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IS GROWING INCOME INEQUALITY BETWEEN NATIONS A RESULT OF FLAWED ECONOMIC POLICIES?

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Abstract: The purpose of this paper is to give an overall knowledge about income inequality between nations and exploring main drivers of this issue. Moreover, I tried to give some solutions to overcome this problem. During the article, it is common to see theoretical facts rather than analytical or statistical. The aim is not to make overwhelm and give whole overview.

Keywords: Inequality, Income inequality, Wealth disparity, High-income nations, Low-income nations, Global South, Economic systems, Gini coefficient, GDP per capita

Introduction

Nowadays, income inequality within country is considered one of the main issues of our World. Moreover this issue is also significant between countries. The evidence shows that inequality in many countries is very high and, in many cases, has been on the rise. According to some researches 76% of global wealth depended on the richest 10% population of the world, while about 4 billion people which considered as poorest half own only 2% in 2022. This means that there is a huge disparity between high-income and low-income nations.[i] For example in that year per capita income was $135000 in Luxembourg. At the same time, this indicator for Burundians was 462 times less ($262).[ii] Before going on, it is important to understand what income inequality between nations itself is. When the disparity exists between countries in terms of wealth and income levels, it refers to income inequality. Briefly explain the concept of income inequality between nations and why it matters are usually utilized to measure it. Higher-income countries like U.S, Canada or Scandinavian nations tend to have higher average incomes, advanced industries, and better access to education and technology. In contrast, nations with low income, especially in the Global South, fight with systemic poverty, limited industrial development, and restricted access to resources. There is a questions saying “Is flawed economic policy really main driver of income inequality?” Flawed Economic policies contribute income inequality due its several following aspects.

Deflationary bias: As a consequence of low spending by consumers and businesses, downward in economic activities can be observed.[iii]

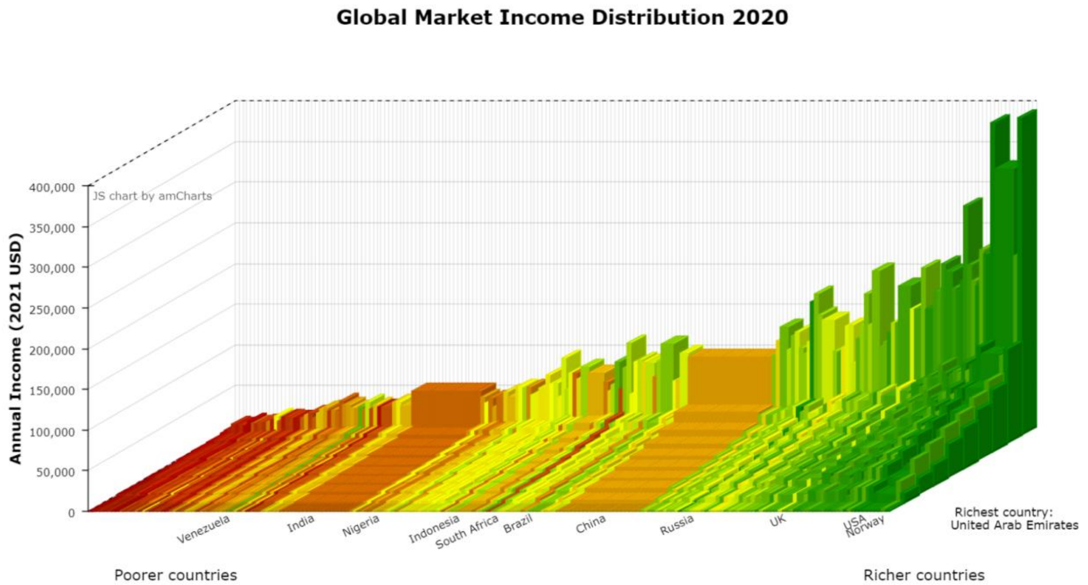
Poor governance: Poor governance can lead to less growth and declining levels of investment due to higher costs of doing businesses. [iv]

Lack of understanding and attention to detail: Bad policies can be caused by a lack of understanding and attention to detail.

Conflation of businesses and households: Conflation of businesses and households causes the confusion in economic analysis and policy. [v]

Understanding Income Inequality Between Nations

Income inequality on a global scale often can be said as categorizing countries into the groups of high-income, middle-income and low-income nations because of the unequal distribution of income and wealth among those nations and individuals worldwide. This inequality is commonly measured using Gini Coefficient and GDP per Capita.



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In this diagram, disparities in income in 2021 between different countries is provided. As given in the chart, there is huge gap between Arab nations, countries in North and some South American or African countries.

Although it is hard to believe, the root of income inequality within nations is directly related to the World War II. After the war, nations adopted diverse range of economic approaches for economic and infrastructural recovery and other purposes. For instance, Keynesian approach was pretty popular in Western part of the earth in order to manage economic cycles by focus on government intervention, enhance policy for stimulating demand through public spending and investments. Furthermore, other various approaches like Mixed Economies (Nordic Countries and Some Developing Nations), Command Economies (Soviet Bloc and Communist Nations),

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Import Substitution Industrialization (Latin American and some African Nations) and others. The influence of these diverse approaches was significant in post-war economic outcomes and definitely in global inequality. As a result Western economies and command economies flourished and stagnated respectively by the late 20^{th} century and also many developing nations struggled with debt crisis. The East Asian "tiger economies" exemplified how strategic state intervention could achieve rapid growth. However, it is not only source of the issue. There are more other causes for income inequality like geographical disadvantages and technological disparities. Poor trade access and harsh climates can be considered as an example for geographic problems. For instance, in the case of Uzbekistan trade costs are very high due to its landlocked position. Investing in infrastructure, digital development somehow can solve the issue.

Role of Policies in Income Inequality

The share of the government sector in economy affects income inequality, for example through economic growth. According to the overview by Ram (1986), the size of the government sector is considered both as a growth-increasing and growth-reducing factor. On the other hand, the government sector enhances economic growth, harmonizing the social conflicts and protecting against foreign risks. On the other hand, the activity of the government sector is frequently inefficient; regulations and taxes impose excessive burdens on economy and distort economic incentives.[vii] Moreover, issues like corruption within the government can significantly influence for development of economy and contribute the income inequality.

Global Economic Systems and Their Impact

Let's look at two economic systems: market economies and planned economies. It all comes down to who owns and controls the factors of production. These are the major inputs required to produce stuff and Karl Marx classified them as land, labor and capital. He even wrote a book about it, Das Kapital. In a planned economy, the government controls the factor of production, and it's easy to assume that's the same thing as communism and socialism but that's not quite right. According to Karl Marx, "The theory of communism may be summed up in the single sentence: abolition of private property." So true Communism is a classless society. The classless is about a social order where everyone owns the factors of production, and output is distributed equally. Kind of like China, and Cuba and the former Soviet Union, expect not at all. In practice, no country has ever been truly communist. There's a lot of countries that are socialist. Often, socialism has both private property and some public ownership and control of industry. The goal is to meet specific collective objectives and to provide free and easy access to things like education and healthcare. In both communism and socialism, there is economic planning, and the government, usually in the form of some bureaucratic agency, helps decide what to produce, how to produce it, and who gets it. Now if an economy is completely controlled by the government, down to the number of shoes that should be produced, that's called a command economy. On the other side of the spectrum, we have free market economies. In free market or capitalist economies, individuals own the factors of production, and the government keeps its nose out of the stuff and adopts a laissez-faire or hands-off approach to production, commerce, and trade. In free market economies, businesses make things like cars, not to do good for mankind but because

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they want to make a profit. Since consumers, that's me and you, get to choose which car we want, car producers need to make a car with the right features at the right price. Economists call this the invisible hand. If consumers prefer one company's car, that business will make more profit and have an incentive to produce more cars. Car companies that don't offer the cars people want will disappear. Maybe you've heard of the DeLorean? It was a cool-looking car, but not a car that many people wanted to buy. Apparently, it was expensive, underpowered, and poorly made. And it didn't actually travel through time. Anyway, this concept applies to all other markets, like cell phones or shoes. Scarce resources will go to the most desired use, and they'll be used efficiently, more or less. After all, if a business is wasteful and inefficient or makes something that no one wants to buy, then some other business will make a similar product that's either better or cheaper or both. If there's no consumer demand for a product, resources won't be wasted producing it. We often take markets for granted, but look at the alternative. Assume instead that a government agency was in charge of deciding exactly which types of cars and cell phones and shoes to make. Do you think they could quickly respond to changes in tastes and preferences? If there was only one government monopoly producing cars, do you think they'd be produced efficiently? So the invisible hand of the free market is the idea that individuals and businesses meet society's needs when they seek their own self-interest. Competitive markets with profit-seeking businesses will have an incentive to produce high-quality products as efficiently as possible. In the words of Adam Smith, "It's not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest." Now, it looks like the free market's perfect and we don't even need a government, but that's not quite right. There's a bunch of things the government must do, because free markets won't. First, is maintain the rule of law. We need laws and police and contracts and courts to keep everything orderly. Second, we need public goods and services, like roads and bridges and education and defense, because goods can't get to consumers if bridges are falling down, and consumers can't make good choices if they're not educated, and no one really cares about buying the new iPhone if there's a bomb dropping on your head. Third, the government sometimes needs to step in when markets get things wrong, but what does that even mean? Well, let's go back to producing cars. The free market produces what we consumers want to buy, and when we buy, we're thinking about what a car looks like. If it's the color we want, maybe if it's safe, what it costs. Most of us aren't worried about air pollution. We don't think much about who made our car, what they were paid, what the conditions at the factory were like; that's when government steps in to regulate production. In a free market economy like the United States, you might think that the government doesn't tell car producers what types of cars to produce and how to produce them, except that it does. Cars need to meet strict emissions and safety standards, and there are laws dictating how much manufacturers can pollute and how workers should be treated, and here's the big takeaway: modern economies are neither completely free market nor planned. There's a spectrum of government involvement. For example, on one end we have North Korea. They have a command economy where production is entirely controlled by the government. On the other end, we have countries like New Zealand; they have private property, few taxes, and few regulations. In the middle, we have the rest of the world. So most modern economies are actually mixed economies with both free markets and government intervention.

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And a great way to explain a mixed economy is by looking at something called "the circular flow model." A modern economy is made up of households, which are individuals like you and me, and businesses. Businesses sell goods and services to households in the product market - that's anywhere goods and services are bought and sold. The households need to pay for those goods and services, but where do they get the money? The households earn the money by selling the resources, like labor to businesses. Now, this is done in the resource market. The businesses use the money they earn from selling products in the product market to pay for resources in the resource market, and households use the money they earn in the resource market to buy products in the product market. But there's another key player in the economy: the government. The government also buys products and resources. For example, they'll buy cars from businesses and hire government employees like policemen to drive them. The government pays for public goods like roads and bridges and public services like firefighters and teachers. They also provide transfer payments to individuals in poverty and subsidies to businesses to produce things like fuel-efficient cars. But where does the government get the money? Well, they get some of it from taxing households and businesses and they get some of it from borrowing. So basically, that's it. That's the circular flow of products, resources, and money, and the interactions between businesses, individuals, and the government. Now, it gets more complex when you add in international trade and the financial sector, but for now, the simplified circular flow shows how the modern economy works. We've established that economies differ based on the amount of government involvement, but it's important to keep in mind that economies can change. Over time, Denmark and Canada have adopted more elements of a planned economy, like universal healthcare. China, on the other hand, has added more free market elements to its economy and now has less government ownership and control of production, so communist China actually has a socialist market economy. But which type of economy is better and how much should the government get involved? It's hard to find support for command economies outside North Korea, and may some nostalgic Cubans and Russians. Those who support socialism would point out Denmark's high standards of living and low income inequality, but free market enthusiasts might point out China's massive economic growth and growing middle class after backing away from central planning. Ultimately, the optimal amount of government involvement depends on your personal values. For example, what, if anything, do you think the government should do to help people in poverty? Do you think it's up to each individual to provide for themselves, come what may, or do you think the government should step in as a safety net and help pay for food and healthcare? What if the person made choices that got them in financial trouble, like gambling or made them sick, like smoking? Should society help then? Well, economists aren't really good at answering these types of questions. Sorry. It's not that they're heartless. It's just they don't operate in the realm of feelings. In the words of economist Thomas Sowell, "There are no solutions, only trade-offs." Sure, it would be great if we could end poverty or provide healthcare for everyone, but we're going to have to give something up in order to do it. Forcing car producers to meet emissions and safety regulations will increase production costs and likely increase the price of cars, but it also reduces pollution and fossil fuel consumption, which will hopefully improve public health and save money in the long run. There is always an opportunity cost, and deciding if it's worth it well, that's up to you and your elected officials and a bunch of lobbyists. Deng Xiaoping transformed China from a country with debilitating poverty and famine to the economic powerhouse it is today. Regarding this debate, he said, "It doesn't matter

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whether a cat is black or white, if it catches mice, it's a good cat." In practice, almost all countries are somewhere between the extremes of a command economy and a completely free market economy. That's because mixed economies seem best at handling the circular flow of goods, money, and resources. But the debate over free markets and government control will never end. That's why it's vital for you to be informed about the merits and the limits of economic systems and be willing to support solutions that get the job done, as opposed to getting stuck in one ideology. Economic theories and models can seem really great in the abstract, but when they're kicked out into the real world and actually have to govern the affairs of billions of people, it turns out that some flexibility is a very important thing.

Economic policies are not always primary cause of inequality

As said above, policies are not only source for income inequality between nations. There are other problems that are not related to anyone. Geographic location also plays a vital role in developing economy. For example countries like Chad struggle because of high trade costs due to its landlocked position.

It is not secret to say historical colonization has also significant impact on country's economy. Some kinds of old-fashioned rules and bureaucrastic system that inherited from SSSR in Post-Soviet Union is real example to this.

How Economic Policies Can Address Inequality

Reducing inequality was mentioned to be solved in the 17 purposes of UN (2030 Agenda). Inequality threatens long-term social and economic development, harms poverty reduction and destroys people's sense of fulfillment and self-worth. The incomes of the poorest 40 per cent of the population had been growing faster than the national average in most countries. But emerging yet inconclusive evidence suggests that COVID-19 may have put a dent in this positive trend of falling within-country inequality.

The pandemic has caused the largest rise in between-country inequality in three decades. Reducing both within- and between-country inequality requires equitable resource distribution, investing in education and skills development, implementing social protection measures, combating discrimination, supporting marginalized groups and fostering international cooperation for fair trade and financial systems.

Reducing inequality requires transformative change. Greater efforts are needed to eradicate extreme poverty and hunger, and invest more in healt, education, social protection and decent jobs especially for young people, migrants and refugees and other vulnerable communities. Within countries, it is important to empower and promote inclusive social and economic growth. We can ensure equal opportunity and reduce inequalities of income if we eliminate discriminatory laws, policies and practices. Among countries, we need to ensure that developing countries are better represented in dedecion-making on global issues so that solutions can be

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more effective, credible and accountable.

Governments and other stakeholders can also promote safe, regular and responsible migration, including through planned and well-managed policies, for the millions of people who have left their homes seeking better lives due to war, discrimination, poverty, lack of opportunity and other drivers of migration.[viii]

Conclusion

In conclusion, huge disparity in income exists between countries. The above statistics of how much global wealth depends on 10 % rich population and other poor part owns little share (e.g. the case of Luxembourg and Burundi). It is not need to say everything again. Flawed economic policies like poor governance, deflationary bias, inefficient public sector, etc. as well as historical and structural factors and global economic systems are becoming the reasons for income inequality among nations.

From my perspective, policy makers, global institutions nations and communities together can solve the issue through adopting inclusive policies that address structural barriers and create opportunities for marginalized groups, ensuring fair representation of developing nations in decision-making to craft equitable solutions and empowering vulnerable populations through education, health, and social support systems, ensuring no one is left behind.

The growing income inequality between nations is a pressing global challenge. While flawed economic policies play a role, addressing deeper structural issues through comprehensive reforms and international collaboration is critical for fostering a fairer and more sustainable world.

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