*IOSR Journal of Economics and Finance (IOSR-JEF)*
*e-ISSN: 2321-5933, p-ISSN: 2321-5925. Volume 12, Issue 4 Ser. VII (Jul. –Aug. 2021), PP 19-27*
*www.iosrjournals.org*

# Social and Economic Inequality: A Natural Occurrence? A paper on the nature, consequences, and incidence of social and economic inequality.

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***Abstract:***
*Economic and productivity growth are the underlying philosophies of the capitalist economies. Liberals also believe that social and economic inequality is a necessary precondition for a sustained growth, and inequality between countries is necessary for growth, and within creates social strata, divisions, civil strife, and disobedience. This paper examined the various positions, highlighting the impact of social and economic inequality on social cohesion and disruption, global peace, economic growth, on individuals and nations. We observed that GDP growth in countries with higher inequality does not trickle down into well-being indices such as access to health care, education, trade, and other social safety programs. Productivity growth raise output, and output growth creates the market condition necessary for competition and we conclude that social and economic inequality is a natural phenomenon that is necessary for economic growth. Developing countries should reduce the negative impact of higher inequalities through the provision of social safety programs, health care, and education that will reduce the widening gap and create a sense of well-being, social justice, and increased participation in the social, economic, and political process.*
***Keywords:*** *Social Inequality; Wealth Inequality; Economic Growth*

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Date of Submission: 22-08-2021 Date of Acceptance: 06-09-2021

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## I. Introduction.

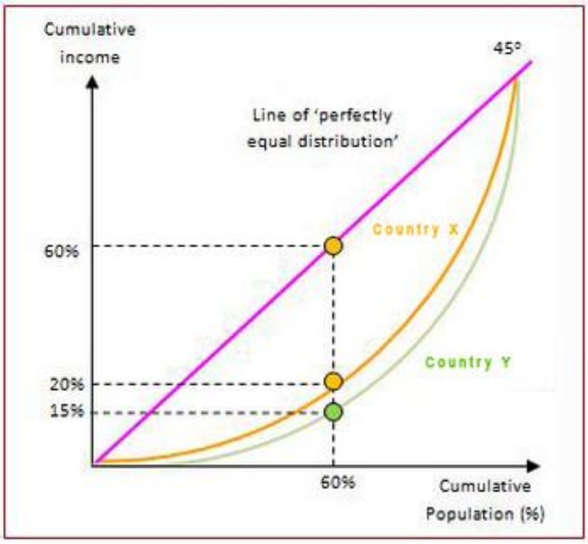
***"The worst form of inequality is to make unequal things equal"*** – Aristotle

Human nature is in constant pursuit of equality, and in the real world, equality is rare and non-existent. Individuals and nations of the world have made efforts to promote ways and strategies to reduce the incidence and levels of social and economic inequality. The concept of inequality provides some levels of psychological and emotional discomfort, and the idea of making unequal things equal provides more levels of discomfort to the individuals and nations of the world. Inequality exists in all social and economic fabrics of the society. Governments and nations have made concerted efforts to reduce the extent and impacts of social and economic inequality, and billions of dollars have been committed to reducing high levels of economic inequality, as this is one of the major factors responsible for ill-health, spending on healthcare, and decrease in the educational performance of the poor in the society. Inequality is bad for a society, and societies with high levels of inequality experience higher conflicts, social and economic injustice, and social ills. Jan Delhey (2020) theorized that, in a cross-national comparison, nations with higher income and economic gap between the rich and poor have higher social ills. Inequality creates friction and weaker social bonds and relationships amongst its people.

Inequality is a state of being unequal or uneven. The uneven allocation of resources, social disparity, and unequal access to opportunities. Inequality is characterized by the existence of unequal rewards for the different social classes and positions within individuals or society. Inequality includes recurring models of unequal allocation of goods, opportunities, and incentives. Social inequality includes the existence of unequal rewards and opportunities for varied classes and social groups or society. Economists have classified inequality into three different types. Income Inequality, Pay or Incentive Inequality, and Wealth Inequality. The most used method of economic inequality is the Gini Coefficient. This measures the level of inequality across the society at large, rather than between different income groups. In this case if all the wealth or income of a country is allocated to one individual, then the Gini Coefficient is 1, if the wealth levels are shared equally, and everyone gets exactly the same amount, then the Coefficient is 0. The lower the calculated Gini values, the lower the levels of inequality. Most sub-Saharan African countries have high Gini Coefficients. Most OECD countries have lower values which shows an unequal society. The lower the values, the higher the levels of equality.

The Palma Ratios measures the income share of the top 10% to the bottom 40%. In societies with more equality, this ratio will be one or below, which indicate that the top 10% do not receive a larger share of the national wealth than the bottom 40%. In rare cases, the ratios may be as high as 7, which indicate a higher level of inequality. United Nations (2020) reported that as of 2020, 71 percent of the world's population live in nations and societies where inequality has increased. Inequality is the way people compare their social and economic circumstances with their peers, and other members of the society. Inequality has grown in some countries while it has dropped in others. Despite economic progress, wealth is still limited to a few members of the society. Oxfam ( 2018) reported that in the ten years since the financial crisis, wealth has been largely concentrated in few hands, and the number of billionaires have doubled.

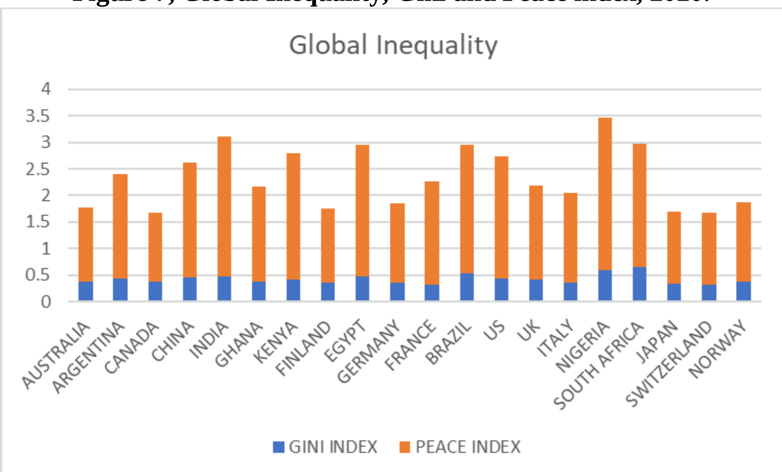
**Figure 1. Lorenz Curve**




Source: Author' reproduction

The co-efficient indicates the gap between two percentages: The population and the Income percentages received by each percentage of the population. At **0**, this is the region of Perfect Equality, where 20 percent of the population equals 20 percent of income. At **1**, the region of perfect inequality, where all the income of the economy is allocated to one individual. The straight Line shows the points of absolute equality of income. That is, at any point on the line, the amount of income is earned by the same amount of households. The Lorenz Curve shows the actual distribution of income, and the further away from the Line of Equality, the more unequal is the allocation of income. Starmans et al (2017) in a thought-provoking research posited that if one believes that (a) people in the real-world exhibit variation in effort, ability, moral deservingness and so on, and (b) a fair system takes these considerations into account, then a preference for fairness will dictate that one should prefer unequal outcomes in actual societies.

**Figure 7, Global Inequality, Gini and Peace index, 2020**.



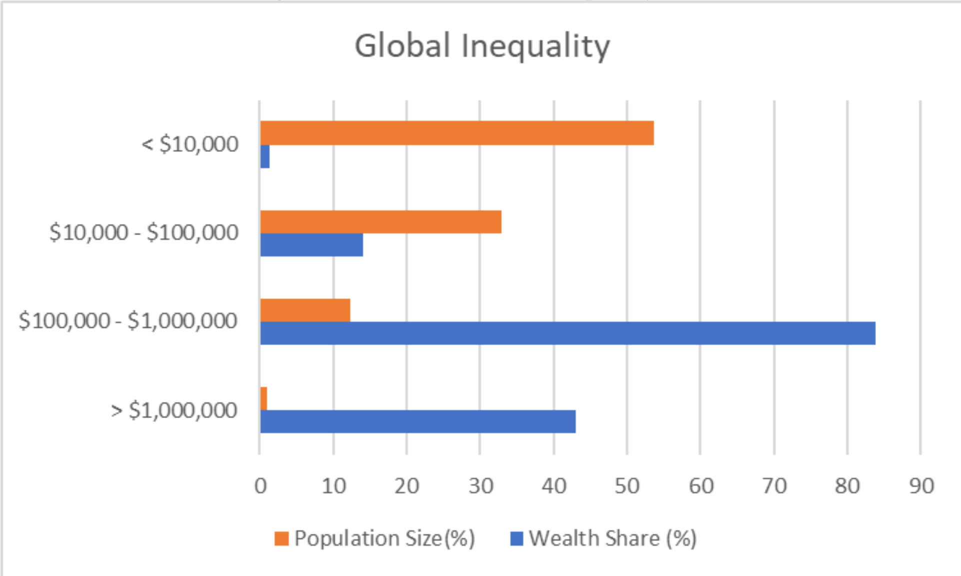

**Source**: Author's reproduction. Global Peace Index 2020

Figure7, show 20 countries from 6 continents with varied Gini and Global Peace Indices. Australia with a Gini index of 0.38 has a Peace Index of 1.389, US: 0.43 and 2.307, and South Africa: 0.65 and 2.317. The analysis shows countries with higher inequality ranked lower in the global peace index, and 2020 findings depicts a less peaceful world since 2008. By contrast, the world's least peaceful nations have experienced lower levels of peacefulness in the last 10 years, and the world generally has become less peaceful, in the Middle East, Europe, and Africa. This trend has been attributed to social conflicts, demonstrations, political instability, and terrorism impact.

***"Just 8 billionaires own the same wealth as the poorest 3.6 billion people"*** – OXFAM

OXFAM (2021) reported that the inequality virus is proving as deadly as the corona virus of 2019. In the global economy resulting from the pandemic, 1,000 of the richest people recovered their losses within nine months, and it could take over ten years for the world's poorest to recover from the impact of Covid-19.

**Figure 2. World's wealth Inequality 2020**




**Source**: Credit Suisse Global Wealth Report Databook, 2020

Figure 1 shows the amount of wealth controlled by the number of individuals in the world. 43.5 percent of the global wealth is controlled by 1 percent of the population, 83.9 of the wealth is controlled by 12.4 percent of those with over $100,000, and individuals with less than $10,000 and make up 53.6 percent of the world's population, controls 1.4 percent of the wealth. Report also indicate that the total wealth by ten of the world's richest men is more than the combined wealth of many countries.

Income inequality varies widely across regions of the world. Report indicate that it is lowest in Europe and highest in the Middle East. Since the 1980s income inequality has risen sharply in North America, Russia, India, and China, and has grown moderately in Europe. In sub-Saharan Africa income inequality among the highest in the world. Rising inequality is affecting over 75 percent of the global population. United Nations (2020) reported that this rising inequality is aggravating the risks of divisions and impeding economic and social development.

***"You need some inequality to grow…but extreme inequality is not only useless but can be harmful to growth because it reduces mobility and can lead to political capture of our democratic institutions"*** – Thomas Piketty

**Figure 3. World's top 10 billionaires and GDP of some selected countries, 2016.**


**Source:** Author's reproduction. Forbes 2016 list of billionaires

Figure 3, shows the combined wealth of the world's top ten billionaires greater than the combined GDP of Nigeria, Belgium, Iran, Norway, Thailand, Austria, UAE, South Africa, and Colombia. Ojo (2020) observed that the major reason why inequality has become a major socio-economic and political issue is due to globalization and rise in technological breakthroughs. Whereas globalization has reduced global inequality, it has raised the level of inequality within nations. Over 70 percent of the world's adults own under $10,000 in wealth, the larger proportion of global wealth is skewed in favor of the lower 30 percent. Western and European countries host the lion share of the world's millionaires. More than 70% of the world's millionaires reside in Europe or North America, with 43% of these millionaire calling the United States home. The only non-Western nations with a significant share of millionaires are the industrial powerhouses of Japan, China and South Korea.

**Social Inequality**

Societies are organized in hierarchies of class, race, and gender, that shares access to economic resources and rights unevenly. Unequal access to rights and privileges, opportunities, education, political structure, and legal system. Social inequality is equated with social stratification which is characterized by unequal rewards and opportunities for the different strata within a society or group. Inequality of human conditions refers to the uneven distribution of wealth, income, and goods. In most countries, there are housing projects, financed by individuals and governments. However, there are homeless people in such societies who are deprived access to these housing systems. In such societies, some individuals and households are poor, economically unstable, plagued by squalor, violence, while others are invested in businesses and governments, and they thrive to provide safe, secure, and conducive conditions for their households. Research has shown that most social and economic problems are attributed to unfair distribution of wealth.

Inequality of opportunities refers to the uneven distribution of life prospects across individuals. Inequality of opportunities is a major determinant of the wider gap in the level of inequality in the world. This is usually reflected in varied measures such as education, health status, and the nations justice system. Inequality of opportunities is responsible for various forms of discrimination, and reproducing the forms of social inequality, racism, class, and gender. In societies where women are paid less than men are a classic case of inequality of opportunities. UNESCO (2019) in its report observed that tackling the issue of gender equality is to require a coordinated approach that will guarantee that boys and girls gain access and complete education cycles. Courtwright (2008) posited that gender imbalances have deeper and more entangled roots, and how past societies struggled with, and adjusted gender imbalances reveals deeper insight into how modern societies might do so. Generally, social inequality can be classified into various forms of income gap, gender bias and inequality, accessibility to health care, and social stratification.

**Theories of Social Inequality**

In the study of the development, structure, and function of human society, there are two main theories of social inequality.

1. The Functionalists believe that inequality is unavoidable and necessary. This plays a very crucial role in the society. It is believed that important positions in the society requires more responsibilities, and hence more training, and such positions should receive more rewards. According to this school of thought, this view led to meritocracy based on capability. In this approach, global inequality is not a problem, but rather is based on compensation structure to reward and motivate highly capable individuals to pursue higher positions of authority.
2. The Conflict Theorists, however, view inequality as groups with authority dominating less powerful groups in the society. This school believes that social inequality impedes progress in the society, and that those in positions of authority oppress and repress the powerless members of the society to maintain their various positions. This theory focuses on competition between groups in a society, over access to limited resources. They view social and economic institutions as the tools of the struggle between the various classes. These theorists believe that social inequality is harmful and dysfunctional to the society.

Machin (2016) noted that the idea of social inequality has an unparalleled importance in the field of social sciences. Natural inequality on the other hand is caused by the differences in natural resources in geographical locations, societies, and nations of the world. Research has shown that over 80 percent of people's chances in life are caused by factors that they have no control. Social inequality threatens the socio-political and economic foundation of a society, and this gives rise to distrust, corruption, and unstable political and economic institutions. Overall, social inequality is related to racial inequality, gender, and wealth inequality. It leads to all forms of social and psychological prejudices, and discrimination. Entrenched levels of inequality tend to undermine fairness, tolerance, and social inclusion in the society. Rising extreme inequality is a major concern facing policy makers today, and the phenomenon is seen as unfair and morally wrong.

**Inequality and Economic Growth**

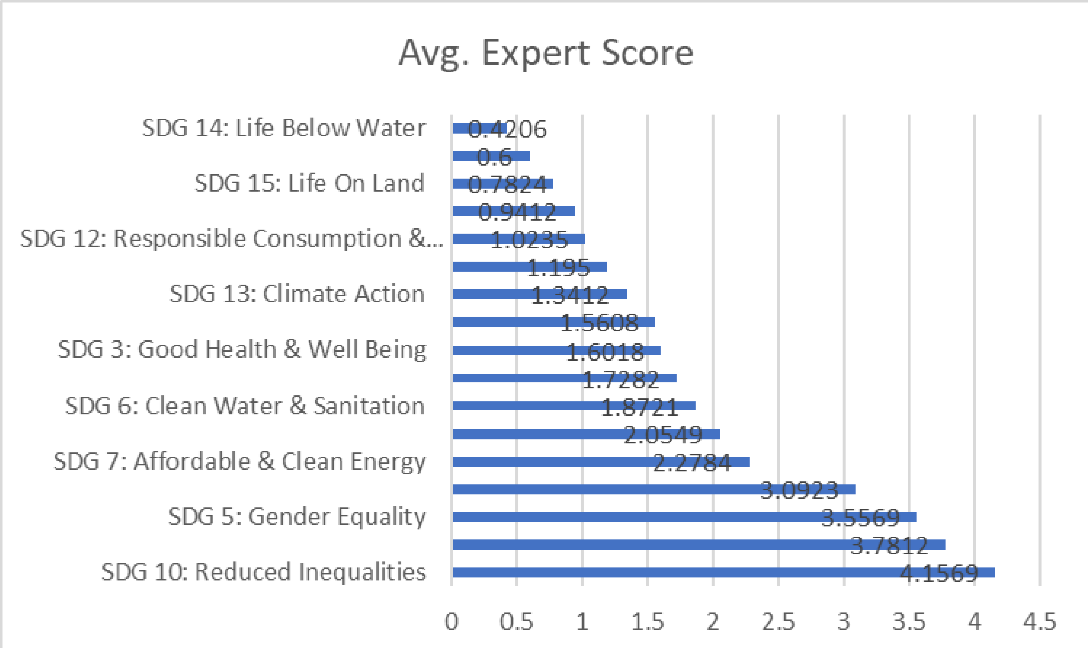
Research has shown that inequality is the significant link that explains how the growth rate in the economy in different countries can lead to reduction in poverty levels. A high rate of inequality constitutes difficulties to future growth in the economy. Studies also show that nations where income inequality is reducing grows faster than with increasing inequality, and inequality hurts the economy. Economists have argued and wondered if inequality is a bad or good phenomenon for long term growth. New indication, however, shows that rising and diminishing inequality hampers economic growth. Effects of income inequality include higher rates of health and societal problems, and reduced happiness and satisfaction levels. When human capital is abandoned the result is lower levels of economic growth. In poor countries, high levels of inequality reduce economic growth rates, but encourage innovation, competition, and raise productivity in advanced economies.

Voitchovsky (2009) argued that inequality can both accelerate and impede economic growth, and that different levels of inequality may be beneficial to economic growth at varied levels of economic development. World Economic Forum (2020) opined that in previous times economists assumed inequality as different from the broad macroeconomic policies. Emphasis has always been to achieve faster growth rate in the economy, and not much attention to the effect of this growth on the widening gap in income levels. In fact, inequality was separated from the broader macroeconomic issues, and today, there are basically three main socio-economic problems facing the world. Firstly, the disparity between the taxation system which is less progressive. Secondly the extent of inequality has grown due to the barriers and ease of entry to markets. Thirdly, inequality has become a global driver of increasing deterioration of zeconomic and social outcomes. Today, economists now align inequality with the broader macroeconomic problems facing any nation. In general, the relationship between inequality and economic growth is so complicated that the question of how household income affects a country's economic growth is still far from having a resolution. In general, a negative relationship can be observed between inequality and economic growth, and a relationship does not imply causal effect.

**Global Inequality**

Inequality could be one of the greatest challenges to global socio-political and economic development. Globalization, and the rise of some emerging economies have helped reduce inequalities around the world. United Nations (2020) and the 2030 global Sustainable Development Goals of reducing inequality, observed that income inequality has widened in most developing countries, and some middle-income countries, which include China and India. Reports also shows that Gini coefficient of income inequality has declined in many of Latin America countries, and in several African countries and Asia over the last twenty years. Sustainable Development Goal 10 identified reduced inequality as a major target for the reduction of global inequality by 2030. A research conducted by experts identified Reduced Inequality as the most important problem in the world. Based on responses from survey conducted, Inequality was ranked above No Poverty and Gender Equality.

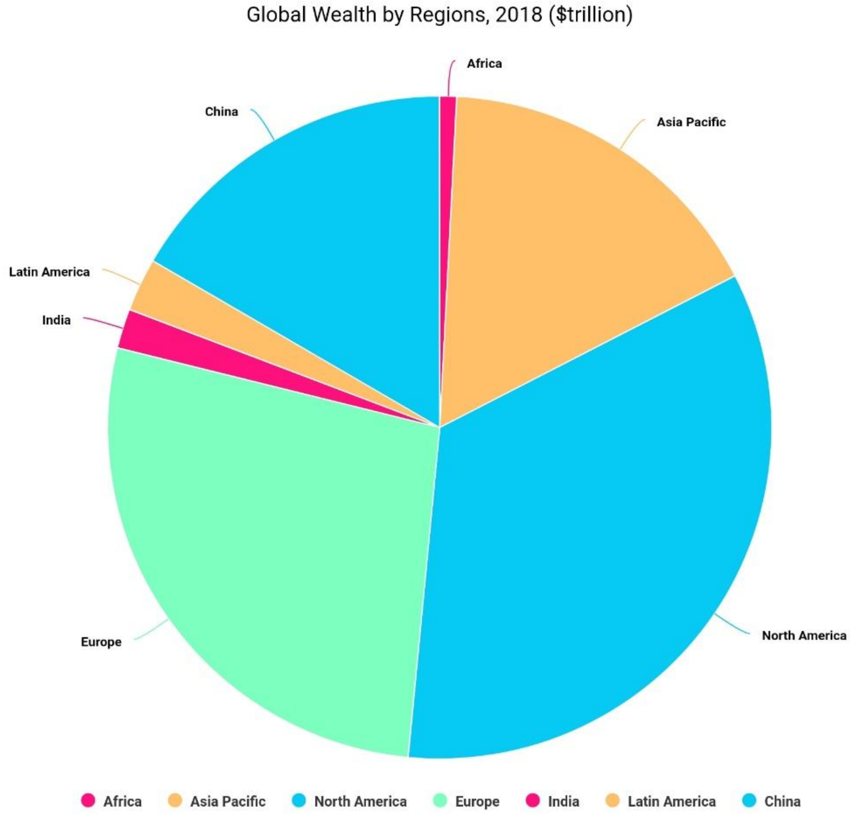
**Figure 4. 17 Sustainable Development Goals ordered by experts surveyed.**




**Source**: New America and OECD, 2021.

Global inequality predates the social and economic development of mankind. It has been a central issue over time, and as the most important measurement for its link with poverty. Adam Smith's "The Wealth of Nations" identified the accumulation of wealth and properties as the major driver for the levels of inequality. History shows that by the mid-19$^{th}$ century, technological advancement and poverty had deepened, in some parts of the world.

**Figure 5. Share of Global Wealth by Regions 2018**

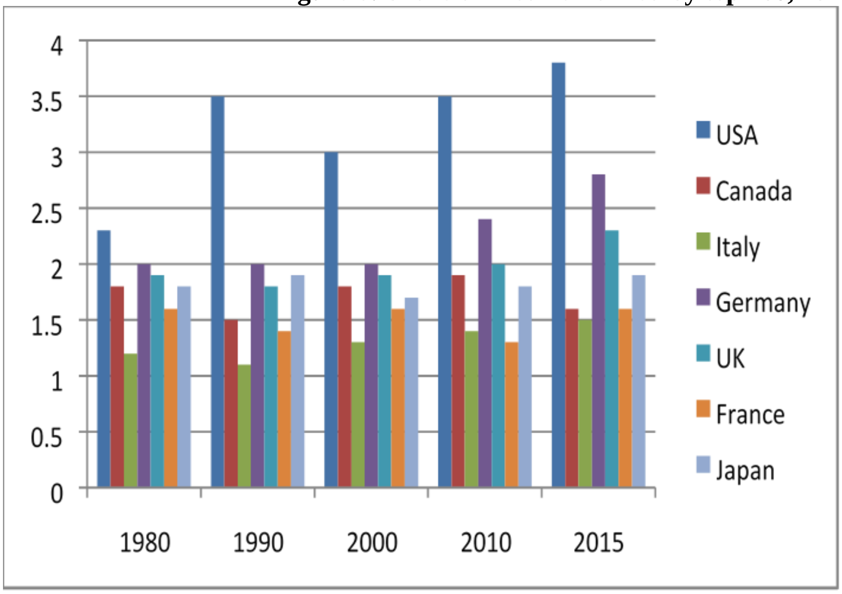



**Source:** Author's reproduction: Credit Suisse Global wealth report 2020

Figure 5 show how much of the global wealth is controlled by the different regions of the world. As at 2018, North America controlled 34 percent of the global wealth, Europe 27 percent, Asia Pacific and China 33 percent, Latin America 2.6 percent, India 1.9 percent, and Africa 0.8 percent. There is a wide gap between wealth controlled by the developed countries of North America and Europe and developing countries of Africa and Latin America. Khan and Khan (2021) opined that developing countries are isolated in mapping out directions out of the huge gap with the developed countries, and that so much growth emphasis have been targeted at the top with little or nothing for the bottom poor. Hence the wide social and income inequality in Sub-Sahara Africa and Latin America.

***"1% will soon have more than all the rest"*** – OXFAM

**Figure 6: Share of Income Earned by top 1%, 1975-2015.**




**Source**: World Health and Income Database, 2017.

Figure 5, indicates the share of income earned by the world's top 1%. By the beginning of the 1980s, the world inequality report has shown that the share of national incomes going to the wealthy has increased significantly in North America, China, Russia and India, and moderately in Europe. By contrast, countries that did not experience post-war egalitarian regimes, such as the Middle East, sub-Saharan Africa, and Brazil, have had relatively stable levels of inequality during this period. OXFAM (2021) observed that the world's richest 1 percent have more than twice as much wealth as 6.9 billion people. In its report, trillions of dollars of wealth are in the hands of very few people, whose fortune grow more rapidly. Berman (2016) observed that the rapid increase in the levels of wealth inequality, in the last couple of years, prior 2016, is one of the most disturbing social and economic challenges globally. Rising inequality is affecting billions of people and policy makers and governments have been urged to bridge the widening divide in the wealth gap. Nations of the world have been encouraged to develop strategies to reduce this wealth gap that is threatening the prosperity and development of people the world over. Social and economic inequality is having outcomes and resulting to social disruptions. Widening wealth gaps are benefiting the richest in the society, and the gap between the richest and the poorest is increasing, and confronting inequalities in all its form, have been the issues in many policy debates. United Nations (2020) reported that overall, since the 1990s, global inequality has dropped significantly, for the first time, since the 1820s, and reinforcing this trend, income inequality between countries have declined, while within countries has risen. Shankar (2003) theorized that regional inequalities signify a long-term developmental challenge in most countries.

***"Just 8 billionaires own the same wealth as the poorest 3.6 billion people."*** – OXFAM

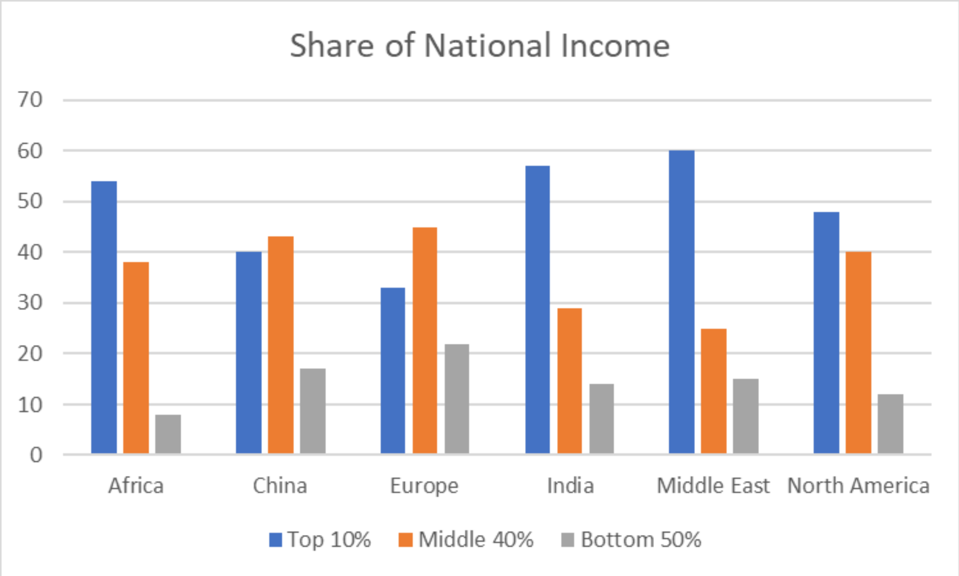
**Is Inequality a Global Problem?**

There is a growing agreement amongst leaders in business, government, and academia, that inequality is a major challenge that must be addressed. Sustainable Development Goal 10 identified reduced inequality within and among countries, both in income, sex, race, origin, ethnicity, religion, and economic within a country. There are policies identified to drive reduction in inequality levels, and these policies have been identified as those that raise wage levels, assisting working families, investing in education, equitable and progressive taxation, and segregation in any form. By 2030, Goal 10 is expected to be met when there is a sustained growth in income levels of the bottom percentage of the global population, and reduce wealth from high to low-income earners, and create equal opportunities for socio-economic harmony.

Social and economic inequality have been identified as the major cause of social issues, and societal troubles and challenges. Some people see inequality as a positive and fair outcome and feel that as long as people are able to live a just and decent life, inequality is not a problem to the society. The argument is that the best way to make unequal things equal is to completely breakdown the fabric of the society, by eliminating the wealth of the rich and make everyone poor.

The main feature of the capitalist system is the concept of free market in which there is a free entry and exit and competition where some will win, and others lose. Competition and increased productivity levels results in unequal outcomes in maximizing profit. Boyce (2007) argued that, all things equal, wider political and economic inequalities often lead to higher levels of ecological harm, and efforts to safeguard the environment must be aligned with more equitable distribution or resources, power, and wealth in the country.

**Figure 7. Global Inequality by Regions, 2017.**




**Source:** World Inequality Issue Brief 2019/6.

In figure 6, the Middle East and India have the highest levels of inequality where the top 10 percent share 60 and 57 percent of the National Incomes. Africa, however, has the highest inequality gap, where average income of the top 10 percent is 46 percent more than the bottom 50 percent. Europe has the highest fairly unequal society, and a strong middle-income group, followed by China. The gap between the top 10 percent to the bottom 50 percent is 11 percent. Boser and Ospina (2013) reported that global inequalities have been experiencing up and downswings for two centuries, and it is now on the downward trend. In the last three decades, global inequalities have been changing due to globalization and technological progress, reallocation of taxes and transfer policies of most countries, and changes in social standards. Specifically, globalization has contributed significantly to the distributions of incomes that results in winners and losers. In the globalized world, exports benefit a greater share of a country’s population, and results in a drop in income imbalance.

## II. Summary and Conclussion

Around the world, globalization, migration, and technological growth have helped reduce global inequality. Emerging economies and the sustained growth in GDP of BRICS countries has also helped to reduce inequality around the world. Policies aimed at improving economic and social wellbeing, expanding opportunities, and reducing poverty have been instrumental in giving millions around the world a good chance of a bright future. Inequality comes with a huge social and economic costs. The unequal access to education and health, distribution of social goods and services can affect social integration and result in general disaffection, social vices, and high crime rates. Generally, inequality is not good for the economic, social and political cohesion of a nation. In developing countries of Africa, Asia, and Latin America, higher levels of inequality reduce productivity growth, but tend to raise economic growth in advanced and richer countries in Asia, North America, and Europe.

Globally, the gap between the rich and poor is widening in most countries, and the consequences are dire. The need to tackle this economic and social malaise is a mix of compassion and wellbeing, and economic growth. In most developing countries, emphasis has always been on economic and productivity growth, and not much has been done to tackle the rising incidence of higher social and economic inequality. Generally, competition drives productivity growth which is a function of available and limited resources. Redistribution of wealth and resources discourages competition, motivation, and productivity growth, and social impact programs are costly alternatives. Economists are mainly concerned with productivity growth and tend to emphasize the quantitative aspect of economic growth and development. Since the early twentieth century, economists are beginning to place greater emphasis on economic inequality and its impact on economic growth, and there has been contrasting outcomes of studies on the role inequality play on growth.

Many feel social and economic inequality is not a challenge if citizens have a certain level of wellbeing and welfare and are living decent lives. Others see inequality as a natural occurrence that encourages competition and productivity growth. The levels of inequality in a society shows the varied levels of number of efforts in an individual's life. The capitalists argue that in a free market, some will win and others lose, and this drives improved efforts and productivity growth. It is likely that a state where there is zero poverty, but higher levels of inequality is preferable to a society with less social and economic inequality, and high levels of poverty. For progress to occur in societies, efforts should be rewarded and duly compensated to the levels of the value they produce. Conversely, developing countries should create a balance between economic growth and reducing economic inequality by reducing the negative impact of higher inequalities through the provision of social safety programs, health care, and education that will reduca the widening gap and create a sense of socio-economic and political wellbeing in the long run.

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