

APPROACHES TO SOCIO-ECONOMIC INEQUALITY IN ECONOMIC THEORY

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Purpose: The purpose of this study is to present approaches to socio-economic inequality in economic theory.

Design/methodology/approach: This paper is theoretical in nature. I review relevant literature that addresses the perception of socio-economic inequality.

Findings: Three approaches to socio-economic inequality are identified in the course of the analysis of its perception. The first approach entirely legitimises inequality as an effect of operation of a free market economy, maximisation of profit, praise for individualism and recognition of paradigms that stem from a neoliberal system. The second approach assumes that there must be systemic solutions in place that completely eliminate inequality of outcome. It is based on a belief that the state must interfere firmly in the redistribution policy, understood as an extreme solution that leads to the levelling off of standards of life of all citizens. The third approach is a solution that points out that we agree to inequality (or to its deepening) but on certain conditions that prescribe principles and acceptable boundaries. This paper shows four such conditions: adoption of solutions that remove inequality of opportunity (start), adoption of solutions that remove inequality of opportunity, adoption of solutions that improve the position of the worst-off group and adoption of solutions associated with establishing a conventional minimum accepted by the society.

Research limitations/implications: This research may affect political decisions of state authorities and will point out that we need to address the subject matter of inequality in future scholarly investigations.

Practical implications: This knowledge may be used in the context of modelling economic and social systems.

Originality/value: The article identifies 4 restricting conditions for the approach that points out that we must agree to socio-economic inequality.

Keywords: socio-economic inequality.

Category of the paper: General review, Viewpoint.

1. Introduction

In social studies inequality is evaluated by a comparison of characteristics of a given individual with analogical characteristics of another individual. When we evaluate inequality, we must specify what variables will be taken into account. Sen (2000) has a very good take on this aspect, saying that the most important question is: “equality of what?”, because equality in one realm entails inequality in another. This paper focuses on social and economic inequality.

The terms social inequality, economic inequality and socio-economic inequality are used separately or interchangeably. The second approach is applied more often due to the impact of resources and revenues on social positions, social status, affiliation with social groups or perception of individuals and also due to the impact of the social position, social status and affiliation with groups on the revenues and resources. For example, Jarosz (1984) writes that inequality must be recognized in the context of unequal division of both, material benefits and prestige into positions identified before and in the context of the social inclination to inherit them (Jarosz, 1984). Zwiech (2016), on the other hand, defines economic inequality with an assumption that a certain level of inequality is an immanent feature of every socio-economic system, in three contexts. Firstly, in the context of conditions that create equality, inequality is recognized as permanent symmetrical (asymmetric) access to resources, wealth, prosperity and existence of barriers and differentiated opportunities to achieve these variables. Secondly, in the context of the effect of the functioning of a specific system as a result of redistribution of resources, wealth, and prosperity. And thirdly, in the context of the process that leads to redistribution as the existence of permanent relations that occur between the parties. Hence, social inequality means economic inequality and is strictly interrelated with it.

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2. Literature review - perception of socio-economic inequality

Michalczyk (2004) writes that inequality may be approached in three different angles – an apologetic approach (using arguments that justify inequality), a damasking approach (using arguments that criticise inequality) or a rational approach (the aim is to better understand the functioning of societies). Different approaches to socio-economic inequality may also result from beliefs of individuals. Their perception of this unfairness largely results from an ideology they adhere to. Ideological assumptions are usually based on three mainstreams: elitist, egalitarian and meritocratic. These mainstreams provide a basis for the emergence of 3 approaches to socio-economic inequality. The first approach entirely legitimises inequality as

an effect of operation of a free market economy, maximisation of profit, praise for individualism and recognition of paradigms that stem from a neoliberal system. The second approach is an antitype of the first one. It assumes that there must be systemic solutions in place that eliminate inequality of outcome completely. It is based on a belief that the state must interfere firmly in the redistribution policy, understood as an extreme solution that leads to the levelling off of standards of life of all citizens. The third approach is a solution that points out that we agree to inequality (or to their deepening) but on certain conditions that prescribe principles and acceptable boundaries (Zwiech, 2016).

The first approach – legitimising inequality – is based on the assumptions that reinforce inequality (these beliefs are also considered “myths” by some scholars). They include convictions such as that elitism is efficient, exclusion is necessary, prejudice is natural, greed is good and despair is inevitable (Dorling, 2010). They derive largely from the principles of classical economy, which pushes problems of income redistribution, rising inequality and lack of social cohesion to the back, focusing mostly on allocation. It is because acceptance of Pareto optimality as a paradigm allowed us to avoid entirely the issues of redistribution of income, as it was assumed that the case where the situation of wealthy people improves significantly and the situation of poor people does not change is beneficial (Blaug, 1985). Thus, the absolute approach completely obscures the relative approach.

Utilitarians present a similar position and prove that the question of income redistribution is irrelevant because we must aim to maximise utility of the entire society. This boils down to a conclusion that it is not important who gets more and who gets less, as long as the overall welfare (sum of wealth) is maximised (Rawls, 1994). Brandt (1996) expressed it really clearly, saying that equality in utilitarianism is completely subjugate to the size of wealth and should be sacrificed in exchange for even the slightest increase in it.

Proving that an increase in inequality is necessary also resulted from the conviction that a rise of income inequality is a necessary condition of economic development because it allows accumulation of capital necessary to stimulate GDP growth. Capital accumulation happens through concentration of incomes and the consequence of this process involves increased income inequality. Such an approach suggested unrestricted rise of economic inequality. The Kuznets theory weakens slightly the implications of this necessity, presenting the possibility of changes after a certain time, after obtaining a certain level of development – it is because according to Kuznets’ hypothesis, income inequality increases immanently in the process of industrialization to shrink at the higher level of social welfare. Kuznets proved that income inequality grows rapidly in the initial period of accelerated economic growth, and then a levelling effect comes into play and inequalities decrease (an inverted U shape) (Kuznets, 1955).

The Washington Consensus also heralded that an increase of inequality is inevitable. The Washington Consensus policy pointed to typically neo-liberal solutions that lead to the minimising of the role of the state, deregulation, emphasis on privatisation, and liberalization

of trade and capital market, often at the expense of local communities. The Consensus did not pay attention to the problem of inequality or social cohesion (Stiglitz, 2003, 2006).

Legitimation of socio-economic inequality has also gained support from theories that refer to other values. For example, Friedman (2008) argued that focus should be given to freedom, not equality, and freedom inevitably leads to increasing inequality. Limitation of socio-economic inequality could then strike at the value of freedom. Hayek (2007) emphasised in turn that an individualistic approach to individuals is the most important and natural differences between people justify an increase in inequality. Nozick (1999) argued in his entitlement theory that a just distribution is a question of reason, not effect, thus there is an absolute right of private property which cannot be infringed. Transfer of ownership from the better-off to the worse-off is a violation of entitlement of the former. Elite theories (e.g. by Pareto, Mosca, Mills, Lasswell, Mannheim, or Keller) point out that elites may be attributed certain 'inherent' skills of exercising power. Also, the 'Matthew effect', which says that with time the rich get richer and the poor get poorer (Gospel of Matthew), legitimises rising inequality.

The second approach – a complete lack of permission for inequality of outcome – assumes that there must be systemic (usually state-operated) solutions in place that remove outcome inequality entirely. Utopian socialists represent such an approach. Their theories served as a springboard for the idea of a classless society, where private ownership of means of production is abolished and new economic relations result from community property and just income distribution. These theories proved to be utopian and unrealistic and the most radical attempt to create such a society (USSR) failed because certain elites were replaced with other ones, certain classes were replaced with other classes and a classless society never materialized (Lane, 1984). Besides, an attempt to introduce such an approach revealed great inefficiency of the entire socio-economic system.

The third approach – agreeing to legitimisation of socio-economic inequality (or to deepening it) under certain terms – forces us to think what terms these must be and what limits to set for an increase of inequality. Rawls's (1994) discussion made economists look at conditional acceptance of socio-economic inequality. According to Rawls's (1971) theory of justice, all primary social goods (liberties and opportunities, income and wealth, and all that determines one's self-respect) should be distributed equally, unless an unequal distribution of any or all of these goods is beneficial to those least privileged. In other words, inequalities are admissible on the condition that the poorest draw benefits from them.

Roemer (1998, 2000) also pointed out that inequality of resources ownership is a key factor of socio-economic inequality and that the inequality in the ownership of the means of production is the basic reason of exploitation. The author presents the concept of equality of opportunity where he proposes that "bad luck in the birth lottery" should be compensated. At the same time, he points out that individuals must stay responsible for their choices and effort. The equal opportunity policy levels off outcomes in the extent in which they are the consequence of reasons independent of a person. On the other hand, though, it allows us to

differentiate between the situation of individuals that results from their independent choices and efforts. In other words, inequality is admissible only if equality of opportunity is introduced.

On the other hand, Sen (2000) highlights that there is no permission for rapidly progressing inequality. He believes that poverty is an effect of bad governance, especially governance of a few social groups that do not take into consideration interests of other groups. The author does not refer to distribution of resources (like Rawls does), but to equality of opportunity. He associates equality of opportunity with the term entitlement (which may be understood as a right to goods and performances or, better still, as a right of access; entitlements have been defined by Sen (1984, p. 497) as “the set of alternative commodity bundles that a person can command in a society using the totality of rights and opportunities that he or she faces”). Entitlement determines goods distribution and depends on income, social position and education. He associates this term with another one: capabilities, which are expressed in functionings (possibilities to use them). Sen shifts the focal point from resources on to capabilities to use them, pointing out that the resources to capabilities conversion rate must be equal. Therefore, he focuses on distribution, not allocation. At the same time, he points out that participation of the greatest possible number of different social groups in taking economic decisions is the condition for development and welfare. Hence, in this concept, inequality is admissible provided equality of opportunity is introduced.

3. Discussion

The author believes that the second approach (no permission for inequality of outcome) must be discredited entirely as utopian, ineffective and bringing measurable damage to societies. It does not lead to greater social justice, to greater efficiency of economies, or to a higher standard of living of communities.

The first approach (legitimising inequality without laying down any conditions) does not seem the most efficient choice for entire societies. Legitimation of inequality favours well-off individuals and justifies their state of possession, while justice-related expectations of other social groups are reduced to entitlements and ownership rights. An optimal belief about gradually growing social mobility in market societies is a myth and an extremely naive assumption.

Besides, implementation of the programme of neo-liberals led in many countries to a situation where societies have limited possibilities to influence economic matters.

The third approach (legitimation of socio-economic inequality on certain conditions) is the only possible way. Permission for the existence and growth of socio-economic inequality entails at the same time the need to adopt certain solutions that protect those who are at a disadvantage of these growing inequalities. Mitigating the effects of socio-economic

inequality points to having to ensure systemic solutions that will ensure equal perspectives of achievements for like-gifted and like-motivated persons. On the other hand, such an approach allows maintaining responsibility of an individual for their decisions, engagement, talents and efforts.

Therefore, the first requirement is to adopt solutions that mitigate inequality of opportunity (start). Equality of opportunity is defined as a principle of conditions of a start in life for the young generation. Equality of conditions of a start in life on the one hand requires considerable outlays (or, depending on the researcher's approach – investment) on elements that lead to the achievement of success. On the other it, requires that necessary factors be defined. The problem begins right here – there is no agreement as to what should be included in this “basket of factors”. Apart from this, we also need to think where the boundary of transferring outcomes achieved by individuals on further generations is (succession), because the problem lies in the fact that inequality of outcome achieved by the parents will be inequality of opportunity for their children, and then, as a result of accumulation it will affect further generations. In the minimum version, equality of opportunity boils down to a situation where at least no one is by default denied the opportunity to embark on a road to distinctive social positions (Ziembiński, 1981). This requires not only a well-developed system of public education at an adequate level, but also developed other social systems guaranteed by the state, which eliminate individual and collective poverty.

Another condition is to adopt measures that remove inequality of opportunity. Equality of opportunity boils down to focusing on possibilities of enjoyment of resources, not on owning them.

Rawls (1994) mentions the third condition. He says that inequality may be deepened only if improvement of the situation of a randomly selected person will at the same time cause improvement of the situation of a person that is worst-off in the society. In other words, all effects of part of society are fair if this situation does not damage others or maximises the position of a worse-off group in a situation of inequality.

On the other hand, we must remember about the poorest (e.g. Hobhouse's 1922 concept). In this case we point to solutions associated with establishing a conventional minimum accepted by society. Individual countries apply different solutions under their social practices.

Societies should undoubtedly strive to socialize capitalism. The market is only one of the institutions that could either mitigate economic inequality or contribute to its getting deeper. The existing social and economic system affects the fate and life achievements of individuals because they are determined by inheriting material, financial, social and cultural capital.

4. Summary

Socio-economic inequality is a basis of functioning of a social system. On the other hand, it needs to be remembered that it is maintained and reinforced by those in power with the aid of social institutions and processes (Naidoo, Wills, 2008). Too great inequality becomes a problem for effective functioning of societies and economies.

In the course of analysis of the perception of socio-economic inequality three approaches to this unfairness are identified: absolute legitimisation of socio-economic inequality, complete lack of permission for inequality of outcome and consent for socio-economic inequality on certain boundary conditions that set out rules of admissible boundaries. The author points out that we must reject the first two approaches and adopt the third one. At the same time, the paper shows four boundary conditions for adopting the third approach: adoption of solutions that remove inequality of opportunity (start), adoption of solutions that remove inequality of opportunity, adoption of solutions that improve the position of the worst-off group and adoption of solutions associated with establishing a conventional minimum accepted by the society.

The author is aware that she did not address all motives and that she did not refer to all theories concerning socio-economic inequality. At the same time, she notes that further research must be taken up in this realm. Addressing these issues is paramount to the improvement of conditions of life and to increasing awareness of societies.

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