Inequalities: Approach and Consumption Models

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Abstract

Inequalities may be approached and analyzed in various aspects. Recently the area is broadly studied; first the economic crisis makes global society more conscious about the forces behind it, second because it influences the life of global community, third the famous book by Thomas Piketty's "Capital of XXI century", made the discussion exciting and very hot.The point is that the operation of markets in the circumstances of modern globalization both leads to extreme concentrations of wealth and increasingly irrational outcomes when it comes to the dispersion of funds to combat threats or promote public goods. As it is obvious that inequalities may be approached from the different levels such as country, region, or even world; the issue is also tap from the point of view of specific social groupsuch as gender, religion or minorities.

The paper presents several approaches towards the problem and tries to present the recent findings in changes of consumption patterns when inequalities are growing and/or diminishing.Measurements of inequalities are shortly presented and some ethical issues are also raised.

Key words: Inequalities, consumption models, poverty, Gini coefficient

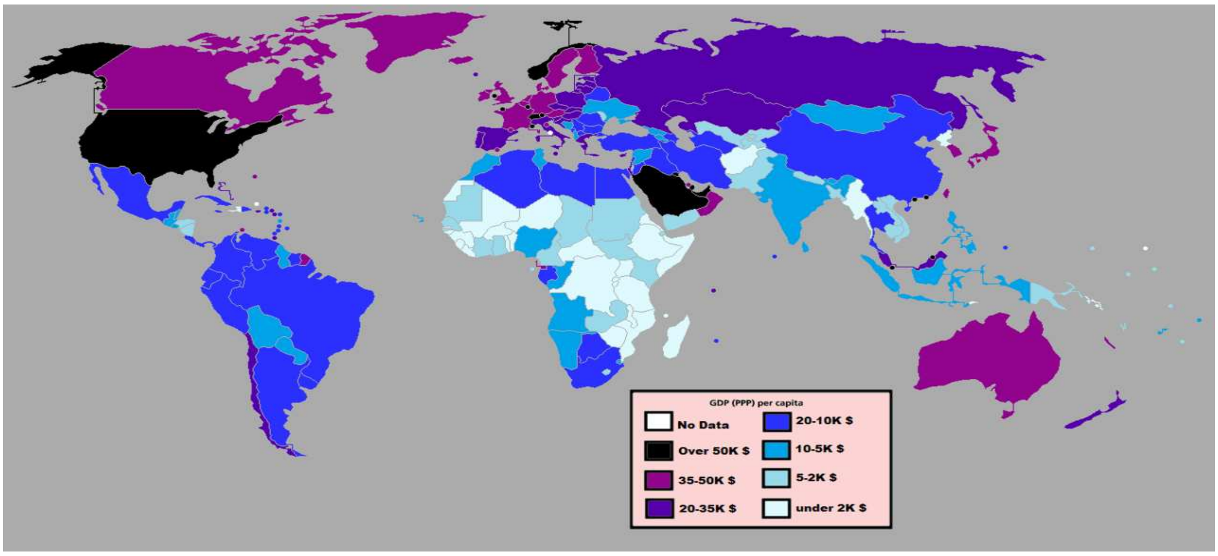
APPROACHES AND MEASUREMENTS

Dimensions of inequality are manifold and we may consider:

- GLOBAL – for example between developed and developing countries
- REGIONAL – between poor regions within specific territories or country
- LOCAL – such as urban and farming country side
- INDIVIDUAL - personal inequalities within country or specific social group

Most popular and broadly used is yearly measured GDP per capita, where statistics are commonly available. According to World Bank statistics GDP (as purchasing power parity - PPP) shows extreme disparity around the word. There are countries in the globe (USA, Norway, Saudi Arabia) with yearly $50,000 per capita and accordingly there are countries with less than$2000 per capita. This immediately shows the regional differences between the RICH AND POOR countries and regions.

Figure 1. GDP PER CAPITA (as PPP) WITHIN WORLD REGIONS



Individual inequalities in different countries are presented in statistics with different measurements such as Gini coefficient, that is understood as indicator of country income disparities – (where 0 = means absolute equality where all country citizens have the same income and 1= means that one person receives the entire

Figure2

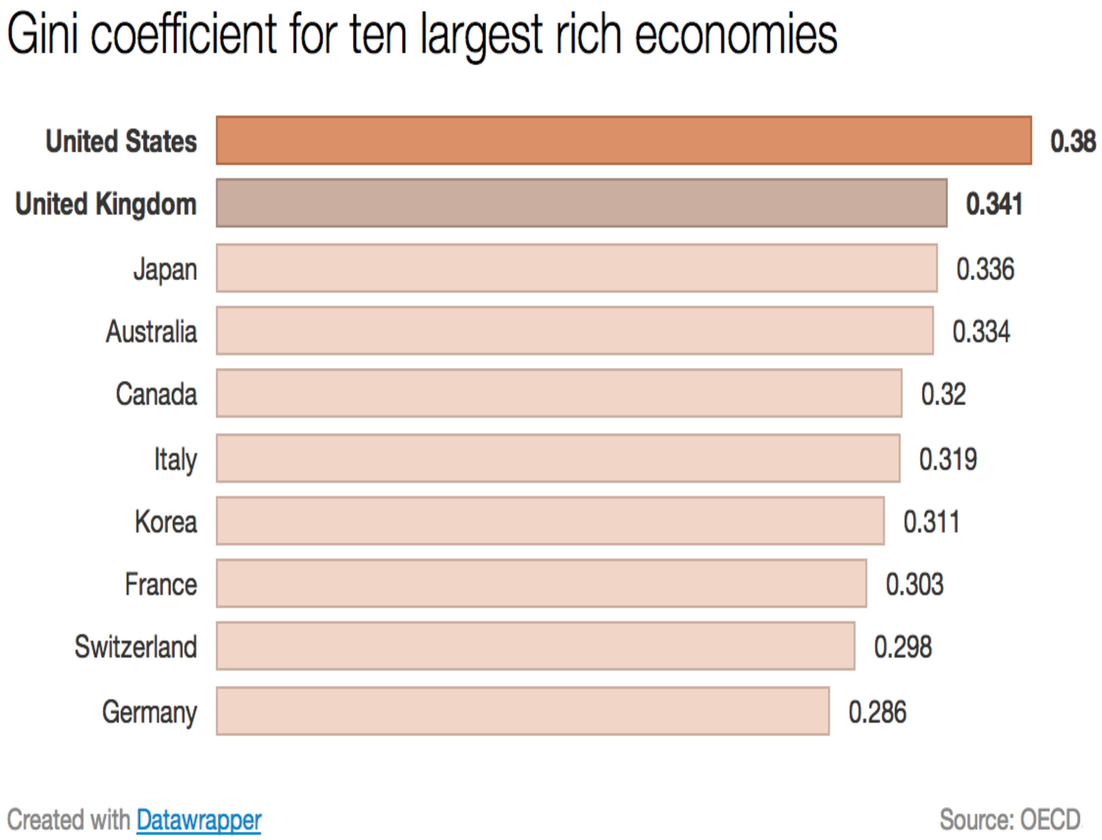
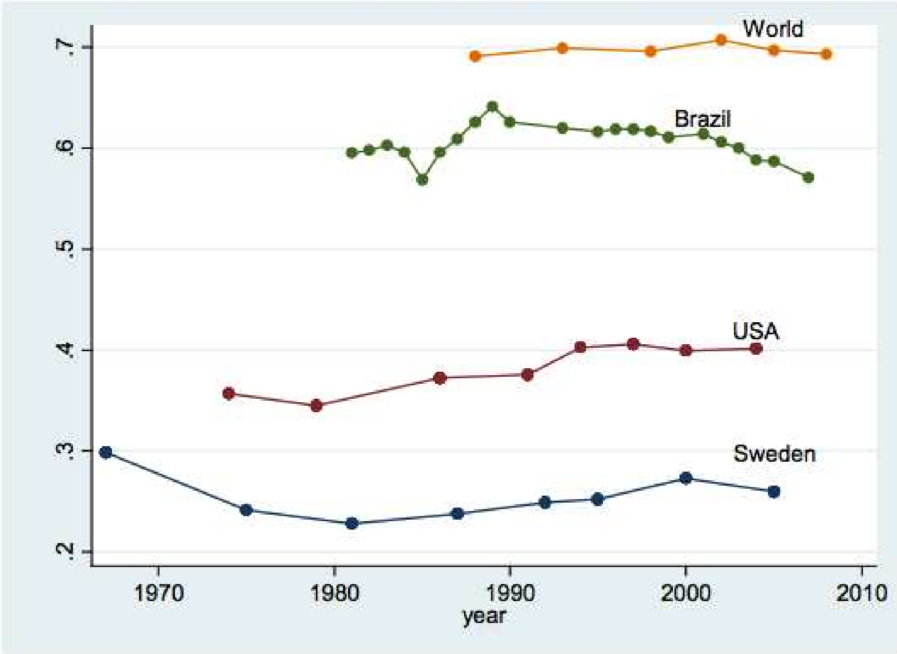


Figure 3. Global Gini coefficient compared to the Ginis of selected countries



As it is presented above,the lowest disparities exist in Scandinavia and more general in affluent European countries. This immediately refers to specific “welfare state” model where measurements of welfare are much more complex than only GDP per capita.

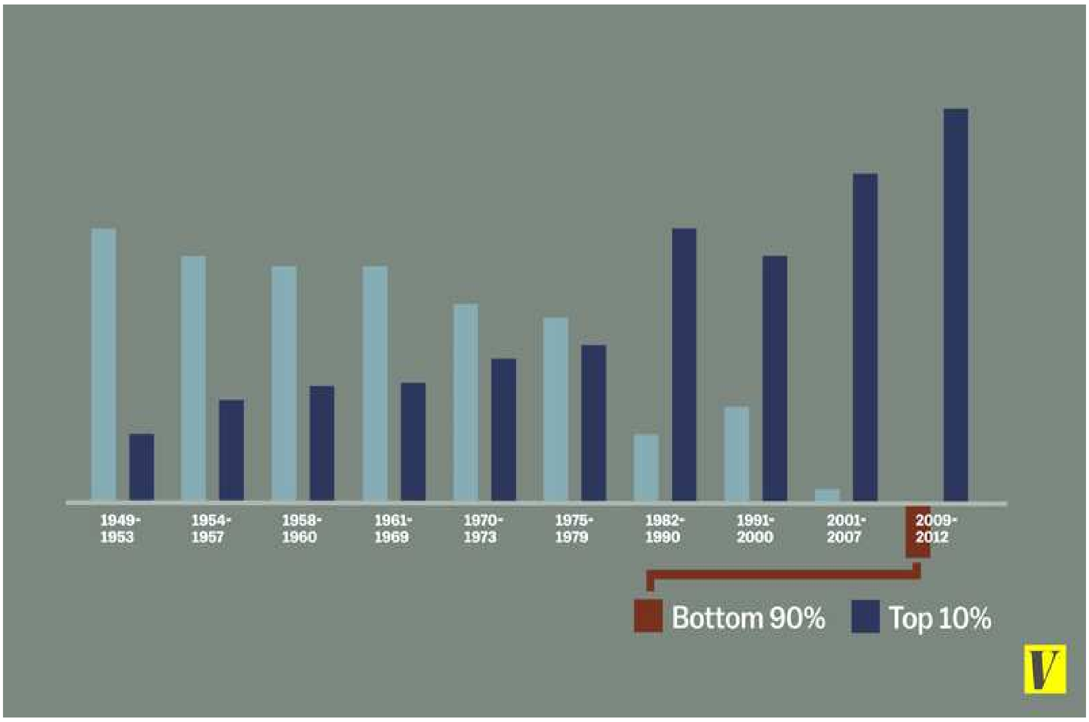
There are also different measurements of inequality. According **to multiplier of inequality**-20% that is understood as; how many times income of richest 20% of population is higher than 20% of lowest income group

- Less than 4 times; Japan,Finland, Norway, Sweden, Denmark
- Between 5 to 6 times; Poland, Spain, France, Canada, Switzerland, Greece
- Between 7 to 8 times; New Zealand, Australia, Portugal, UK
- Highest; USA- 8.5 times, Singapore 9.5 times

The more significant and what raised sizzling discussions are pproportional measures (10, 20 or 99% richest and poorest social groups within one country). The debate was initiated by famous book of Thomas Piketty.Thomas Piketty’s arguments in his bestselling analysis of inequality, “Capital in the Twenty-First Century”, is that wealth is increasingly concentrated in the hands of the very rich.

The picture below shows the changes of wealth in **USA** within 1940-2012 period. From 1972-1980, top10% captures majority of wealth. From 2009-2012, we can observe the pauperization of 90% of society while the top 10% gets significant majority of national wealth.Wealth changes in USA show middle-class relative pauperization as showed in Figure 4.

Figure 4. **USA WEALTH GROWTH DYNAMICS**



In America at least, inequality in wealth is approaching record levels.

- The share of total wealth held by the bottom 90% of families relative to those at the very top was declining.
- In the late 1920s the bottom 90% held just 16% of America's wealth—considerably less than that held by the top 0.1%, which controlled a quarter of total wealth just before the crash of 1929.
- From the beginning of the Depression until well after the end of the second world war, the middle class's share of total wealth rose steadily, thanks to collapsing wealth among richer households, broader equity ownership, middle-class income growth and rising rates of home-ownership.
- From the early 1980s, however, these trends have reversed. The top 0.1% (consisting of 160,000 families worth $73m on average) hold 22% of America's wealth, just shy of the 1929 peak—and almost the same share as the bottom 90% of the population.

Figure 5. US MIDDLE CLASS PAUPERISATION

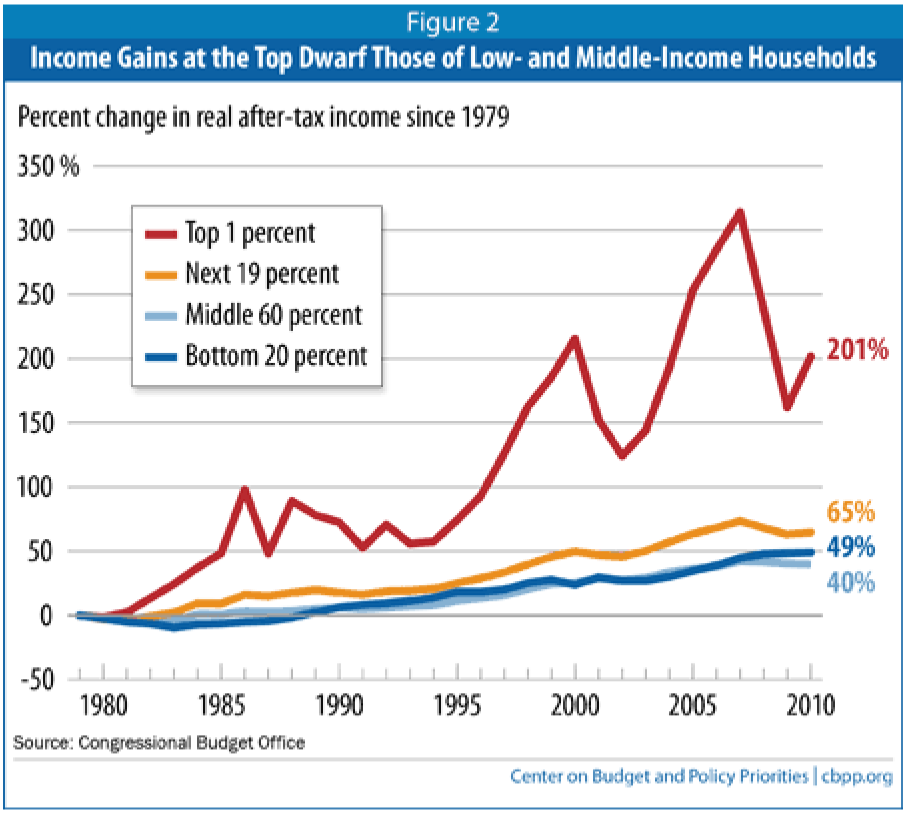
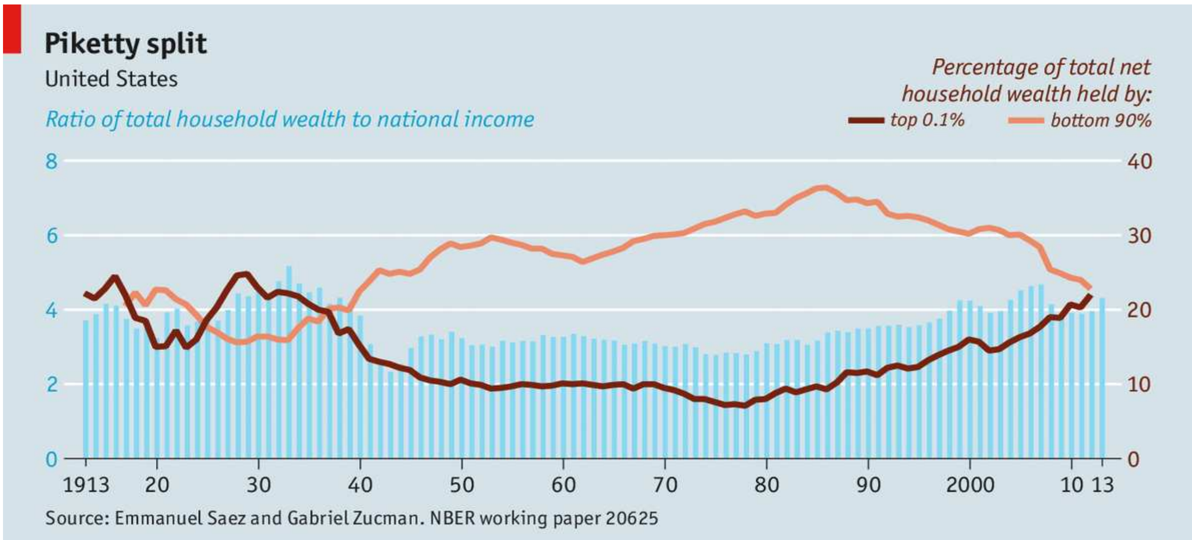
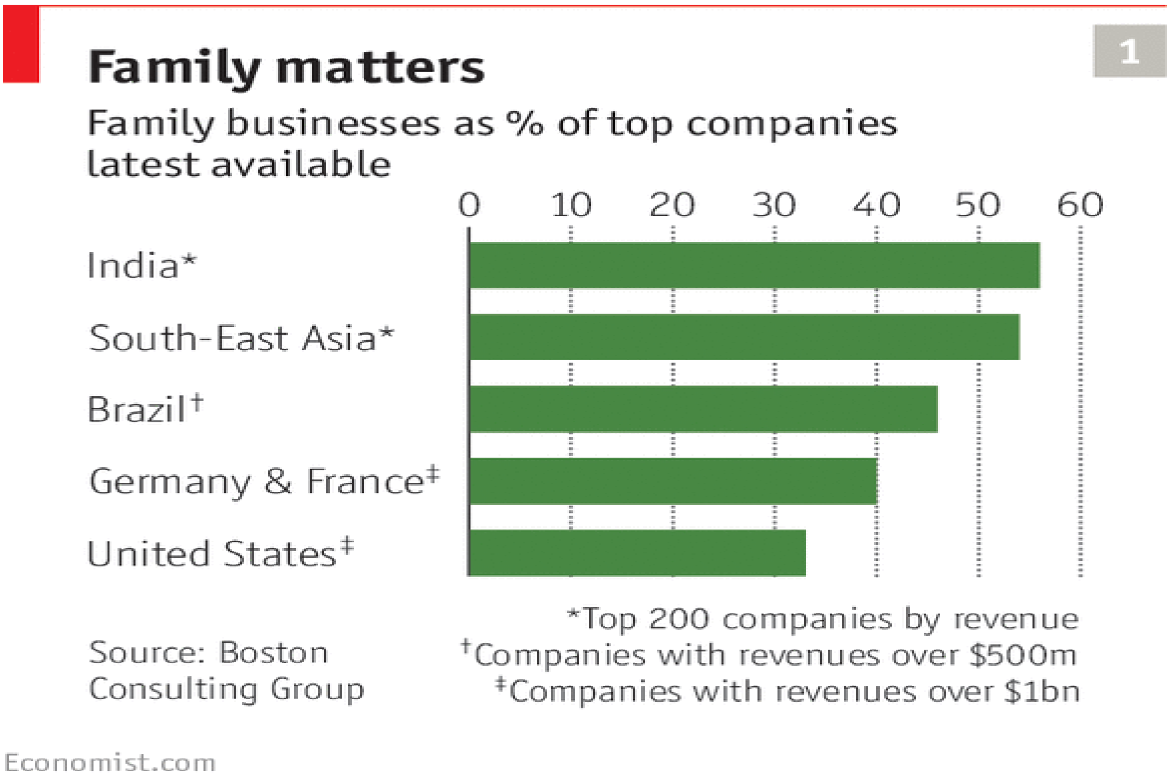


Figure 6 shows even more dramatic picture of disparities, where 0.1% of US population possess as much wealth as the rest 99.9%. Majority of that wealth is inherited and has not much to do with labor income.

Figure 6. USA household wealth and wealth inequalities



Wealthy families are younger than they were a generation or two ago, and they earn a larger share of the country's income from labor: 3.1% in 2012 versus less than 0.5% prior to 1970. However the hairs of old family business fortunesare prevailing.[1]



The club of young rich includes not only Mark Zuckerberg, but also Paris Hiltons: young heirs to previously accumulated fortunes. What's more, the share of labor income earned by the top 0.1% appears to have peaked in 2000. In recent years the proportion of the wealth of the very rich held in the form of shares has leveled off, while that held in bonds has risen. Since the fortunes of most entrepreneurs are tied up in the stock of the firms that they found, these shifts hint that America's biggest fortunes may be starting to have less to do with building businesses, just as Mr. Pikettywarns.

There are some other measurements of countries good condition called prosperity. Legatum prosperity index –finds that Scandinavian countries have continued to dominate the top of the global index, which takes measurements from across eight categories: economy, education, entrepreneurship & opportunity, governance, health, personal freedom, safety & security and social capital. In the ranking of most prosperous according to index aredifferent inequalities among social group. One very remarkable is global gender inequality presentedbelow.

Another transformative population shift involves women, as some 1 billion enter—and help propel—the world economy during the next decade. Globally, as female labor participation rates rise there is a direct correlation to a rise in growth and different consumption preferences. The wage gap still persists, particularly for women of color and older women who have moved in and out of the workforce during their careers. But increasingly young women, earning more than their mothers ever dreamed of, are entering upper management, with all of the power and responsibility that entails. In developing nations, meanwhile, women's earned income has been growing at a rate of 8.1%, compared with 5.8% for men, according to Deloitte's "The Gender Dividend".

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Nearly 1 billion women will enter the global economy during the next decade, according to Booz & Co. Globally, as female labor participation rates rise there is a direct correlation to a rise in growth. As owners of small and medium enterprises, women are having a dramatic impact not only on the world of work, but on the societies in which their companies operate. That's especially true in developing countries, in part because of how women spend what they earn.

Other types of inequality. The most important is not between the mega-rich and the rest, but between a privileged cadre of workers on permanent contracts and those with more precarious jobs. Japan is perfect example of it but in some European countries, e.g. Poland, the same phenomenon occurs.

MODELS OF CONSUMPTION - CONSUMPTION AS ECONOMIC FREEDOM?

The inequalities consequences are first for society as a whole. On the supply side for less affluent the businesses eliminate the personal touch from their mass-market offerings and pushing so called “shadow work” to the customers. Luxuries commodities and service industries keep chasing the well-heeled with extravagant, premium-priced offerings. Consumers are being ever more clearly divided into a “cattle class”, herded for example into the back of the cabin and offered precious little service, and a pampered “business class”, for whom nothing is too much.

Growing inequalities as result of income disparities give better schools, safe accommodation, political influence, separate living in enclaves of richness, slams of poverty and diminished common space.Far more than in previous generations, clever, successful men marry clever, successful women. Such “assortative mating” increases inequality by 25%, by one estimate, since two-degree households typically enjoy two large incomes. Power couples conceive bright children and bring them up in stable homes—only 9% of college-educated mothers who give birth each year are unmarried, compared with 61% of high-school dropouts. They stimulate them relentlessly: children of professionals hear 32m more words by the age of four than those of parents on welfare. They move to pricey neighborhoods with good schools, spend a packet on flute lessons and pull strings to get junior into a top-notch college

Consumerism is an important indicator of middle class status. It is associated withsignificant feeling of comforts but also with the freedom to express one’s identity through consumption tastes. However market invasion or new threats of commercialization opposes civic consciousness and values protection.

“Free goods”as water, non-polluted air, forests are not really “free”. There is an increase of organized trade and corruption.There is commercialization of health projects, education results including human organs trade and human trafficking. There is significant difference between developed and developing countries in consumption preferences. Simple distinction is comfort versus “demonstration effect”.

Living longer, especially for populations in the U.S., Japan and Europe, will mean more spending on health care, of course, but also on travel, leisure, entertainment and financial services. But where will that money come from? With greater longevity, people will have to invest in equities for growth, and they'll need help determining how to avoid running out of money.

Middle class in developing countries expresses much more “consumerism”. There is a strong relationship between patterns and preferences of consumerism, social distinction, and concepts of modernity. It is increasingly through specific modes of consumption that the middle class shows itself as ‘civilized’ and ‘respectable’. Middle-class consumers desire their products to not only be hygienic and safe, secure and convenient but also fashionable and cosmopolitan. Hence, there is an increasing number of new urbanites who live in gated condominiums with local air-conditioned shopping centers where they can shop for products imported from abroad. The next generations would probably understand that democracy requires mutual activities of people of drivers of incomes**!**

Women control consumer spending decisions to a larger degree than we had ever realized. And they look at those decisions differently. Women are significantly more likely to want to understand the corporate responsibility of the brands that they buy than men are. The dramatic impact of women's increased power and involvement on the social, political and economic fronts is being felt around the world.

ETHICAL ISSUES

POVERTY

According to World Bank, there were about 1.3 billion people in *extreme poverty* (defined as living on less than $1.25 a day) and about three billion people in *poverty* (defined as living on less than $2.5 a day). If the number of people are multiplied with the $ per day figures and 365 days, we obtain the following results.

The ‘annual wealth’ of people in extreme poverty is about USD 600 billion, while it is about USD 1.5 trillion for the 1.7 billion people in poverty, totaling to about USD 2.1 trillion for the three billion group.

Summing the top instead, reveals that the wealth of the 17 richest individuals is enough to reflect the “annual wealth” of the 1.3 billion poorest people (17 = 1 300 000 000). At the same time, summing up the wealth of the richest 140 individuals (or ‘families’ in few cases) is enough to mirror the combined ‘wealth’ of all the three billion people in poverty.

To investigate moral behavior of how class relates to ethical conduct, the researchers surveyed the ethical tendencies of more than 1,000 individuals of lower-, middle- and upper-class backgrounds[2]. In seven separate studies conducted on the UC Berkeley campus, in the San Francisco Bay Area and nationwide, UC Berkeley researchers consistently found that upper-class participants were more likely to lie and cheat when gambling or negotiating; cut people off when driving, and endorse unethical behavior in the workplace.

CONCLUSIONS

Many ideas of inequality consequences are summed up in by Kate Pickett and Richard Wilkinson[3], which purports to show that inequality as such drives a number of social ills including low life expectancy, obesity, and poor educational outcomes. Another line of research claims to show that inequality is associated with a lack of social mobility. Last, there is a long tradition of argument that massive levels of economic inequality subvert democratic politics by concentrating excessive political influence in the hands of economic elites.

Counter-posed to all of this is a long and broadly libertarian line of argumentation that there's nothing wrong with some people becoming extraordinarily rich if they happen to provide products or services that are broadly in demand.

There are all sorts of reasons why such increases in inequality are troubling, and not just for those at the bottom of the income and wealth pyramid.

One is that ambitious people on lower incomes have massive incentives to take on too-great debts to support their living standards - which exacerbates the propensity of the economy to swing from boom to financial-crisis bust.

Another is that the poor in aggregate spend more than the rich (there are only so many motor cars and yachts a billionaire can own, so much of the super-rich's wealth sits idle. as it were), and therefore growth tends to be faster when income is more evenly distributed.

However the three billion people in poverty would have been in a much better situation if they had meaningful opportunities to fulfill their lives. The billionaires would not have felt as good if they were not nurtured and prioritized by an elitist and aggressive govern- mentality throughout the world. Surely an inclusive, participatory and democratically functioning economy is the ideal alternative, but it is a real challenge. According to statement of Joseph Stiglitz in Davos -2015“Simple changes – including higher capital-gains and inheritance taxes, greater spending to broaden access to education, rigorous enforcement of anti-trust laws, corporate-governance reforms that circumscribe executive pay, and financial regulations that rein in banks’ ability to exploit the rest of society – would reduce inequality and increase equality of opportunity markedly”.

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