A Perspective on the Concept of Economic Inequality in the 21st Century

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Abstract

This article aims to make an analysis on how the new reconfiguration of the global economic order, where the EU is one of the three main actors, most likely based on strong protectionist tendencies, affects the EU's ability to support more intense national economic policies and stricter rules aimed at reducing economic and social disparities. Our analytical study, one with an interdisciplinary character because, although the investigated aspects fit mainly in the economic sphere, they also have important and relevant connections with the field of international relations, follows four directions of investigation on opinions projected around the issue of economic inequality and its measurement. At the same time, the ideas around which we have built this material come to certify the already expressed views of economists that the reduction of major economic inequalities is not achieved strictly by economic measures but through a combination of factors, such as political and social programs or diplomacy. Also, our analysis brings to the foreground one of the most used instruments of measuring economic inequality, the Gini Coefficient. A series of conclusions resulted from this segment of our research, based on the interpretation of recent official statistics and data regarding economic inequality measured within the EU, illustrate the advantages and disadvantages of measuring such complex economic phenomena and what are the dangers that economists face when assigning certain figures to countries on the globe.

Keywords: economic inequality; globalization; geopolitical context; global economic integration; global players; Gini coefficient.

Introduction

In search of the global picture, taking into consideration changes in the contemporary climate, the concept of economic inequality is analyzed, in the 21st century, from a complex political, cross-cultural, comparative perspective. Urbanization, innovation in the financial sector, trade liberalization at a global scale or industrialization, constantly, generate significant returns for capital holders. Even if economic structures, social norms for political systems have changed during the course of history, income and wealth inequality not only continuing identifying new ways to grow, but also generate what we call excessive economic inequality.

The idea of this article came after reading a speech delivered by Christine Lagarde, Director of the International Monetary Fund, in 2015, entitled Lifting the Small Boats. Through a message built in an extraordinary logic, she announced that "excessive inequality of wealth and income [...] is one of the defining issues of our time", suggesting that by “lifting the small boats”, which generically included the series of possible economic measures that states have to take, "a higher, more inclusive and more sustainable economic growth" is achieved. Nevertheless, we must take into consideration another theory which argues that there is no strong empirical evidence to support the opinion that modern economic development reduces inequalities.

Globalization advocates claim that the phenomenon produces a rise in all economies, with all consumers benefiting from the fall in prices. Critics of this phenomenon think that it causes social inequalities and serves more to the rich, to the detriment of the poor. It is difficult to measure global inequalities or the contribution of economic globalization to the evolution of social inequality. A study led by the International Monetary Fund (2014), done by economists J. Ostry, A. Berg and C. Tsangarides, concluded that recent increases in inequality between countries is because more to the changes in technology than to the global economic integration. The study also suggested that various aspects of global economic integration have contradictory effects on inequality: while trade liberalization tends to reduce inequality, financial globalization, particularly foreign direct investment flows, has the opposite effect. Effects also vary by state. While globally emerging economies such as China or other Central and Eastern European countries have reduced economic disparities, society has become more polarized in industrialized countries. This might explain why many social groups feel that they are losers in the global competition and have been "abandoned" by governments. A problem for many nations, economic disparities have contributed to creating a popular strong reaction against globalization and even against capitalism itself (see the US administration under the slogan “America First”, Brexit or the “Yellow Vests” protests). The market and economic freedom are not rejected; instead, public policies, based on an ultra-simplifying paradigm, have accentuated economic inequalities and have hit the principle of equal chances.

Literature review

We started our research from the idea that excessive economic inequalities are a global concerns dealt with by economists or specialists in international relations that need to be anchored in the history of economic phenomena and also respond to several current questions regarding the social and economic struggle on the globe. Issues such as poverty, inequality and wealth distribution have been present in the economic literature ever since political economy was born.

For example, in the 19th century, according to David Ricardo, in his work entitled On the Principles of Political Economy and Taxation (1817), the object of political economy was to discover the "distribution laws". " […] the proportions of the whole produce of the earth which will be allotted to each of these classes, under the names of rent, profit, and wages, will be essentially different [...].To determine the laws which regulate this distribution, is the principal problem in Political Economy [...]" (Ricardo, 1817). Ricardo also suggests that “it is difficult to delimit the effects generated by trade inequality from those that arise from technological change” (Ricardo, 1817). Although there are measures that can be included in trade agreements to ensure that adequate standards for protection are met, internal policy such as redistribution and spending is more likely to contribute to increasing inequalities. In Principles of Political Economy with Some of their Applications to Social Philosophy (1848), J.S. Mill, the classic economist that strongly argued that capitalism has a great problem with wealth distribution, poverty and inequality, stated that distribution laws were not "physical truths": "Production of wealth partake of the character of physical truths. There is nothing optional or arbitrary in them […]. It is not so with the distribution of wealth. That is a matter of human institution solely" (J.S. Mill, 1848). At the end of the 19th century, the Marginal Revolution created a profound change at a methodological and epistemological level. W. S. Jevons, with his Theory of Political Economy, Leon Walras, with his Èlèments d'économie politique pure, ou théorie de la richesse sociale and Carl Menger, with his Principles of Economics, are the economists associated with this paradigm shift.

During the 20th century, a new paradigm, whose most important exponent was John Maynard Keynes, launched the idea of a science that should contribute to the optimization of the allocation of economic resources and maximize the functions subject to some restrictions. According to Robert Skidelsky (2009) Keynes dealt with the complex job of building a new theoretical paradigm of economic theory. The new ideas changed the role of the state in the economy. Active policies stimulating employment took the place of the "laissez-faire religion". More recently, alternative Post-Keynesian distributional models of economic growth, popular over three decades ago, did not explain inequality but simply assumed that income and wealth are unequally split between "workers'" and "capitalists".

With a more practical approach, Simon Kuznets acknowledged that the decline in US polarization in the early 20th century was not a natural process, but it was rather caused by the profound economic crises of that time and the Second World War. In his paper entitled Economic Growth and Income Inequality, Kuznets sets the foundation for the theory of the "Kuznets Curve". According to it, inequality follows a "bell curve" during industrialization and economic development. The incipient phase of natural growth of inequality is associated with the early stages of industrialization (in the United States, in the 19th century) since at this stage there are few people ready to benefit from change, followed by a sudden reduction of inequality (during the first half of the 20th century, in the US), because, in this case, more and more people can benefit from the resulting economic well-being.

Besides obvious connections of the topic with current political, economic and social events in Europe, 21st century economists are also strongly trying to tie up current issues to the history of civilization. "For thousands of years, civilization did not lend itself to peaceful equalization. Across a wide range of societies and different levels of development, stability favored economic inequality. This was as true of Pharaonic Egypt as it was of Victorian England, as true of the Roman Empire as of the United States. Violent shocks were of paramount importance in disrupting the established order, in compressing the distribution of income and wealth, in narrowing the gap between rich and poor. Throughout recorded history, the most powerful leveling invariably resulted from the most powerful shocks. Four different kinds of violent ruptures have flattened inequality: mass mobilization warfare, transformative revolution, state failure, and lethal pandemics." (Wallter Scheidel, 2017). In his book entitled The Great Leveler, Scheidel calls these the Four Horsemen of Leveling.

In his study on the evolution and structure of global inequality, entitled Capital in the Twenty-First Century, Thomas Piketty, scientific director of the School of Higher Studies in Social

Sciences and professor at the School of Economics in Paris, starts from the idea that "the history of inequality is shaped by what the economic, social and political actors believe is fair, by the relative power of these actors, as well as by the collective choices resulting from the exercise of this power." (Thomas Piketty, 2015) Consequently, in developing our analysis on inequalities, we take into account, besides economic factors, contextual political issues, historical or social aspects. Hence, the temporary and prudent nature of estimates - especially regarding long-term estimates - about the evolution of inequalities. Unlike his precursors from other centuries, Marx, or Kuznets, who wrote scenarios of economic growth and downsizing, Piketty is the one who postulates the fragility of a pattern when discussing growth and inequality.
To support the interdisciplinary character of such an analysis we bring into discussion the opinion of Bogdan Murgescu (2010), a Romanian specialist in economic history, who "starting from the idea that the correct understanding of our present situation must have a historical depth and a comparative dimension", reconstructs the way in which economic disparities were accumulated in various historical periods since 1500", without ignoring the interdisciplinary approaches and methodologies of economic sociology.
In order to argue the transdisciplinarity of the subject matter, comes the theory of Daron Agemoglu and James A. Robinson, who, for reducing inequalities and obtaining prosperity, offer two types of solutions. The first type refers to correct economic institutions and policies that could generate, at macroeconomic level, prosperity, having in the foreground international institutions that force poor countries to adopt institutions and policies in order to have stability, and the second type has in view of the recovery of microeconomic failures, not overnight, but over the course of decade. Both types of solutions require a close connection between economic mechanisms and political mechanisms.

Research methodology, data, results and discussions
Our analytical study, one with an interdisciplinary character because although the investigated aspects fit mainly in the economic sphere, they also have important and relevant connections with the field of international relations, follows four directions of investigation on opinions projected around the issue of economic inequalities and its measurement.
Opinions of reputed economists who, starting with the 19th century, developed theories regarding economic inequalities, professors at some of the most prestigious universities in the world, speeches and comments belonging to heads of institutions that play key roles in setting global economic policies, such as the International Monetary Fund, but also statistical interpretations by bodies recognized for this activity were investigated.
The article was designed around four major directions of investigation, reaching, firstly, the global context of the issue, in order to further bring to the forefront the specificity of an EU that swings between the internal and global challenges: 1. Economic Inequality, One of the Greatest Challenges of Globalization; 2. Economic Inequality within the EU; 3. UE between Internal Challenges and its Global Role; 4. Instruments of Measurement. In a general context, the investigated directions only confirm the views of specialists who argue that they can not isolate the economic problem from the political one when debating on the topic of economic inequalities. To reach the goals of this research, we relied on a qualitative method using a general-to-private approach.

Economic Inequality, One of the Greatest Challenges of Globalization

In the context of the reconfiguration of the global economic order, a phenomenon whose manifestation can be seen from at least three major perspectives, under globalization's dome, comes out one of the greatest challenges of the moment: the problem of the excessive economic inequalities.

In an unstable geopolitical context, with increasingly strong and visible tensions in the international arena, the imminent reform process of the European Union (EU) can not neglect how Member States intend to address the pressing issue of reducing development disparities.

Globally, with China's entry into the global economy, economic power ratios have changed radically. And it is not this entry that would constitute the problem, but rather the inability of industrialized economies to absorb this extraordinary shock - unique in the past hundreds of years. Average incomes in emerging market economies, such as China and India, have risen much faster than those in richer countries, as a consequence of the globalization power to change the course of national economies through international trade and investment. On the one hand, the massive global flows of products, services, people, knowledge, and ideas have been good for global equality of income, but, on the other hand, it has also generated income inequality within countries. Over the past two decades, most affected by economic inequality were the advanced economies and the major emerging market economies, especially in Asia and Eastern Europe. In advanced economies, for example, the top 1% of the population now account for about 10 % of total income.

A special situation is that of China, which by lifting more than 600 million people out of poverty over the past three decades, according to the International Monetary Fund, has made a remarkable contribution to greater global equality of income. But in the process, it has become one of the world's most unequal societies because many rural areas remained poor and because income and wealth have risen abruptly in the cities. In fact, economies such as China and India seem to fit neatly into a traditional narrative which postulates that extreme inequality is an acceptable price to pay for economic growth.

An explanation for the current large economic disparities in the world can be found in the effects of the 2008 financial crisis that began in the US. The costs of the crisis have been endured by citizens and that has created great discontent and social tensions in countries where the crisis had stronger manifestations and consequences: USA, Italy, Spain, Portugal, Ireland, the Netherlands, England, France, etc.

At this point, the most quoted examples in the debate on models of economic crisis management are: Europe, with models such as Germany vs. France / Poland as a model for the new member states, the US, where the approach to structural imbalances offers a unique study subject, as well as China, as a model for emerging economies in the process of catching-up (reducing development disparities).

Economic Inequality within the EU

The EU's economic situation needs to be analyzed, given that the EU is still expanding if we take into account the recent decision to open discussions on Macedonia’s and Albania's adherence. In this context, the EU focuses its internal policies on overall development as an important means of reducing spatial disparities.

"Europe with more speeds" (European leaders, Versailes, 2017) has mainly a political connotation. From an economic, social and territorial point of view, the regional perspective is much more complex. Therefore, when discussing the subject of mitigating the gap, in order to have a correct picture we must take into account the starting point of each Member State and each region and the specific development needs. While in some regions cohesion policy focuses on investment needs in core infrastructure (transport, energy, etc.) and economic reconstruction, in others cohesion policy mainly invests in innovation. Of course, these areas are not exclusive.

Regional development at EU level, focused on reducing major economic inequalities, is a complex process that involves a series of interdependent, legislative and institutional components, establishing new types of relations between different sectors and fields of activity, between authorities and collectives. This process is also related to mentality, traditions and behavior, vocational training and adaptation to new changes taking place at local, regional, national and international level.

Reducing regional and national disparities is an important objective for both the Member State of the European Community and the European Union as a multi-state body. The economic arguments justifying regional policies within the European Union start from the assertions that regional disparities can constitute a major barrier, even a barrier to deepening integration, and that the "common interest" of ensuring social unity involves not accepting major territorial differentiations, especially in the field of income and unemployment.

Currently, regional disparities are a problem for the entire community in Europe, especially after removing all barriers to the free movement of goods, services, people and capital, and less-favored regions and groups face new obstacles that require more complex solutions, at national and community level. Such solutions can be provided in particular by the regional development policy, which, through its instruments and mechanisms, offers real opportunities for the balanced development of disadvantaged regions.

According to the EU Commission, within the EU, between 2014-2020, with the support of the Cohesion Policy, are considered the rehabilitation of 4,600 km of railways, the construction of 2,000 km of TEN-T roads, while 750 km of subway lines are being built or rehabilitated. 17 million people will be connected to water treatment facilities, 14.5 million households will be connected to internet networks, and 7 million students will learn in upgraded schools. More than one million SMEs receive Cohesion Policy support, which has created 7 million new jobs. With the support of cooperation programs, 240,000 people participate in cross-border mobility initiatives, while 7,000 businesses and 1,400 research institutions participate in innovation projects.

UE between Internal Challenges and its Global Role

The EU is the most successful regional governance experiment with the most democratic institutional organization, and yet it is constantly subject to criticism regarding the lack of democratic legitimacy. Today, we are talking about four categories of crisis at the EU level: the economic crisis, the political crisis (characterized by the growing difficulty with which decision-making and strategic direction are reached), the institutional crisis (which results from the higher discontent on the performance of the European institutions) and the crisis of legitimacy, coupled with the strong need for a reformist EU speech based on the conditions and challenges of the 21st century.

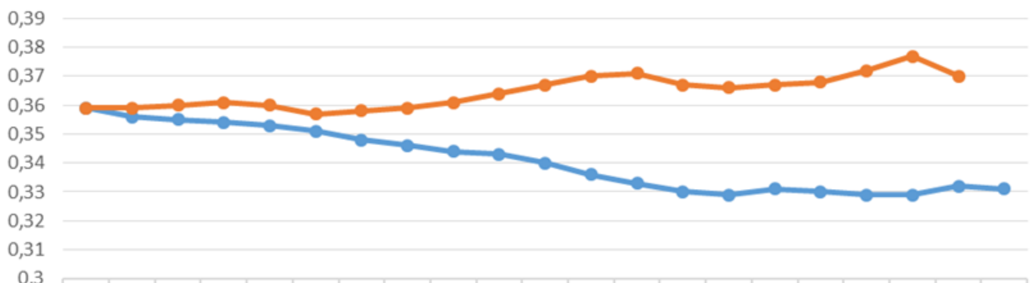
The new global economic reorganization, which also manifests in the transformation of the world's economy from a multilateral system, centered around the US, to a multipolar system

based on the three powerful poles of trade - China, the EU and the US - each with numerous bilateral and regional trade arrangements, determined the EU, as beneficiary of the multilateral system, to react.
The EU response to possible US trade measures will depend on the size of the measures and their effects on the EU economy, having as well geostrategic considerations. For the EU to take a more prominent role in protecting multilateralism and in developing new and deep alliances, more reforms will be needed. There are three main areas where reforms would increase the credibility of Europe that claims a more important global role.
First, addressing internal distribution concerns is a prerequisite for introducing new trade agreements. Europe's social model is a major factor in reducing inequalities and is rightly considered to be effective in reducing negative effects due to the impact of rapid change on citizens in a time of globalization and technological change. However, many EU countries still need to reform their social systems to ensure inclusive growth and better social protection. The EU's role should be, first of all, to provide the necessary resources to its members so that they reach redistribution targets by effectively combating tax evasion and social fraud linked to the single market.
Secondly, the governance of the EU's trade and investment policy has become burdensome. The difficulties in signing the Free Trade Agreement - CETA have increased the partners' doubts about the EU's quality of supply. We believe that it is imperative that the EU institutions regain citizens' confidence so that they can negotiate trade agreements on their behalf, and this requires more transparency in the negotiations. It will also be important to ensure greater legitimacy for the EU, including through a reformed European Parliament.
Thirdly, the EU, as a broad open economy, can not manage large current account surpluses. The large surpluses, especially the German surplus, are the result of the imbalances in the euro area that need to be resolved regardless of the global environment. Although future EU reforms may set new trends in the dynamics of the new global economic order, the question remains how to respond to a possibly antagonistic administration of the US.
One option would be that the EU's response to US measures is to support the multilateral trading system through firm and decisive, principle-based reactions. It can be taken into account that a direct consequence of such a response would be for future US administrations to change the trajectory by giving up unilateral actions, preventing unnecessary escalation that would be harmful to everyone: the EU, the US and the rest of the world.

Instruments of Measurement
Measuring phenomena such as globalization or economic inequality is often considered an imprecise approach, subjected to a high degree of uncertainty, and why not, it is even seen as a dead end.
However, scientists have created instruments to measure these phenomena by giving them the scientific dimension needed in order to use them as the foundation for building strong economic theories.
If in the case of globalization, the actual epistemological basis of its measurement is unsatisfactory at a theoretical level and problematic from an empirical point of view. The construction of globalization indicators may be considered too limited to provide useful information on the phenomenon itself, while in the case of economic inequality, things are clearer. Inequality is a multidimensional challenge and it can be analyzed taking into account

several different dimensions. There are various numerical indicators for measuring economic inequality. A widely used index is the Gini Coefficient. Research based on the analysis of the Gini Coefficient values connected with the GDP values suggests that a high level of inequality puts on the break long-term growth. While globalization has reduced global inequality among nations, it has increased inequality within nations.
The Gini Coefficient is the best known instrument used to measure inequality revenues at a global scale. It measures revenue distribution, comparing the income situation of each household with the income situation of all the other households. Based on its formula, the coefficient is expressed as a value between 0 and 1. A Gini Coefficient equal to 0 indicates a perfect income equality; a Gini Coefficient equal to 1 would mean that all the income obtained in the economy would belong to a single household, which would indicate the perfect income inequality. Measuring the coefficient of inequality is in a structural growth trend all over the world. Since the 1980s, there have been many books and articles dealing with the topic of inequality, including aspects related with the perspective of political consequences. In order to illustrate the measurement of economic inequality, we have chosen to analyze the evolution of the Gini Coefficient for the EU.

Table 1: Economic inequality measurement EU vs US, 1995 -2015



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EU	0,36	0,36	0,36	0,35	0,35	0,35	0,35	0,35	0,34	0,34	0,34	0,34	0,33	0,33	0,33	0,33	0,33	0,33	0,33	0,33	0,33
USA	0,36	0,36	0,36	0,36	0,36	0,36	0,36	0,36	0,36	0,36	0,37	0,37	0,37	0,37	0,37	0,37	0,37	0,37	0,38	0,37	

EU USA

Source: http://bruegel.org, personal interpretation

Starting with 1995, within the EU, inequality declined constantly until 2008, remaining relatively stable since then. In the US, on the other hand, income inequality also increased constantly, from the late 1970s until 2013. As a consequence of the global and European financial and economic crisis, central European member states continued to solve the problem of inequality gaps, trying to level the situation with the richest member states of the EU, while some southern European member states, like Italy and Greece, fall behind.
We also have to observe that even if the decline stopped in 2008 the current value of the EU Gini Coefficient (0,33) is still above those of Norway (0,23), Japan (0,30) or Canada (0,31). Some other differences within the EU are significant: while in Belgium, the Czech Republic, Slovenia and the Scandinavian countries the national Gini is about 0,25, in Bulgaria, Greece, Spain and the Baltic countries it is around 0,35.

Even if using the Gini Coefficient offers several advantages, such as the fact that it is sufficiently simple to be compared across countries and be easily interpreted, or that it indicates how the distribution of income changed within a country over a period of time, it also brings to the foreground several problems: comparing income distributions among countries, based on the Gini Coefficient values, may be difficult because benefits system may differ from country to country; in collecting the initial income data systematic and random errors always occur; the situation when data is less accurate determines the Gini Coefficient to have less meaning; countries may measure the statistics differently and, in consequence, it is not always possible to compare statistics between countries. All these situations create a possible scenario where economies with similar incomes and Gini coefficients can still have very different income distributions. Apart from that, the fact that in most analyses only the Gini Coefficient is quoted, without any complementary description of the quantiles proportions used for measurement, can create inaccurate analysis.

Analyzing the information from the Economic inequality measurement table presented above, we can assert that the strength of the Gini Coefficient, that is combining information on all individuals in a society, is also its main weakness.

Conclusion

Global economic integration has varied and profound effects on the economies of developed and emerging countries. Some of these effects have been accepted by governments, others have not, and this is the consequence of a set of contradictions: the establishment of a significant overall well-being, but also of a social, sometimes even more significant inequality; economic growth, but also the degradation of the environment; cheaper products, but a fall in revenue in certain sectors; a middle class swollen with a stubborn poverty; a strengthening of the political legitimacy of authoritarian governments that use globalization to achieve rising economic growth rates, along with the undermining of democracy in regions of the world where squeezed revenues are the consequence of losing national sovereignty.

However, even if globalization benefited the vast majority of the population, the effects were uneven and many people did not benefit at all. These things impose a series of challenges for economists, which could become themes for further in-depth research. Two of these are the development of the education system as a key factor in enabling citizens to adjust the inequality aspects caused by global economic integration and the management of these inequalities, hampered by the differences between state policies and the world economy, the theme we have partially touched upon in this article.

At EU level, it is still too early to analyze the impact of the current exercise and ongoing programs on development disparities. The impact of funding the structure of a competitive economy and environment creating economic growth will be evaluated after the closure of projects and programs. However, there are relevant premises (introduced through the 2014-2020 reform) to improve the existing situation, including a reduction of disparities. Intermediate analyses show that regional disparities have started to decline again since 2015, EU citizens are still living in regions where GDP is lower than before the crisis. In recent years, Europe's poorer regions have grown to the EU average, but there is still a long way to go before these regions can offer the same opportunities to citizens.

As for the measurement of the economic inequality, within the EU in 2016, the Gini Coefficient average value was 0,308. The analysis undertaken in the last years showed that inequality increases, even though economies grow.
Even if contestants of globalization exist and the world is facing a wider spread of nationalist policies, the evolution towards more economic, financial, and cultural integration seems unstoppable in the 21st century. The globalization process may be subjected to criticism today and confirmation comes from political and economic facts registered in the UK and the United States, but despite this, the world remains an interconnected environment where capital, goods, services, and ideas are highly mobile and their circulation is supported by innovations in information technology. Economists speak today about Globalization 4.0: the design of a new world architecture in the era of the fourth industrial revolution. So, taking this into consideration, it is logical for citizens to compare themselves to one another in a world globalized in an irreversible way.

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