

Unjust Income Distribution and the Main Purposes of Its Regulation

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Abstract

The article is devoted to the concept of economic inequality and unjust income distribution. Problems caused by unjust income distribution and the main objectives of its regulation are systematized and classified into the groups of economic, social, and political purposes. Each goal has been investigated separately.

Keywords: Unjust income distribution, economic purposes, social purposes, political purposes

1. Introduction

The ultimate goal of the government economic policy is to increase national income. Circular flow of income, its distribution and income consumption along with the increase in national income of a country are very important. Special attention is given to income distribution that can affect income circulation and consumption volume. The distribution of income is the allocation of national income generated by the production of goods and services (from domestically produced goods and services) at a certain time, especially during the year among persons, households and factors of production.

The study of the income distribution helps to explain the different rates of causes and consequences of the income and enables us to evaluate and adjust the economic, social and political situations that can arise in society in future.

In order to regulate income distribution we need to define two basic concepts:

- Income inequality
- Unjust income distribution

2. The Income Inequality and Unjust Income Distribution

Inequality is the concept discussed by people regardless of ideology, culture and religion led to an unfavorable environment and reduces income mobility for some strata of society (Dabla-Norris, et al, 2015). While income distribution is the allocation of wages earned across a company, industry, or country, income inequality refers to income being distributed in an unequal manner (Zeynalova, 2016). This unequal manner of income distribution is sometimes called economic inequality in literature (Holmes, 2013).

Inequality is a kind of difference found between different social classes, their living conditions and standards of living. But income inequality shows the magnitude of national income between strata of population. For instance, this can be the difference between the poorest 1% slice of the population and the richest 1% slice of the population. Rising income differences between groups over time can cause the growth in equality. Inequality or income equality is measurable, and can be measured the indexes of Gini coefficient, Palma ratio, Quintile ratio and etc.

Injustice like equality is one of the most important values (Dabla-Norris, et al, 2015). Although income is measurable and can be determine if it is equal or not, the fair or unfair probabilities of income distribution percentage are discussable. Justice is a subjective concept and cannot be measured. Absolute equal distribution and uneven distribution of income are definitely considered to be unfair. However, it is difficult to say anything specific about which measure of inequality can be called as fair or unfair income inequality. Unjust income distribution can be valued with dominated injustice views by population. Because the injustice of income distribution is not only economic case, but also social and political problem.

3. The Problems Caused by Unjust Income Distribution and Purposes of its Regulation

The income gap between social groups increases the scope and nature of the problems in society. Public confrontations, confusions, anarchies which disrupt economic stability are common in countries where income inequality is high, a greatest number of population get less share of income and where poverty is soaring (Holmes, 2013).

Income inequality causes depression and despair for the future among the poor where the vast majority of people live in poverty. Economic and social systems development delays or absolutely stops in hopeless society. Edward N. Muller and Mitchell A. Seligson's investigation (with to compare different peoples) shows that, the domestic political violence will significantly be high if income injustice is high (Muller, et al, 2014). The devastating effects of violence and loss of life in society have a negative impact on economic development. Thereby, unjust income distribution causes an increase in violence and situation that can lead to lower economic growth.

Definition of the border of unjust income distribution with economic analyses and other technique methods are very hard processes. Despite this there are some adopted common rules and standards which are accepted everywhere and every time to prevent the injustice of income distribution.

R. Musgrave mentions common public values about children who should not be left without milk, the olds who should be taken care and about poverty that should be kept under control as an example (Musgrave, 2004). It is necessary for government to intervene by providing control to reduce income inequality in a changing society that affects the public values. This intervention intends to balance national income and fair share of income of those involved in the production.

Due to the problems caused by income inequality within modern market economies, solving such kind of problems of income distribution in a society should be fair and reasonable. It can be classified into three groups: economic, social and political groups.

3.1 Economic Purposes

Regulations on income distribution serve the following economic objectives:

- Public and private sector demand of society
- Ensuring efficient use of resources
- Saving-investment balance
- Developing of human capital
- Attracting foreign investment
- Increasing labour productivity
- Regulation on economic development

The principle of market economy is mainly based on demand, supply, price and competition principles. In order to make this mechanism work, members of society have to gain purchasing power. If fair distribution of income is not realized society members are not able to deliver their true needs either public or personal sector. This situation prevents the efficient use of resources (Musgrave, 2004). At the same time rich people compared to poor tend to consume a relatively small part of their income. Low purchasing power of low-income population tends to reduce aggregate demand. The lack of demand negatively affects the balance of savings and investments in an economy. All demand gets decreased because little profitable people's buying power is low. Unemployment results due to a lack of demand (Holmes, 2013) lead to a further deterioration of the financial and social status of low-income population.

Different problems that income inequality causes have negative impact to economic increase and sustainability (Dabla-Norris, et al, 2015). They can be added to the problems faced in the development of human capital and balance of payment difficulties. During the unfair income distribution demand for luxury goods brought from foreign countries are growing faster as they are being consumed by rich population (Cornia, 1999). This situation disturbs the equilibrium of the balance of payments and causes an increase in imports. Other effects of unjust income distribution in society of people with the lowest income are related to the general level of health and education. Low level of health and education prevents successful human capital development plans. The income gap between the rich and the poor causes stress and harms the health. All these are considered as a risk factor. For example, World Health Organization research results show that, mental health in countries where it is unjust income distribution is worse than in country where the income distribution is much fairer.

A similar situation is observed in the levels of education among low-income people. Thus, the production capacity of people with low levels of education and sick people are not fully used and inhibits the development of the human capital.

In addition, the foreign capital flow is reduced because of the violation of macroeconomic stability in the country. And dramatic difference between the wages causes low willingness to work hard because of the low-wage. In his case low-wage workers refuse to work, because they can't easily change low paid jobs to high paid ones and earned income does not meet their needs. This sort of problems reduces productivity of workers' (Holmes, 2013).

3.2 Social Purposes

Income distribution of each society creates its own public features. Crises tend to occur in accordance with extremely high income distribution, on the contrary during the periods social stability occurs with the fair distribution of income. Main difference between of these two cases is connected with destructive and aggressive features in first, and possession of a fair and consistent structure in second. Social purposes are very important as a priority in regulating income distribution.

Creating an atmosphere of social stability in the country is related to the guaranteed minimum income for all citizens. The main principle of the regulation of income distribution to a minimum living standard for everyone is connected with the recognition of the right to a minimum income. Because, every citizen has the right to defend his or her dignity, but without minimum income it will be hard to do it. If the income is not enough to meet the basic needs and live decently social discontent spreads, theft, immorality and crime rate rises (Cornia, 1999). In addition, it is believed that terrorism nowadays is caused by income inequality and poverty (Piazza, 2007).

3.3 Political Purposes

Income distribution gap can lead to implementing policies that halt development. At the same time the power achieved by the ruling elite strata - can lead to a reduction in public goods, which increase development and production, and disproportionately usage of benefits by the poor (Dabla-Norris, et al, 2015). In addition, unfair income distribution may limit rights of the people to elect and to be elected and freely and independently use this right. Because problems in economic and social life of a country caused by income distribution gap weaken country's legislation and expand negative circumstances that destroy society such as corruption. In a society dominated by corruption and where the law does not work people really cannot use the rights legally granted to them. In general, political decision making mechanism that works more effectively and political stability are being observed in developed countries that have a certain balance of income distribution. Thus, providing a fair income distribution is very important for some political purposes.

4. Conclusions

Providing and protection of economic, social and political stability is one of the most important objective of public purposes. The realization of this goal is in principal connected with being fair about income distribution and provision of sufficient income to live on maintaining at least a certain level of minimum income. As unjust income distribution values are subjectively, its determination and setting specific limit are very difficult. However dramatic income distribution gap between income groups is regarded as unjust income distribution and the limits of it can vary from community to community. As unfair income distribution forms in market economy and creates wide income gap between stratum state interventions to income division is deemed to be necessary.

The distribution of national income between the social strata and other segments of the society is an indicator of the health condition of people, their predictions about the future and the size of problems that may arise in the country. In this regard considering unjust income distribution problems governments should realize income distribution that serves economic, social and political purposes. In this context, economic purposes cover goals as efficient use of resources, protection of investing and saving balance, development of human of capital, involving of foreign investment, increasing labour productivity and so on. Social purposes are realized in order to make society as more moderate and consistent structure, involve units that have trust and social effectiveness, prevent terrorism, immorality, stealing and criminal cases. Political purposes consist of goal that preserves political stability, increase the efficiency of the implementation of policies as public goods production, create more effective political and legislative decision making mechanism that provides people a right to elect and to be elected.

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