourgeois as right in its entirety. it is only with the round development of the individual after labour has become only a means of life but life's prime want that the higher 'phase of communist at society based as from each according to his ability to each according to his needs."<sup>8</sup> The competitive process of natural selection that eliminated the unfit and rewarded merit was considered good for society as a whole.

In the content of the efficiency, equity it is necessary to ask why there was a compulsive need to constrain unlimited operation of the efficient process. Constraining efficiency implied not only a relatively lower rate of power and hence the self-interests of the dominant section growth but more importantly it meant curtailing the economic power and hence the self interests of the dominants section or classes. However the question remained as to how to bring about society acceptable and enforceable reconciliation of conflicting group interests in curtailing economic power. The resolution of such conflicts could not have been achieved without the introduction of generally acceptable equity based ethical principles by which the distribution of rewards and the allocation of goods and services took place.

Minimal modification of the laissez- faire system consisted of a formal elimination of those sources of discrimination that prevented entry to advantaged position through factors unrelated to Individual ability and willingness to strive those positions. These include discrimination on the basis of caste, creed or colour. The principle of the legal equality of careers open to talents was introduced to govern the working of the competitive system.

The economic game should be so constructed that every individual has an equal chance to win. In fair economic game men are equal until they prove themselves unequal. But what rules constitute economic game? The traditional test for determining the validity of specific rules has been their capacity for being universalized. This test springs from Kant's categorical imperative. The idea is to perform a mental experiment in which you place yourself in the position of every other person. If you would be willing to live with your suggested rule in all conceivable circumstances, then the rule can be used to construct a fair economic game.<sup>9</sup> Sen says in this context, "if i say, i would prefer to be person A rather than B in this situation, i am indulging in an interpersonal comparison while we do not really have the opportunities of in fact becoming A or B .We can think systematically about such choice and indeed we seem to make such comparison frequently."<sup>10</sup> Rawl's universal rule becomes "in each economic activity men must in such a manner as to maximize the economic price."<sup>11</sup>

The principle of equality of opportunity sought to correct the absence of these unearned circumstances by stipulating that the positions to be open, not only in a formal legalistic sense but that everyone should also have fair prospect to attain them irrespective of income and position. A more advanced version or the welfare state includes, in addition to the principle of equality of opportunity the principle ensuring the minimum need to everybody regardless



of person's contribution to social product. The idea is to provide some minimum general purchasing power to all in order to provide for the satisfaction of certain basic needs.

"Jekkins insisted that great changes must be made within a framework of wide spread consent, both because this is itself the right way to go about making reforms and because of the danger of democracy from a sudden and total assault on inequalities of wealth and income. Among the measures he discusses for attacking inequality are the capital levy and the public ownership. On the former he pleads for moderation suggesting that the state continue to pay some of the income out of the appropriate properties to the former owners. As to public ownership, he maintained that, short of wholesale nationalization, compensation must be paid to expropriated owners, otherwise particular owners would be discriminated against in contrast to those whose industries remained in private hands."12

We have seen that wealth is commonly singled out as the most important form and source of inequality. In the Marxist view wealth is taken to be the most significant fact, its distribution being itself determined by the ownership and hence control of the means of production.

The egalitarians who emphasize the misdistribution of wealth as one of the major forms and sources of inequality have therefore a great deal on their side to justify their conviction that the deal of securing to each person the condition necessary for good life is unattainable without redistribution of wealth. This is not to say all egalitarians think of elimination of the gross inequality in ownership and income as of itself sufficient but they would certainly be virtually unanimous in holding it to be necessary. Further, the general belief among egalitarians that the distribution of wealth is something we can control and modify in accordance with our aim is subject to reservation.

Yet some of the long-standing disputes in political arguments centre on the consequences of attempting to reduce inequalities of wealth. quite apart from the possible effect on incentives and the question whether it is unjust to equate rewards among persons with varying degrees of skill talent, responsibility, and industry, there is the claim that the accumulation of wealth in private hands can be an important safeguard against excessive state power and hence a bulwark of liberty.

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