

# *The Review of Income Equality: Definitions, Causes and Consequences*

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**Abstract:** The wealthiest 20% of the United States population make up over 20% of the country's income, while the bottom 20% constitute up less than 20%. Income inequality may lead to many severe questions like people's health and violence. Should income inequality be of concern to countries? Does the impact of wage disparity vary by country? The paper surveys the determinants of income inequality and synthesizes a vast body of literature on the factors that can influence the inequality of income. The whole passage categories determinants into (1)definition, (2)cause, and (3)consequences. The paper highlights the importance of income inequality and focuses on its effects on different aspects. After discussing various dimensions of the picture, we conclude that income inequality can be severe in some countries, thus affecting the operation of the economy, while there are some solutions to mitigate the harm it causes.

**Keywords:** income inequality, distributions of income, education.

## 1. Introduction

Over the past 40 years, there has been an overall pattern of increasing wealth disparity in all countries. The majority of rich countries and major emerging economies—which together account for nearly two-thirds of the worldwide population and 85% of its GDP—have witnessed a rise in income inequality [1].

Major challenges to economic growth include widespread poverty and rising income disparities. People with low earnings benefit less from economic progress when there is a high-income disparity [2]. Many policies were created to reduce these issues.

The paper summaries the definition, motives and effects of income inequality from various perspectives. From the start, the definition of the paper is distributed into three dimensions: measurements, examples, and descriptions. Moreover, the consequences of income inequality are divided into individuals, society, and nations. There were many reviews in the past, but most of them focused on one aspect, such as only writing on the individual level. Therefore, additional reviews should be needed to summarize the different perspectives on income inequality.

## **2. Literature Review**

### **2.1. Definition of Income Inequality**

#### **2.1.1. Mainstream Measurements**

In the research on public health, the coefficient for Gini has been the approach most frequently employed to measure economic inequalities. Nevertheless, there are other measurements which developed a more nuanced understanding of how earnings is allocated. The Atkinson index and a general entropy index, for example, offered a more meaningful quantitative assessment of inequalities of a different nature [3].

More approaches were investigated. The information provided by several alternative graphical summaries of distributions such as histograms, Pen's Parade, and Lorenz curves can help to identify the index of income inequality. The paper raised two important classes of cardinal measures: the Atkinson family, which derived from sets of assumptions about society's Social Welfare Function and the Generalized Entropy family of indices [4].

Furthermore, the data's source was also significant. The Standardized World Income Inequality Database (SWIID) is an excellent source of data for widely cross-national research on income inequality. It aims to enhance the similarity of income inequality measurements for the widest possible spectrum of countries and years [5].

#### **2.1.2. Examples of the Difference in Wages**

Long-lasting wage gap has been somewhat consistent, and capital income is largely responsible for the secular decrease in income inequality, an accidental incident based on the data from data from revenue tax returns (1915–98), salary taxation returns (1919–98), and tax on inheritance returns (1902–94) were utilized to assess income, salaries, and wealth imbalance for twentieth-century the nation of France [6].

China's income disparity reached its peak in 2005 as indicated by a number data sources. Researchers observed that the high inequality within China may be accounted for by variations in regions and the rural-urban divide after comparing data from surveys obtained in 2010 in China with data from the United States [7].

#### **2.1.3. Other Discussions**

Rising income disparity was characterized by the mid-1990s and current period's fresh job opportunities and income-pooling patterns throughout households and family units, as well as among the highest earners' rapid income growth [8].

Income inequality not only happened in a country, but also occurred between countries. Income inequality between countries is the largest component of global inequality [9].

### **2.2. Cause of Income Disparity**

The rise of a family's neighborhood preferences and human capital investment can have an influence on how their wealth is shared, which may end up in social inequality. Parents' choice of neighborhood has an impact on the distribution of conditional probabilities of their children's income. The surrounding placements influence social effects and local public financing of education, which in turn impacts the growth and income distribution of children [10]. With a good location, children can receive higher level of education. Therefore, people receive different level of education will earn different level of salaries in the future.

In addition, Changes in U.S. inequality of earnings may be influenced by external forces from foreign markets. Trade makes up a portion of these increases in inequality that is roughly equivalent to or slightly higher than its 10-15% portion of economic activity. However, the effects of trade appears to be eclipsed by the rapid growth in technology in exportable regions [11]. The need for highly skilled individuals has increased in advanced countries relative to lesser educated people who can handle basic labor as a consequence of globalization, the growing economic unity through trade and finance. The decrease in industrial occupations that are routine might be an explanation of the growing income disparity.

While population aging, female labor force participation, growing urbanization, the agricultural sector, and industry are adversely related to income disparity, factors like jobless and the presence of a robust financial sector favorably change inequality [12].

### **2.3. Consequence of Income Inequality**

#### **2.3.1. Individual Perspective**

The General Social Survey data from 1972 to 2008 was utilized in the Income disparity and Happiness research, which found that Individuals in America generally felt better in years with less national income inequality than in years with larger national disparities in earnings. The difference in salaries and satisfaction showed a negative link solely for those with lower incomes, not for those with higher incomes. It wasn't attributed to reduced household income, but instead to perceived injustice and a loss of faith in individuals [13].

Income inequality is one of the determinants of population mortality. Higher inequality in a country means the worse the health outcome in the country, and typically, the increase number of people who are not healthy can lead to the increase of mortality rate [14].

#### **2.3.2. Social Perspective**

In societies where wealth is shared more evenly, people tend to be in better physical condition, whereas inequality in a society may lead to certain societal issues. Evidence, for instance, demonstrated that more unequal societies were more likely to suffer from domestic violence, psychological disorders, incarceration, lack of trust, adolescent pregnancies, obesity, drug misuse, and low academic achievement among schools. Health and social issues are expected to be sensitive to the degree of status competition and social division, which is supported by societal variations in material inequality. Relationships between the incidence of health and social issues as well as the level of equality are likely to reflect this [15].

According to the findings of the Adult Skills Survey (PIAAC), those whose parents have less schooling—both in terms of total education received and quality of that education—have a harder time improving their skills. However, inequality has little influence on the educational attainment of people from more affluent households [16].

The financial market is not flawless. Given an individual's income or wealth, they may or may not be able to invest. It's possible for those in poverty to be unable to afford wise investments. Significant levels of inequality drive people to work more, spend more money, and take on more risk to benefit from a greater rate of return. For instance, a greater rate of return could inspire more people to look for education if highly educated individuals are more productive.

#### **2.3.3. Nation Perspective**

Inequality could affect the growth. Inequality within nations has not risen as an outcome of higher average income growth rates. Admittedly, growth typically contributed to lower poverty, but it

occurred in relatively equal countries. High level of inequality also weaken development of countries, potentially impeding future progress in eradicating poverty in unequal countries, most of the developing nations [17].

### 3. Conclusion

In this paper, we reviewed evidence-based literature on the definition, cause and effects on stock income inequality. A lot of the literature is not comprehensive, only mentioning one aspect such as the consequences. By integrating different types of literature, we find that richer and more equitable countries are normally less affected by income inequality. In poor areas or less equitable places, the increase of inequality can hamper the growth of the country and influence people's life.

In many countries, income inequality is a big problem. It not only influences the individual life, but also associated with the national economy. It is hard for us to halt the steady rise in income inequality and get return to the levels that prevailed earlier than 1980, but we could take steps like enhancing preschool services, enhancing educational initiatives, providing further help with earnings training and assistance for workers who have been displaced by technological advances, along with increasing government spending. Since maintaining satisfactory levels of treatment and access as well as regulating the development of health-care expenses are prerequisites for lowering economic disparity, financing for social assistance and education is essential [18].

After collecting data and analyzing, xxx concluded that redistribution can also reduce income inequality, and some of redistributions are, at worst, neutral to growth [16].

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