

Social Wellbeing Inequality and Solutions

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Abstract. This paper aims to discuss the topic of income inequality theoretically. Income inequality, a persistent and multidimensional challenge, has deep-seated causes and wide-ranging damages. This paper states several potential causes of the income inequality and gives reasons that why these are the triggers or the catalysts of income inequality. Also, potential damages can be comprehensively indicated in people's daily life. Income inequality can even influence other social wellbeing that affect the living standard for people. As a global dilemma requiring remedy, comprehensive policy approaches, addressing education, taxation, social safety nets, and more, are necessary to resolve this problem, which are discussed in this paper. Demonstrations about the effect of these policies are made as well. Yet, feasibility varies widely, influenced by political, economic, and social factors. To evaluate these policies, the limitations and drawbacks are vital elements. This paper also includes these evaluations. Crafting an equitable future requires collective effort, drawing on successful policy solutions and acknowledging the complexities of income inequality. While policy implementation may be challenging, the pursuit of a fairer and more just society remains crucial.

Keywords: Income inequality, social wellbeing, Economic growth.

1. Introduction

Along with the rapid growth of the global economy, the governments of each country must face economic problems. For some situations, the government can only strike a balance between each goal by trading off, including the basic government macro aims of price stability, economic growth, full employment, balance of payment, resolving income inequality. There are comprehensive chemical reactions between each goal. For instance, when economic growth happens, people gain higher income and make more consumption, which will raise aggregate demand, causing demand-push inflation. This brings conflicts between price stability and the economic growth. At the same time, with the growth, the rich better off, even likely to cause monopolies. Thus, income inequality is boosted. The most severe troubles that existing globally now is the income inequality, which is also puzzling the economists with its intractability.

2. Concept of income inequality

2.1. Definition

Income inequality refers to the uneven distribution of income within a certain population. The more the income distributed unevenly the more unequal the income will be. This is always accompanied with wealth inequality and poverty. Nonetheless, as part of people's social wellbeing, income inequality is not the only factor but the biggest one. There are methods to measure income inequality such as GINI coefficient, which ranges from 0 to 1 with 0 representing perfect equality and 1 representing perfect inequality. This study helps indicate the disparity of income of people from different social classes.

There have been comments that income inequality has got considerable advantages such as it can promote the general living standard by raising the national saving rate. Some also claims that this fits the trend of Schumpeterian innovation, which is eventually beneficial to all the individuals inside the economy.

However, this is inevitably a problem in need of remedy. As one of the governments macros aims resolving income inequality has puzzled the economists for ages. The government cannot leave this situation happening as the income inequality will bring risks to the whole economy.

2.2. Calculation (Gini Coefficient)

As the most wide-accepted measurement, GINI co-efficient indicate the extent of income inequality in a numerical way. After Lorenz introduced the Lorenz curve in 1903-1907, there had been lots of indexes innovated to calculate the magnitude of income inequality. Not until the Italian sociologist Corrado Gini came up with the idea of Gini co-efficient in 1912 had economists generally accepted this index as an indicator of income inequality.

2.3. Current Situation in Countries

As said, the income inequality has been a political dilemma in countries around the world. The situation in the United States, for example, has reached an alarming level, with the substantial disparities of wealth distribution. In US, as of the most recent data available from the U.S. Census Bureau, the Gini Index stood at 0.482 in 2019 [1]. This index has fluctuated for years, however, showing generally upwards trend since 1970s. According to the Congressional Budget Office, the top 1% of income earners found their income grow by 229% between 1979 and 2019, while the bottom 20% experienced an increase of only 46% during the same period [2]. This prominent inequality has extensive influences on the society and economy of the nation.

3. Causes of income Inequality

Income inequality, a multidimension dilemma, has got too many direct and indirect factors that can deteriorate the disparities of income distribution.

3.1. Region Disparities

Different regions inside one economy can be classified into urban areas, with abundant resources, and rural areas, with severe shortage of resources. To be more specific, resources include educational resources, technological resources, and information.

Unequal access to quality education perpetuates disparities in income [3]. As one of the most significant sources of income inequality, the lack of educational resources has created the vicious circles in countries around the world. In marginalized cities, people have been forced to face obstacles while access to quality education. This phenomenon contributes to the skill gaps between children from these two areas, eliminating the opportunities for the poor children to ever apply for well-paid jobs. Researches have shown that the difference of the investments in education can be the determining factor for two families of similar income level to make dramatic difference in the future.

While technological advancements enhance productivity, they also favor high-skilled workers, leaving low-skilled workers at a disadvantage. The advanced technology, with no doubt, promotes the economic growth in long run, and furthermore, enhance the sustainability of the development. However, the labor market reform and the industrial transformation, which are both the products of the artificial intelligence revolution, have made high-skilled workers better off, at the same time, poor-educated labors are replaced by machinery. This is the next part of the vicious circle of income disparities after the uneven distribution of educational resources.

3.2. Globalization and Trade

Globalization facilitates the flow of goods and capital but also leads to wage stagnation and job displacement as low-skilled jobs are outsourced to lower-wage countries. Globalization, promoting economic growth, inevitably poses a dual impact on income distribution [4]. This phenomenon is called trade-induced inequality. As what introduction discussed, conflicts of each dimension of the governments' macro goals have brought economists with tough troubles. Companies always aim to

maximize their profit with no government intervention, which opposes the purpose to remedy income inequality under the globalized market.

3.3. Tax Policies

As the most direct influence on the income, taxation play a vital role on determining the trend of the income distribution. Regressive tax systems, where the affluent pay a lower proportion of their income in taxes, exacerbate wealth concentration. Though with a few advantages, regressive taxation is not only charging too much from the poor, but it also reduces the availability for government to gain more tax revenue along with the economic growth. For the rich are the most benefited during the economic boom, the higher the proportion they pay, the higher the government's budget can be. When the government adopts regressive tax, its lack of tax revenue can hardly support the original program such as transfer payment or the medical assurance provide for the poor. Eventually, the low-income group not only receive lower disposable income to support the necessities, they enjoy less bonus from the government as well. Their well-being is then completely worse off.

3.4. Institutional Factors

Though not directly implicating the income inequality, the government institutions efficiency determines whether the theoretically reasonable policies will work in practical situation. Weak institutions, corruption, and a lack of transparency enable the elite to siphon resources from the broader population. The weakness of roles always let those elites seize the chance to earn more resources. The same for the labor market regulation. If the labor unions have strong bargaining power, from legislation for example, they would be able to negotiate with the companies to ensure the workers positions and fair wages.

3.5. Social Contradictions

The most fundamental, impossible to be resolved, and influential factors that the income inequality ought to be attributed to is the social group contradictions. Deep-seated biases, including gender and racial disparities, persist and contribute to income inequality. These biases are historical problems that last for decades. Though modern society have always been encouraging respects to difference, peace and love, stubborn people are never able to eliminate something deep from their gene.

4. Potential Damages

The uneven distribution of income has led countries around the world to severe situations. The social consequences are reflected comprehensively in various aspects.

4.1. Erosion of Social Cohesion

Income inequality corrodes trust and cohesion in society, leading to polarization and a sense of injustice [5]. As the wealth distribution getting polarized, it fosters the feeling of resentment and diminishes social trust. This will result in unpredictable ways. For the temporary influence, it will raise the sense of social injustice, producing civil unrest, at the same time, eroding the social solidarity. As long as this situation fail to receive any remedy, it then motivates the political destabilization and party fights. Strike, march, and even the rebellion will stagnate the economic development, further promoting the predicament.

4.2. Social Wellbeing

The social disparities have been indicated in more fields than just income inequality. Income inequality perpetuates disparities in access to education and healthcare, limiting social mobility and entrenching poverty. The wealthy families are capable to provide their next generation with the best educational resources, which enhance the skills of them and directly leading the social polarization to worse condition. Consequently, the wealth distribution will only get more and more polarized. This

perpetuates a vicious circle of poverty. Furthermore, the limitation of wealth can be extended to the limitation of resources, including health care, education, and necessities. Income inequality is associated with elevated crime rates, as individuals facing limited economic prospects may resort to criminal activities. The criminal activities include stealing properties, revenging the society through violence. This has huge effects on normal people's daily lives as it poses people with such potential threat of getting injured or being robbed. As one of the elements of people's living standard, their safety should receive the most attention and sufficient efforts, which can resolve the problematic situation. This places large burden on law enforcement.

History shows that extreme disparities can ignite social and political upheaval. The Arab Spring and the Occupy Wall Street movement are convincing examples of how income inequality can serve as a catalyst for large-scale protests and social unrest. Conclusively, the income inequality has been removing most people from a stable and safe living condition. Instead, it causes damages that make people worse off comprehensively.

4.3. Economic Underperformance

The income inequality is limiting the economy from both aggregate demand and aggregate supply. For the most fundamental influence of income inequality is to concentrating the wealth in the top few people, which shrink the middle stages' purchasing power, and directly reduce the aggregate demand. For the supply side, the income inequality let most of the resources, mostly labors, untapped. To be more specific, many talented workers failed to receive proper education, thus reducing the productive capacity in long run. Then the aggregate supply gets damaged in an increasing rate. This can be classified as the top emergency of the economy since the collapsing AD and AS will make the price level unstable. Unstable price level and income inequality happening together will stage the economic growth. As said in the introduction, the five main government goals are connected closely with each other. Whenever one of this goes wrong, other goals will soon get worse.

4.4. Social Mobility

Income inequality acts as a formidable barrier to upward mobility [6]. Opportunities for education, career advancement, and socioeconomic mobility are constrained, which perpetuates a rigid social class distribution. People are forced to accept their social class and all the ways up are prevented since they cannot pass the threshold of accessing resources. The society stagnate and people lose activities, making the society depressing. This further reduce the aggregate supply since workers are less motivated.

4.5. Global Economy

Income inequality transcends national borders and affects global economic stability. The income gap between countries contribute to the instability of the global economy. Trade imbalances and the exploitation of less developed nations can lead to economic turbulence. These pose a threat on the sustainability of the future global development.

5. Corresponding Policies and Feasibility Discussion

5.1. Progressive Taxation

One of the most frequently suggested policies to tackle income inequality is progressive income taxation. Increased structural progressivity of the PIT structure reduces observed income inequality [7]. Implementing progressive income tax policies can redistribute wealth and reduce concentration among the top earners.

This taxation imposes higher tax rates on individuals with higher incomes, which is beneficial since it can reduce the concentration of income within the top income individuals. Carrying out this policy can also increasingly enlarge the government tax revenue since the higher income individuals

pays higher proportions. Thus, the government can afford more government spending on providing the low-income group with resources, such as transfer payment, infrastructures, and compulsory education.

Feasibility: Whether the government can resolve the income inequality by implementing the progressive income taxation depends on the law enforcement. Tax evasion is likely to happen when the countries have weak law system. What is more, the high-income groups will raise negotiations against this policy, which is a challenge for the government.

5.2. Social Safety Nets

The establishment of robust social safety nets, including unemployment benefits, food assistance, and universal healthcare, can shield individuals from economic hardship and reduce income disparities [8]. When the basic needs of people can be met, they will be prevented to fall into poverty.

Feasibility: This policy just ensures these people not becoming the poor; however, to help this people and their next generation, the government needs more budget to provide resources, such as schools, training stations. Getting equipped with skills is the most important factor to judge whether this person have the social mobility upwards. If only providing necessities, people may just rely on the government and lose motivation since they lack competitiveness to enter careers.

5.3. Accessible Education

As discussed in the two policies before, education, including training, is the most significant methods to equip people with social mobility. The government should provide compulsory education to ensure the equitable access to educational resources for young children. This ensures the basic knowledge base for every child. Then the government should provide training to some practical skills, such as cooking.

Feasibility: However, the quality for the government-provided education could be a problem. In many cases, since the government pay for the program, many compulsory schools have poor quality, which cannot even meet the basic threshold of education. Thus, these educational resources cannot really provide children with any skills.

5.4. Labor Market Reforms

Implementing labor market reforms, such as minimum wage increases and wage discrimination regulations, can foster a more equitable labor market and perpetuate better income distribution [9]. This policy provides the trade unions with bargaining power so that they can negotiate with the companies and combat wage discrimination.

Feasibility: This policy places the pressure on the businesses. On the other hand, the companies may fail to afford the new minimum wage and shut down. So, this may result in higher unemployment rate, and having opposite effect on the income distribution. The magnitude of the minimum wages and the extent to which the government should ensure the job security require accurate calculation.

5.5. Wealth and Inheritance Taxes

Introducing taxes targeting the accumulation and transfer of wealth can reduce intergenerational disparities and wealth concentration. By imposing taxes on large inheritances, the government can generate more tax revenues and mitigate the income inequality.

Feasibility: Some countries successfully implement this policy while some still face the strong power against this policy from powerful elites. This policy requires government power to bargain with the wealthy individuals.

5.6. Universal Basic Income (UBI)

Universal Basic Income (UBI) is a policy concept gaining attention as a potential solution to income inequality [10]. It provides every citizen with a regular, unconditional cash payment, offering financial stability, poverty reduction, and opportunities for education and personal development.

Feasibility: This program has to face the resistance from those who concern about the high expenditure. Pilot programs and studies are being conducted in various countries to assess the potential impact and feasibility of UBI.

6. Summary

This paper has discussed about the income inequality multidimensionally from the causes, damages, and the policies. As a common phenomenon globally, income inequality can be caused by various reasons. Such as improper taxation, globalization, and different access to resources. The most important is that these causes can form a vicious circle, which is the reason why this problem has been so intractable. Resolving the income inequality, one of the macroeconomic aims of the government, has been raising much attention from the government and the economists. This is because it can bring incredibly damages to the whole economy. For instance, the economic underperformance discussed in this paper, it one of the most terrible results. It causes the economy to fluctuates. The five main goals of the government, as discussed, have to be ensured under control. Or the consequence will be too destructive for the government to afford. The society will always remain unrest if the income distribution cannot receive proper remedy, which may even cause emigration of elites.

Paragraphs about the damages of income inequality have demonstrate the significance of resolving this problem. Then the next part is about the evaluation about the policies aiming to address the income inequality. Progressive taxation, as one of the most helpful policies, also have some uncertainty. As discussed in the paper, the implement of the policies always faces challenges from different sources. This contributes to the current situations that all the policies discussed succeed in some countries but also fail to have positive effect in other countries.

To conclude, as one of the most tough problems for economists to address, income inequality will still play the role of a huge risk for the government to undertake. Thus, the progression in the policies making and implementing can never stop.

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