Name

Instructor Name

Subject

Date

Inequality in Economic System

**Introduction**

In economics, inequalities can be defined as the unequal and unjust distribution of resources among the different segments of society. These economic inequalities can be found in many different shapes. There can be income inequality, wealth inequality, and wage inequality. There can be found inequality in many socio-economic indicators like educational inequality, inequality in the availability of health facilities, etc. Inequality is considered as a social and economic evil. Many socialist economists linked inequalities with the capitalist system of economics. Economic inequalities have many consequences not only for the economy of a country but for the overall society as well. In this essay, we will analyze and discuss some imperial data of income and wealth inequalities in the United States. We will also highlight the consequences of income and wealth inequalities. In the end, we will also suggest some practical tools that can help in reducing the economic inequality in society.

**Measurement of Income and Wealth Inequalities**

Researchers and economists have developed many tools for the measurement of income and wealth inequalities. Among all of these measurement tools, the Gini Coefficient is most widely used and considered as a reliable indicator of income and wealth inequality. This indicator is a statistical formula that uses empirical data about income inflows and population. The final product of the Gini Coefficient is a single-digit number that varies between zero and one. If the calculated Gini Coefficient is zero, it means the income/wealth is equally distributed among all the segments and agents of an economy. While the number 1 in the Gini coefficient is an indicator of perfect inequality in the society and it shows that all the resources in the economy are owned by an individual. The higher the value of the Gini Coefficient, the higher the income/wealth inequality in the economy.

Another approach that is widely used to narrate the inequalities in the economy is to use a percentage of both the population and resources. This approach is often called a Quintile distribution approach. Ratio Measures and Palma Ratio are the other measurement tools that can be used for the measurement of income/wealth inequalities.

**Empirical Data of Inequality for the US**

Income and wealth inequalities have a direct link with economic development. The Gini Coefficient was 0.49 for the economy of the US in the year of 2018 (“U.S. Household Income Distribution, by Gini-Coefficient 2018”). Empirical economic data of the US economy shows that there exists a severe income and wealth inequality in the economy. The top 0.1% of the US population earns almost 188 times higher as compared to the combined earnings of 90% of the lowest population (“Income Inequality”). Moreover, income inequality is increasing over time. Data shows that the income share of the top 1% of the population has doubled during the last five decades. Historical economic data also shows that there can be found a link between the overall financial outlook of the economy and the levels of income inequality. Income inequality dropped significantly soon after the Great Depression of 1930 and the Great Recession of 2008. In both of the crises, the income share of the top 1% affects the most. There not only exists a gap between the earnings of rich and poor but this gap is widening over time (“USA – WID – World Inequality Database”). The income growth of the top 1% of the US population is much faster as compared to the income growth of the bottom 20% of the population.

This exists not only income/wealth inequalities in the US economy but there also exist wage disparities among different segments of society. The White and Asian workers in the US got approximately 30% higher wages as compared to the wage rate of Latino and Black people. Similarly, there can be found wage inequality between males and females.

**Causes and Effects of Inequality**

The key reason behind income inequality in the US can be the difference in wages and productivity. In the laws of economics, a worker's wage must be according to his productivity level. But this economic law has not been exercised in America since the 1970s. Since 1970, the productivity of labor has been increased by 180% but the wage rate increased only by 28% during the same time period. This lower growth rate in wages aslo becomes a source of inequality in the American economy. Moreover, the wage rate of executive-level services increases more rapidly as compared to the growth in the wage rate of blue-collar workers. Transformation in technology and the use of new capital intensive techniques of production also increased the gap between the rich and the poor.

Economic inequalities have many consequences not only for the economy but for the overall society as well. The concentration of wealth in a few hands decelerates the GDP growth rate of an economy. It divides society into different sub-groups that can become a source of high rates in society. It can also decrease public tax collection and can increase public expenses. Economic inequalities also give birth to many social-political inequalities.

**Conclusion**

The economy of the US has to face severe economic inequalities. The government of the US must intervene to decrease the level of inequalities. The government should make the tax regulations more progressive and also increase the subsidies for the poor and lower-middle-class of the society (“10 Solutions to Fight Economic Inequality”). Progressive taxation is a very smart tool that can decrease income inequalities. An increase in wage rates can also decrease the levels of inequality. Universal availability of health and educational facilities can also decree inequalities in the society (“Fighting Poverty Requires a More Humane View of Economics”). The government should also provide equal economic opportunities to every individual.

**Works Cited:**

“10 Solutions to Fight Economic Inequality.” *Talk Poverty*, 10 June 2015, https://talkpoverty.org/2015/06/10/solutions-economic-inequality/.

“Fighting Poverty Requires a More Humane View of Economics.” *The Independent*, 1 Feb. 2017, http://www.independent.co.uk/voices/inequality-poverty-economics-humane-approach-fight-a7555016.html.

“Income Inequality.” *Inequality.Org*, https://inequality.org/facts/income-inequality/. Accessed 3 Dec. 2019.

“U.S. Household Income Distribution, by Gini-Coefficient 2018.” *Statista*, https://www.statista.com/statistics/219643/gini-coefficient-for-us-individuals-families-and-households/. Accessed 3 Dec. 2019.

“USA – WID – World Inequality Database.” *WID - World Inequality Database*, https://wid.world/country/usa/. Accessed 3 Dec. 2019.