ECONOMIC-THEORETICAL ASPECTS AND CONTEMPORARY IMPLICATIONS OF THE PROBLEM OF UNEQUAL INCOME DISTRIBUTION

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Abstract

The paper analyzes the key aspects of economic inequality in the light of conflicting attitudes and arguments of various theoretical and methodological concepts. The conclusions of the empirical studies are outlined and indicate that economic growth is threatened in the conditions of escalation of inequality and the resultant undermining of the stability and efficiency of the economic and institutional system. On the other hand, we also evaluate the findings of those surveys showing that a strong redistribution of income leads to the reduction of the rate of economic growth, emphasizing that inequality is an important feature of the market economy. At the same time, we identify objective difficulties and the causes of insufficiently relevant understanding of problems related to uneven distribution of income, and the key dilemmas regarding the scientific evaluation of the implications of economic inequality are analyzed. It is pointed out that there is a need to distance the academic community from presenting empirically unfounded observations and unjustified exaggerations, as well as underestimating the economic and social challenges of solving the problem of uneven distribution of income. In this context, the results of the researches of economic inequality in the Republic of Serbia were analyzed, with reference to the role, position and orientation of the state in terms of designing and implementing measures aimed at mitigating its consequences on the economy and society.

Key words: economic inequality, GINI coefficient, economic growth, income redistribution, concept of border productivity.
The problem of uneven income distribution continuously seizes the attention of the broadest public. The reflection of the growing awareness of the importance of income distribution in recent times is also a commitment within the World Economic Forum, which in a sense embodies the leadership of the global corporate and financial world, to locate this topic at the second place of the most important global challenges in 2014, while in 2015 this topic came to the top of the list. This was preceded, for the sake of the remark, by the opinion of the ex US President, B. Obama, who declared the growing inequality in the distribution of income as a key challenge for the nation. The sensibility of citizens to the topic of income distribution, employee rights, working conditions, is also present in the less developed part of the world, where the repercussions of these problems are traditionally more pronounced.

The study of political action in most of countries shows that, in order to collect votes in parliamentary elections, the campaigns of political parties are dominantly aimed at actualizing the needs for solving the problem of inadmissible disparities between the rich and the poor. Leading international organizations - the World Bank and the IMF - have been publishing dozens of surveys for years, in which the phenomenon of economic inequality is considered from various angles. Among numerous publications, the worldwide affirmation of this topic has especially been inspired the works of J. Stiglitz (2012), T. Piketty (2014, 2015), E. Atkinson (Atkinson, 2015). Piketty’s book Capital in the 21st Century gained the status of a bestseller, thanks, in particular, to the widely-responding message that developed countries are today at levels of inequality that are very close to the enormous inequalities from the end of the 19th century and that unless something significantly changes in the upcoming period, it would quickly go beyond this level.
The problem of economic inequality is largely debated by the public in market economies. Based on the insight into discussions and proposals related to solving the problems of economic inequality, the impression is they can often go in the direction of neglecting the criteria of scientific rigor. The question arises as to whether, within the discussion on the problem of economic inequality, mistakes are being made, facts inadvertently or deliberately twisted, empirically unfounded observations and unjustified exaggerations presented. First of all, it should be assumed that the insufficiently relevant understanding of the phenomenon of uneven distribution is related to the objective difficulties, arising primarily from the degree of complexity of the phenomenon of inequality, which, unfortunately, permeates the entire history of human society so far. On the other hand, the proper approach to understanding the nature of this problem cannot overlook the fact that the general interest in attempts to alleviate unevenness, among other things, affects the emergence of unrealistic expectations and many misconceptions. Therefore, in addition to the unquestionable humanistic character of advocacy for easing economic differences, it is desirable to identify, consider and analyze key factors that lead to wrong conclusions regarding the understanding of the problem of economic inequality, as well as the need to take appropriate measures for their alleviation and elimination. Hence, the subject of this research paper is to examine the relevance of the theoretical and empirical aspects of inequality by applying economic analysis in order to point to the economic and social dimension of solving this acute problem of modern market economies.

The object of research of the paper is inequality, in its relevant aspects, discussed through the presentation and evaluation of various conceptions of the complex implications of uneven income distribution. This goal is to be achieved by examining the hypothesis that, despite numerous empirical researches carried out on this subject, there are still no reliable criteria for adopting a unique theoretical, methodological and explanatory framework of understanding complex relationship between inequality in income distribution and economic growth.

The basis of the research approach of the paper will be theoretical, structural analysis of the subject, based on the elaboration of available sources. This means that in order to test the hypothesis, empirical research by various authors who have dealt with this problem will be used. Then a combination of analytical descriptions and qualitative economic analysis should lead to general conclusions about the ability / inability of establishing reliable criteria for formulating unambiguous interpretations of the character of the link between economic inequality and economic growth.

The paper is structured in three sections. After the introduction, the economic-historical and conceptual aspects of inequality will be sketched, with a special emphasis on the importance of economic-historical record
of the forms, conditions and consequences of uneven distribution of income. In a special section, the paper discusses how economic theory and statistics deal with economic inequality, as well as the challenges of measuring economic inequality and determining long-term tendencies in the structure of income distribution. In the third section of the paper, the results of various empirical researches are analyzed and the essential aspects of economic inequality are discussed in the light of conflicting attitudes and arguments of various theoretical and methodological concepts. Within this context, in the final section, challenges generated by the problem of inequality in Republic of Serbia will be discussed.

ECONOMIC-HISTORICAL AND NOTIONAL/IDEATIONAL ASPECTS OF INEQUALITY

Inequality, of course, permeates the evolution of human society, changing forms, levels and socio-economic mechanisms of its own reproduction. The uneven distribution of income is also a significant catalyst for various forms of economic and social dynamics - from the rebellions and political movements that have been generated by it, through the migrations and creation of various institutional mechanisms of collective control that society establishes in order to maintain it in socially acceptable frameworks. Finally, inequality, as one of perhaps the most lasting attributes of human society through history, is a cause of such powerful ideas pertaining to social thought based on egalitarian principles. Egalitarian thought is a voluminous body of thought, composed of concepts different in their cultural-historical context, understanding the nature of inequality and the level of radicalism in relation to the social relations they observe. Nevertheless, this heterogeneous and impressive ideational formation combines the belief that the emancipation of humans is fundamentally linked to the elimination of conditions that lead to inequality between them. Perhaps it is vaguely to remind, that in some sense conceptual culmination of this line of thought came with the Marxist paradigm, whose key preoccupation was to prove the exploitative character of capitalism which, according to the logic of historical necessity, would be replaced by a more humane, socialist socio-economic formation. Such socialist formation would, in a certain sense, cease the incentives for further socio-historical dynamics. The use of this paradigm as the basis for the construction of the first socialist society in the world in the former USSR, completely in collision with Marks’s predictions of the place and time for the performance of this social experiment, resulted in inefficiency in the economic and totalitarianism in the political domains. This seriously compromised not only Marxism, but also egalitarian ideas in general.

The institutional architecture of the world’s economy after the Second World War, based on Bretton Woods’ arrangements, had significant impact
on alleviating the problem of inequality between and within countries. The new model of the organization of the world economy, known as “embedded liberalism” (Ruggie, 1982), gave significant autonomy to national economies in terms of the speed of inclusion in the world division of labor, exposure to international financial flows and the creation of domestic institutional arrangements. Thus, national economies were able, in accordance with local circumstances, needs and interests, to assess their own combinations of market and conscious coordination of economic activities, as well as to model the mechanisms of collective control of the market mechanism, in the fields of labor, finance, and social protection. The Bretton Woods framework, backed by the Keynesian model of macroeconomic stabilization policy, had significant achievements. There was a “golden age of capitalism” from 1950 to 1973 with the unprecedented average growth rate of the world economy and the absence of cyclical disturbances in economic activity (Maddison, 2005). In the wake of the global economic downturn and the rise in welfare, the decolonization of third world countries and their ability to independently design their own development policy, various forms of inequality have decreased. In developed countries, with the evolution of capitalism, social mechanisms for restraining inequality have been found, through the institutional balancing of labor and capital interests in various areas of their manifestation. It seemed that a more humane version of capitalism was created (with its variations embodied in different models of market economy).

With the emergence of new circumstances in the world economy, the energy crisis and the stagflation of developed countries that where considered as sufficient reason for abandoning the Keynesian framework economy regulation, a neoliberal reversal occurred, which advocated a strong departure from the previous model of economic coordination. In the area of institutional structures, the neoliberal paradigm is constantly working on dismantling the previous mechanisms of social restraint on the market.

The aforementioned economic-system flows are synchronous with the socio-economic mega-process, which has been going on for more than three decades, known as globalization. In many cases, globalization is used as a justification for the neoliberal reorganization of global economic relations. In this sense, statements are being made that this is a new era of capitalist economy, whose technological base can provide the worldwide maximization of economic interests, provided that the free flow of resources at the global level is enabled. Therefore, it is necessary to accept unpopular reforms from the neoliberal project and to be less restrictive to the new models of governance in different spheres of social life that derogate national institutions in favor of the global ones (Friedman, 1999). One stream of reflection on globalization disputes these conclusions, considering that globalization is not about the historical laws in the
development of society, but only about one ideological model, a powerful discourse that needs to justify systemic interventions in the world economy in order to achieve certain imperial ambitions, by the methodical destruction of the painstakingly acquired social welfare mechanisms (Bourdieu, 1999). There is also the opinion that the recent processes of the almost planetary generalization of neoliberal principles are the product of the activities of clubs powerful in the world economy, financial and multinational capital, all trying to provide themselves with favorable global circumstances for investment. Mobilized world capital has gained a strategic advantage over labor so it can dictate the conditions in industrial relations, transfer the tax burden and the consequences of crises on national economies. The giant volume of mobile world capital moves around the world economy by searching for the conditions for its most favorable fertilization. The outcome of such a power relationship at the global level is yet unknown, but today its negative consequences are already felt in developed countries where de-industrialization is due to capital movement to cheaper countries, the problems of structural unemployment of those who leave the industrial sector arise, and in certain countries, together with the stagnation of real wages, there are social tensions, etc. The process of globalization was successfully exploited by the countries of East and Southeast Asia, which succeeded in purposeful engagement in the international division of labor, largely through ignoring principles of the neoliberal canon.

The deepening of the tensions between work and capital is particularly influenced by the institutionalization of the corporate principle of maximizing “shareholder value”, which contributes to reducing investment, moving production into cheaper zones, reducing labor force and increasing pressure on existing workers in the domain of work responsibilities and efforts (Chang, 2011). Within the structure of the labor force there is increasing portion of precariat, a layer of workers forced to change jobs often due to circumstances in the liberalized labor market, which makes it more difficult for labor force to connect and organize. There is also the fear of new technologies that threaten to leave a significant contingent workforce out of the work process.

Globalization has also induced huge political reactions. Social strata exposed to the negative globalization flows lost confidence in the political left as a traditional representative of the interests of the working class and promoter of social solidarity, because its representatives had significantly contributed to the implementation of the neo-liberal project in developed countries (US Democrats, Laborers in England and Social Democracy in Germany) by linking with the global financial and corporate elite. Now the mentioned population groups turn to other political forces, program-based in identity - economic, ethnic or both - which in contemporary considerations are labeled as populist. Populism takes different forms in individual regions. Thus, where social policy is still strongly present, like in most European
Union countries, this political orientation focuses on ethnic issues, for example, caused by migration. In Latin America, where living standards are the dominant issue, it is based on “economic nationalism”, while in the United States, due to the poor welfare state and the simultaneous problem of migrants, both versions of populism are present - economic and political (Rodrik, 2018).

**TREATMENT OF THE PROBLEM OF ECONOMIC INEQUALITY IN ECONOMIC THEORY AND STATISTICS**

The phenomenon of economic inequality does not capture the attention of neoclassical economic theory, whose concept of marginal productivity of production factors advocates an anti-pluralistic attitude towards various interpretations of factors and causes of inequality. Namely, according to the theory of marginal productivity of production factors, the total product is a function of the engaged factors of production: labor, capital and land. Production function shows the maximum product that can be obtained by different combinations of production factors. Since each factor of production participates in the creation of a gross domestic product, each factor appropriates the share of the income proportionate to its marginal productivity, i.e. the contribution to the gross domestic product that has been created: work - rent, capital - profit, land - rent. If the production factor market is perfectly competitive, the owner receives the real value of the marginal product of the specific factor of production. The resulting distribution of income is “fair” because the owner of the production factor appropriates income that is equal to the contribution of the given factor to the total gross domestic product. This way of distribution, based on marginal productivity, encourages the owners of the production factors to take measures aimed at improving the productivity of these factors. If the state intervenes in the distribution sphere, the incentive to increase the productivity of the factor would be reduced, there would be less investment in human capital and the volume of social production would be lower.

The idea that functional distribution of income can be easily explained on the basis of the principle of marginal productivity, based on aggregate production function, has become the subject of criticism of economic heterodoxy. It is first criticized for the fact that it actually represents the theory of determining the cost of factors of production rather than the theory of distribution of income (Blaug, 2017, p. 182). Its excessive abstraction level is considered as negative since it is practically useless in attempting to provide answers to specific questions about, for example, the structure of wages in labor markets. Are workers paid their marginal product at any time, or are they just paid for their end-of-life product throughout their lifetime? Are individual workers those who are paid their marginal product, or are they groups of workers with identical
skills, all of which are similarly paid? Will some workers with the same level of skill be paid more and some less than would be guaranteed by their individual marginal products?

Bearing in mind the dilemmas related to the empirical status of the theory of marginal productivity of the production factors, it is logical that it is exposed to criticism and that the lack of its practical content has influenced the development of the interpretation of economic inequality which is precisely based on the shortcomings of the theory of marginal productivity, insisting on unequal treatment of capital and work in distribution. There are arguments that the real economy does not function in a perfect market, which will in itself ensure optimum distribution of income, since the owners of the production factors will be rewarded according to their marginal contribution. The imperfection of a market mechanism whose action, inter alia, is shaped by the influence of institutions and government policies can influence that an equal or similar effect is rewarded differently depending on the market position of the participants. The market obviously does not only reward the performance, but also the monopoly behavior, the appropriation of benefits as the result of rent-seeking and so on.

Radical critics of the concept of marginal productivity of production factors consider that, by emphasizing the principle of equity in the distribution of income, they actually impose a normative view of the symmetrical power of labor and capital. However, one cannot ignore the structure of corporate power and the favorable position of the capital holders in the distribution system. In addition to the relative disability of the union struggle and unequal negotiating positions of workers and employers, it is not difficult to understand that in the conditions of high unemployment, pressure on employers to increase the earnings of workers is generally absent. Accordingly, the rate of return on capital often exceeds the rate of economic growth (Piketty, 2015, pp. 39-40). Since the 1980s, in the developed market economies, the level of real wages has stagnated, while the share of capital in national income has been growing at the expense of the share of labor (Джемов & Попов, 2016, p. 155). In the light of these developments, Stiglitz (2010) uses the term “greediness of capital” in order to show that in the conditions of unregulated financial markets individuals engage in a disproportionate share of national income.

One of the more widely used explanations of the difference in earnings among economists starts from the idea of technical progress and its impact on the superior position of highly qualified workforce in the distribution of income. Modern technologies are closely linked to the process of human capital accumulation, for which the qualified work force with a high level of formal education is needed. By increasing the demand for the labor force with higher education, technical progress affects the increase in the earnings of the educated category of workers, which certainly contributes to an increase in inequality in the distribution of income.
Along with emphasizing the importance of technical progress, one of the explanations of economic inequality attains its popularity through the affirmation of the conclusions of the so-called “Theory of Super Stars” (Rosen, 1981). It is about individuals who reign in rare and unique abilities, whose value becomes recognizable and recognized in the global world market. They are up-to-date with modern information technology that enables them to present their rare and special skills and talents to a wider circle of people, picking up thunderbolts according to the “winner takes it all” principle. Super stars in business, sports, music, film, reality programs and so on acquire real wealth, although in their work they are probably just a nuance better than far less paid rivals. Their popularity and valuable assets are usually not related to the material status of the families from which they originate, which suggests that this is a legitimate gain and a reliable indicator of the so-called “good” inequality.

We can also see the deepening of economic inequality from the aspect of the financialization hypothesis which starts from the redistribution of the fruits of economic growth in favor of the financial sector, at the expense of the real one. Findings about the high incomes of the financial sector have become interesting in the face of the financial and economic crisis that began in 2008, when information about enormous wages and bonuses of managers in banks and other financial organizations was disclosed.

**Types and Characteristics of Income Inequality**

Understanding the key aspects of inequality and their implications on the level of economic efficiency can be seen through the prism of understanding the nature and character of inequality. It is known that citizens, by their nature, can more successfully observe the trend of rising inequalities in the distribution of income, than examine conditions that have led to an increase in economic inequality. The Economist’s message is that every inexplicable inequality should not be explicitly condemned and then “summoned” the state to immediately take appropriate measures to redistribute income from those who earn more income to those who earn less. The idea is to see the benefits of the so-called “good” inequality that is the result of commitment and effort, which is often associated with evaluating investment in education. In this sense, it is possible to recognize the motives of individuals who, aware of the problems and misery of life in poor families, try, through the education system and investments in the so-called human capital to ensure high returns in the future.

In contrast, the so-called “bad” inequality is the result of unequal starting conditions, when not all of citizens have equal access to education, practice, health care, and the like, which usually provides children of poor or poorly educated parents in working age no prospect of climbing to the top of the income scale (Arandarenko, Krstić, & Žarković Rakić, 2017, p.
4). It turns out, therefore, that in understanding economic inequality it is desirable to distinguish between inequality in terms of results, i.e. between outcomes, and chances (Fereira & Gingoux, 2011, p. 2). In this regard, there is the approach that gained wide acceptance, one that poses that it is unnecessary to ask questions about the outcome in case where the starting position is “fair” (Atkinson & Mickelwright, 1991, p. 4), and that the inequality in the results is acceptable until it is not the result of unequal starting conditions. On the other hand, there is the opinion of the majority of citizens about the need to equalize the income of citizens, which is often the result of the pre-election activity of populist-oriented political parties.

To what extent the existence of equal starting conditions for earning income is the reality of market economies, there is no unified opinion. Branko Milanovic, a former World Bank economist and recognized authority in the field of income distribution research, says that 70-85% of the difference in income in 2008 can be explained by the action of factors related to the existence of unequal opportunities - the country of residence and parents’ income (Milanovic, 2008). As a typical country that does not represent a country of equal opportunities, Stiglitz (Stiglitz, 2015) states the United States, supporting this view by stating that only 6% of children born in the lower fifth of the income scale are able to reach the peak (Stiglitz, 2015). On the other hand, among the 400 best-standing Americans, the share of start-up entrepreneurs, or those who started their own business, rose from 40% in 1982 to 69% in 2011. The inheritance of “small” businesses and its advancement in the so-called “big” business is no longer common in the US. The share of those who increased family wealth decreased from 60% to 32% (Kaplan & Rauh, 2013, p. 45,46). Within the same line of interpretation is the fact that the growth in the number of super-rich people has decisively been contributed to the growth of labor and entrepreneurial incomes, and not income from capital (Jones, 2015).

Long-term Tendencies in the Structure of Income Distribution

The data from various studies clearly show that in the twentieth century, apart from the relatively short periods of time - 1930-40 and 1970-80, there was a trend of economic inequality (Капелюшников, 2017, p. 118). When it comes to OECD countries, it should be noted that in 17 out of 22 OECD countries, the GINI coefficient increased by 10% between 1980 and 2008, from 0.29 to 0.316 points (Atkinson 2015). In the period 1980-2014, the GINI coefficient in the US increased by almost seven points, from 37 to 44 (Piketty, 2014). In the period from 1920-30, 10% of the richest families in the United States had a share of 40-45% in total income. Their participation has fallen during 1920-30 to 30-35%, while it continues to grow from the beginning of the 1970s, surpassing the share of 45% starting from 2010 (Джомо & Попов, 2016, p. 148).
When it comes to developing countries, they can be divided into two groups according to the level of inequality of income. Countries of Latin America, sub-Saharan Africa and Russia belong to the group where the GINI coefficient is typically between 40-60%. On the other hand, countries of East and South Asia, the Middle East and the Near and the Middle East belong to the other group where the GINI coefficient is below 40% (Джомо & Попов, 2016, p. 148).

The rise in global inequality over the past years is confirmed by the fact that in 2010 the value of property of half of the world’s poorest citizens was equal to the value of property of 388 wealthy people. Already in 2014, the value of the wealth of the half of the world’s poorest citizens was identical to the property occupied by 80 richest people, so that in 2015 the value of this property reached the wealth value of 62 wealthiest people in the world (Oxfam, 2016).

In addition to growing global inequality, it is disturbing that uneven distribution within certain countries has reached a historical maximum. The top management salaries in many companies outweigh the salaries of most of the remaining workers. Thus in European countries, the earnings of senior managers are 10-20 times higher than the salaries of other workers, while this ratio in the difference in earnings in the United States ranged from 400 to 500 times (Джомо & Попов, 2016, c. 151). Piketty (Piketty, 2014) explains this jumpy change by the bargaining model, which has little to do with productivity growth and higher managerial merit. Information that in developed countries workers’ salaries have stagnated over recent decades, among other things, are associated with an unjustified low share of labor in national income, or an inappropriate high share of capital in its distribution. At the same time, the popularity of the view about the “inhumane” face of contemporary capitalism is growing, and in the near future, it is necessary to expect the intensification of social conflicts, and possibly the reexamination of the basic postulates of the capitalist system as well.

The trend of rising economic inequality did not spare the Republic of Serbia. The Survey on Income and Living Conditions (SILC) that has been implemented in Serbia since 2013 has led to an unpleasant discovery that inequality of income - measured by GINI coefficient or quintile - is higher in Serbia than in any EU Member State. Before the introduction of SILC, which is the main source of comparative data on inequality across the European Union, it was believed, based on income and consumption data from the Household Budget Survey (HBS), that economic inequality in Serbia was relatively moderate. However, the idea of the egalitarian character of society slowly disappears with the disclosure of data from the mentioned Income Survey, according to which the GINI coefficient in 2015 is 38.6 points and is significantly higher than the average GINI coefficient of the EU-28 countries (31.0), and also higher than in any other former Yugoslav republic, such as Macedonia (35.2), Croatia (30.6)
and especially in Slovenia (24.5) (Arandarenko et al., 2017, p. 12). Also, the share of income of 20% of the population with the highest and 20% of the lowest-income population, the so-called quintile ratio, is the highest in Serbia in relation to all other countries in which the SILC survey is conducted. Twenty percent of the richest population in Serbia has 9.7 times higher income than 20% of the lowest-income population, which is more than the same indicator in Romania (8.3), Lithuania (7.5), Macedonia (7.2 in 2013) and Bulgaria (7.1) (Ibid, p.12).

*Problems of Measuring Economic Inequality*

The data on long-term income distribution has influenced the fact that the uneven distribution is considered one of the key issues of contemporary economy and society, winning the attention of the scientific, professional and the general public. The serious consequences of economic inequality, both globally and nationally, suggest that the state should seriously engage in solving this problem. It is expected to develop a social protection system and reduce the level of economic inequality by pursuing an active social policy and implementing a tax reform to encourage the progressive income taxation. Politically speaking, it is a just and most popular act of the state. However, in normative and research terms, such developments can have the character of a simplified and tendentious interpretation of the phenomenon of economic inequality. Since the real movements in distribution are not so unambiguous, and in order not to interpret the economic inequality exclusively in terms of fragmentary information, it is necessary to intensify theoretical and empirical research of the problem of economic inequality and its implications for the functioning of the modern economy and economic growth and development (Leković, 2015, p. 82).

In order to investigate economic inequality further, it is necessary to have appropriate data in order to have adequate empirical evidence on the true proportions of this social phenomenon. Without prejudice to the relevance of numerous research procedures on the basis of which data on inequality are obtained, it is desirable, however, to have a certain amount of reserve when it comes to interpreting the results. It should be recalled that there is no “ideal” coverage of disposable income, and that when reporting data on unfair distribution in various studies, within media and analytical discussions, various indicators of economic inequality should be considered. First of all, we should recognize that inequality in market incomes is not the same as inequality in available incomes; inequality in wealth is not the same as inequality in income; inequality in current incomes is not the same as inequality in lifetime earnings; inequality in the distribution of income among individuals is not the same as the distribution of income among households; personal distribution of income...
is not the same as the functional distribution of income (distribution among factors of production) (Капелюшников, 2017, p. 119).

These indicators reflect different forms of economic inequality, offering a colorful picture of the realities of this problem. An important segment of the theoretical and methodological discussions on the objectivity of these indicators can firstly be in the direction of accepting that the standard of living represents the most realistic picture of the amount of consumption rather than the amount of income received (Attanasio & Pistaferri, 2016). Indicators of income and consumption do not coincide primarily because of different individual preferences of saving and unequal readiness of individuals and households to finance their spending from loans. Accordingly, a certain level of inequality in the distribution of income does not necessarily mean a relatively identical inequality when it comes to consumption. There are studies that, for example, show that the level of inequality that characterizes spending in the US is approximately half as low as the level of inequality in the distribution of income (Krueger & Perri, 2006). As a rule, the dynamics of unevenness of consumption show a higher level of inertia in relation to inequality in the distribution of income.

The assessment of the problem of inequality is also related to the analysis of the characteristics of current and living incomes. One of the features of individual income is that it is highly susceptible to significant fluctuations from year to year. Therefore, it may be more correct to look at income over a longer period of time, thereby neutralizing annual income fluctuations. In support of the relevance of such a viewpoint, research is being carried out (Bowllus & Robin, 2012, p. 25) which shows that the inequality which is based on the equalization of income over longer periods is 20-30% lower than the inequality of current incomes in the United States, Canada and the United Kingdom. The reason for such movements, among other things, can be found in the logical trajectory of income trends, in the sense that it is generally lower in youth than in mature years, with a tendency decline in older age. Since inequalities in living income are deprived of the influence of age, they are substantially lower than the resulting annual inequality indicators.

The projection of a correct interpretation of the scale of inequality, among other things, arises from the relatively significant mismatch between inequality in income and inequality in wealth. Namely, there are countries, such as Denmark and Sweden (Berman, Ben-Jacob & Shapira, 2016), characterized by relatively low differences in income distribution, as well as a relatively high level of inequality in the distribution of wealth. It turns out that the growth of inequality in the distribution of income does not necessarily lead to identical changes in the distribution of wealth, especially when one takes into account that the state of family property is associated with a lower or higher propensity to save.
As far as the Republic of Serbia is concerned, the Statistical Office of the Republic of Serbia has continuously implemented the Analysis of inequality in the allocation of income on the basis of the methodology applied in the European Union. It is a Survey on Income and Living Conditions (SILC), which provides data on the total household and personal income and its components. The Serbian Government’s Social Inclusion and Poverty Reduction Team, in addition to data on GINI coefficients, continues to provide information on inequality of consumption in Serbia on its website. Although the data are not modeled by the methodology applicable in EU countries (EU countries are dominantly using the Survey on Income and Living Conditions - SILC), the survey results obtained from the Household Budget Survey are fairly useful and are based on general empirical evidence of a more even level of consumption in relation to the distribution of income. The inequality of consumption in the Republic of Serbia in the period 2006-2016 shows a slight decrease and, in international terms, places Serbia as a country of relatively even distribution of consumption. Consumption of 20% of the richest is about four times higher than the consumption of 20% of the poorest (Social Inclusion and Poverty Reduction Team Government of the Republic of Serbia, 2017, page 2). That the data on the differences between the richest and the poorest in terms of income is drastically different illustrates the aforementioned Survey on Income and Living Conditions (SILC), which states that twenty percent of the richest population in Serbia has 9.7 times higher income than 20% of the population with the lowest income (Arandarenko et al., 2017, p. 12).

UNDERSTANDING THE INEQUALITY - ECONOMIC GROWTH RELATIONSHIP

The necessary measure of caution regarding the intensification of redistribution measures can also be related to the insufficiently understood understanding of relations between inequality in the distribution of income and economic growth. In this respect, there is the need to critically consider the relevance of the arguments of the two contradictory opinions, one of which starts from the fact that the greater economic inequality is an obstacle to dynamic growth, and the second in which it is precisely economic inequality that acts as a stimulus to productivity and inevitability.

For the benefit of the first interpretation, research can be used to show that high inequality in the distribution of income and wealth produces social and political problems, as well as undermine economic growth and sustainability (IMF 2014, OECD, 2015). Stiglic recalls the negative impact of economic inequality on economic growth, stating that the growth of the US economy was more intense in periods in which inequality was lower (Stiglitz, 2012). The unavoidable social dimension of this relationship is reflected in the fact that economic inequality, as a
rule, encourages the rise of crime and mortality, but also a decline in the quality of education, an increase in psychological disorders and obesity (Wilkinson & Pickett, 2010). Indicative is the experience of Latin American countries, as the areas with the highest economic inequality in the world, where civil conflicts, high levels of crime and social instability have been in place for decades (Stiglitz, 2012, p. 84). In conditions of pronounced economic inequality, there are more and more poor families in which there is no investment in the human capital of their heirs. This in turn strengthens the commitment to expand the family (a large number of children), which, unfortunately, significantly restricts the dynamics of economic growth (Любимов, 2016).

Adverse implications of inequality in economic development, inter alia, are connected with insufficient and biased protection of property rights. In the politically unstable and underdeveloped countries, with pronounced inequalities in the distribution of income and the escalation of poverty, as a rule, the adequately regulated system of protection of property rights fails. The problems of the biased institutionalization of property rights become pronounced, when political structures in power give excessive power to those at the top of the “economic pyramid” who, while managing egotistical economic interests, try to limit the extent of redistribution, formulating rules of conduct for their own benefit. These activities basically encourage the imposition of particular interests in the society, primarily through the form of the intensification of efforts directed at rent-seeking and gaining benefits beyond efforts and market performance.

In spite of numerous studies of the negative impact of economic inequality on economic growth, there are conceptions in which a very high level of inequality positively affects the intensification of economic activity (Forbes, 2000; Li & Zou, 1998). In this regard, it is worth recalling Kuznetsov’s thinking (Kuznets, 1955) that in the long historical period we can present the dynamics of inequality in the form of the reverse U. The interpretation of the so-called Kuznetsov curve suggests that at lower levels of economic development faster growth leads to an increase in the degree of inequality, and then, along with an increase in the level of development, a reduction in inequality in the distribution of income will follow. The message of this perceived relationship between inequality and economic growth supports the view that, in the long run, it is better for society not to deal with how to share the “cake”, but how to increase it, because then there will be more goods for everyone. In contrast to such an understanding, Piketty observes the dynamics of inequality through an almost normal Latin letter U (Piketty, 2014). There are also less extreme perceptions, of the dynamics of the inequality of a cyclic character, where we have the change of the period of the reverse and normal U (Milanovic, 2016), confirming the relevance of the assumption
of a nonlinear relation of the mentioned phenomena and the meaningfulness of the absence of the final conclusions about the nature of the given relationship (Banerjee & Duflo, 2003).

Reflecting on how self-regulating market forces can work towards greater convergence and the reduction of economic inequality, a significant number of economists have a fairly cautious attitude towards the maximalist influence of the state on the redistribution of income. As a higher level of equity in the distribution of income can be achieved only with the appropriate state intervention, this engagement of the state in the redistribution plan is not without influence on economic efficiency. Thus, according to Okun (1975), the redistributive policy of a state can cause a decline in economic efficiency, which he characterized as an essential trade-off between justice and efficiency. The interpretation of the relationship of the reversed proportion is explained by the fact that the taxes necessary for the financing of redistribution policy measures do affect the scope of production, investments and consumption. If extra profits from pioneer ventures are burdened with high tax rates, entrepreneurs will not be willing to venture into risky activities. There will be distortion of incentives to maximize their returns, as their part will be expropriated by progressive taxation. On the other hand, the incentives of this type by the poor are reduced, since a certain level of consumption (welfare) is guaranteed by transfers within the system of forced redistribution (Begović, 2015, p. 16). Under conditions where high taxes become destimulatory for starting economic activity and when the amount of social transfers becomes the reason for their abuse, the conclusion is that the representatives of the state have over-ambitiously realized the task of social policy. In extreme cases, redistribution can even cause negative consequences on gross domestic product.

A mechanism that creates strong political pressure directed at the elaboration of the mechanism of extensive redistribution of income is described in the work of Alesina and Rodrik (Alesina & Rodrik, 1994) and Melzer-Richardson’s theorem (Melzer & Richardson, 1981). The authors of the first-mentioned work believe that voters in countries with high disparity in the distribution of income expect and demand high taxes, state expenditures and transfers, which negatively affect economic growth. Similarly, the basic finding of Melzer-Richardson’s theorem is that the median voter has a strong preference for forced redistribution from the rich to the poor, hence the political programs that come to power and stay on it are based on such redistribution. The income of a median voter is inevitably lower than the average, and consequently he has preferences for forced redistribution, owing to which the cause-effect relationship works in a way that economic inequality slows down economic growth.
Understanding Economic Inequality in the Republic of Serbia

Although the citizens of the Republic of Serbia generally do not have enough information about the data on income inequality, the dominant perception of the broadest layers of the population is that during the transition period the level of inequality increased significantly. Unlike the former SFRY that was famous for an egalitarian society, the painful transition process resulted in an increase in economic inequality. On the one hand, there are newly-created capital owners, many of whom have relatively rapidly increased their wealth, which is completely alien and unacceptable to the egalitarian nature of the Serbian mentality. On the other hand, the process of privatization and restructuring of state-owned enterprises brought about the loss of a large number of jobs. In such circumstances, the state took measures to preserve the public sector and state-owned enterprises.

Without prejudice to the positive intentions of the state to preserve the sector that still generates a significant part of the gross domestic product, official data show that a significant number of public enterprises in the Republic of Serbia are characterized by inefficiency of operations, high level of indebtedness, abandonment of an adequate state control system as owner. In addition to the business indicators of the public sector, the society has been very sensitive in recent years regarding the level of income from public sector work and its relation to private sector earnings. For example, the average salary without taxes and contributions in the Republic of Serbia in June 2018 was 49226 dinars. The average net salary in the public sector amounted to 54552 dinars, while the salaries of those working outside the public sector amounted to 46572 dinars. The lowest earnings of 26254 dinars were realized by the employed at entrepreneurs, which, among other things, influenced that the median net salary for June amounted to only 38500 dinars (50% of employees, according to the Tax Administration records, earned the lower of the stated figure in June) (Republican Bureau of Statistics).

The mentioned data, relating to June 2018, are the real picture of a multi-year wage ratio in the public and private sector, illustrating certain specifics of the domestic labor market in relation to developed market economies. In contrast to the developed countries where the growth of income inequality dominantly leads to the increase in the share of capital in national income on account of the reduction of labor share (Đjomov & Popović, 2016, c. 153,155), a significant part of the citizens of Serbia believe that the relatively higher salaries of employees in the public sector is currently being accounted for at the expense of workers engaged in the private sector. While in some developed countries inequalities of labor income are usually milder and relatively acceptable, inequality of income based on capital is usually extremely high, there is a higher degree of sensitivity towards injustice in the segment of distribution of labor incomes in Serbia. The position of a significant number of workers with
private employers is that the public sector employees are privileged in terms of earnings and job security, which, in turn, reinforces the belief in a strong presence, the aforementioned, “bad” inequalities, and the absence of “good” inequality. Not underestimating the indication that there are inequalities in education in Serbia (double more functionally illiterate children are among the 20% of the lowest socio-economic status population than in 20% of the best standing families) (http://www1.worldbank.org/poverty/visualizeinequality/PISA/cov_gaps.html), on this occasion it is interesting to look at the fairly popular opinion of citizens that the labor market in the Republic of Serbia does not adequately reward effort and committed work, and that in the process of employment in the public sector there are not equal opportunities for all. Unlike private sector workers, public sector employees, in circumstances where public companies are seen as “prey” of political parties, use the interests of ruling parties in order to win higher salaries than the market levels and preserve unproductive jobs. These are the typical actions of individuals directed rent seeking, when the political process can be used to secure profit at the expense of others (Praščević, 2015, p. 96).

Data on the high level of inequality in the distribution of income and the low redistributive capacity of taxes and social transfers in the Republic of Serbia (Arandarenko et al., 2017) imply a conclusion of the need for more intensive engagement of the state in the field of alleviation of inadequacy and more active approach to the conduct of social policy. Without going into further plans of the state regarding the regulation of the mentioned areas, the role of economists is to set the analysis of the phenomenon of economic inequality within the frames defined by the presumption of resource scarcity as a key determinant of modern societies. In this regard, they are also concerned with the actualization of the issue of the necessity of determining an optimal level of redistribution of income that will not endanger economic growth. Reasons should be sought in the demands for increasing budgets for social benefits, on the one hand, and almost general social consensus that taxes, which, among other things, finance (are financial source of) social needs of society, are quite high in relation to the conditions of business, on the other hand.

Domestic experience regarding the functioning of the economy in conditions of high tax burden is well-known to the general public. Throughout the rich experience of acting in the absence of a state of law, economic actors have become quite “skilled” in avoiding paying taxes

1 In this sense, there are proposals for increasing the two main social benefits in Serbia - child allowance and social assistance. We can find arguments about the meaning and justification of such measures and moves by insight into the data that the Republic of Serbia spends 0.6% of GDP for those purposes, while that figure for EU countries is about 1.1%. (Arandarenko et al., 2017, p. 13).
and doing illegal activities. Working in the so-called “gray” economy in this region represents a well-established system of carrying out economic interactions which, among other things, can be interpreted as the expected type of reaction to a high tax burden. On the other hand, the relatively high volume of social transfers would probably encourage their abuse, which would additionally contribute to the strengthening of the usual opinion that a good deal of social benefits and benefits are misdirected. Logically, the conclusion is that the state should expand its social functions to a fairly cautious approach, so as not to increase the utilization of leisure, thereby contributing to the reduction of economic efficiency.

Cautiousness regarding the effects of the expansion of the social function of the state, however, does not jeopardize the expectation that the process of reducing inequality in the distribution of income will run along with the growth of economic activity. Great hopes are in the development of support systems for intensifying technological progress and more efficient functioning of the labor market, with the real assumption that the complex of technological changes will cause the increase in demand for better evaluated jobs with higher qualifications and contribute to their higher proportion within overall labor force.

**CONCLUSION**

Over the past years, especially since the onset of the financial and economic crisis of 2008, the problem of the growing economic inequality has become one of the key challenges of modern economy. The actualization of this issue, among other things, is the result of the considerably worsened inequality in the distribution of income that occurred during the last two decades of the 20th and at the beginning of the 21st century. Concurrently with the trend of spreading the debate on economic inequality among representatives of numerous social factors, we are witnessing the emergence of an ever-increasing “pressure” on the academic community to take an explicit view of the level of urgency and models of solving this problem.

On one side of the debate about this socially undesirable phenomenon are the protagonists of the mainstream economic thought based on the concept of marginal productivity of the production factors and the principle of fair distribution of income, without caring to hear about different interpretations of the causes of economic inequality and the need for more serious state involvement in solving the problem of uneven distribution of income. On the other hand, there are numerous social factors, populist oriented forces and a respectable corpus of representatives of the scientific community (primarily from social sciences) voting for the radical breakdown of economic inequality and the elimination of causes that lead to unfair distribution of income.
In addition to the justified and empirically substantiated arguments that the growing economic inequality is an undesirable social phenomenon, and that extreme forms of economic inequality are certainly not a feature of the civilization achievements of contemporary society, the impression is that discussions on this topic are going in the direction of neglecting the academic criteria of scientific rigor. In this regard, the key dilemmas and difficulties of scientific evaluation of the phenomenon of economic inequality were analyzed in order to point out the need to distance the academic community from presenting empirically unfounded observations, the twisting of facts and unjustified exaggerations of the extent of this problem.

Bearing in mind the subject and purpose of the research, the paper analyzes the key aspects of economic inequality in the light of conflicting attitudes and arguments of various theoretical and methodological concepts. The conclusions of the empirical studies are outlined, which indicate that economic growth is threatened in the conditions of escalation of inequality and the resultant undermining of the stability and efficiency of the economic and institutional system. On the other hand, the findings of those studies show that a strong redistribution of income affects the reduction of the rate of economic growth, and emphasize that inequality is an important feature of the market economy. The justification of the inevitable forms of inequality is based on the grounds that those who work hard have to be adequately rewarded, in order to be motivated to realize new investments, which will benefit all citizens.

Based on the consideration of contradictory perceptions as to whether economic inequality is a significant problem of market economies, the paper offers argumentation in favor of the view that the state’s engagement in the distribution of income is not without impact on economic efficiency, and that therefore the level of redistribution is a matter of choice and effort to achieve an appropriate socio-economic compromise. Unlike other social sciences whose representatives advocate the achievement of the so-called “distributive” equality, the economic viewing angle requires a distinction between “good” and “bad” inequality. The idea is to recognize and encourage the benefits of the so-called “good” inequality, which is the result of commitment and effort. On the other hand, it is desirable to intervene and create preconditions for eliminating the so-called “bad” inequality, which is the result of unequal starting conditions, unequal access to education, practice, health care, and so on.

When it comes to the Republic of Serbia, research shows that this is a country that was characterized by a pronounced unevenness in the distribution of income. This is best illustrated by data from the Survey on Income and Living Conditions according to which the Republic of Serbia has the highest GINI coefficient value in 2016 in relation to all EU Member States, as well as the countries in the region. In this regard, most importantly, the necessary increase in the redistributive capacity of taxes
and social transfers should not be at the expense of additional fiscal burden, especially when the development of entrepreneurial spirit is expected, together with the intensification of entrepreneurial activity and the increase in the number of small and medium-sized enterprises, in a way that has been realized in the countries of the social-market model of the capitalist economy.

The conclusions made in this paper point to the need to further improve qualitative, critical and historical research of the problem of economic inequality, including attempts to determine parameters and reliable quantitative frameworks for determining a viable combination between economic inequality and economic growth. Constructive interaction of different conceptions of economic inequality could help to better understand the extent, consequences and possibilities of alleviating the uneven distribution of income.

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**ЕКОНОМСКО-ТЕОРИЈСКИ АСПЕКТИ И АКТУЕЛНЕ ИМПЛИКАЦИЈЕ ПРОБЛЕМА НЕРАВНОМЕРНЕ РАСПОДЕЛЕ ДОХОТКА**

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**Резиме**

Проблем неједнакости стални је пратилац цивилизацијског развоја и стандардни предмет преокупације економске науке. Менајући форме, размере и начине сопстве-не репродукције, неједнакост кроз епохи друштвене историје катализаторски делује на социјалну динамику и провоцира еманципаторски усмерене токове друштвене мисли. Покушај отелотворења егалитарног друштва са социјалистичким експериментом у 20. веку обилазио је искомпрометовао поменуту идејну оријентацију због иманентне економске неефикасности и тоталитарног модела политичког управљања. Бретонвудски систем уређења светске привреде, заснован на балансу интереса рада и капитала, јавне и тржишне регулације, националној аутономији у вођењу војне политике – био је од благотворног утицаја на неједнакост на свим фронто-вима његовог испољавања. Процес глобализације, потпомогнут идејно-политичким офанзивом неолибералне економске парадигме, нарушио је равнотежу моћи у светским релацијама, промовишући интересе капитала наспрам рада, тржишни модел наспрам свесног модела економске координације и водаћу улогу светске мултинационалне и финансијске елите наспрам самосталног деловања националних привреда. Проблем неједнакости се у постојећим околностима поново заострава, изазивајући нову врсту политичке реакције, програмски обликоване по различним категоријама идентитета.

Конвенционална економско-теоријска методолошка апаратура није логички конструисана према потребама обухвата проблема неједнакости. У стандардном моделу функционисања производног процеса, сви актери добијају део производа саобразно њиховом гра ничном уделу у стварању добара, тако да се питање правичности распо деле не поставља. Јасно је, међутим, да присуство политичких и културних околности и институција утиче на расподелу, тако да уделе у производу различитих актера
нису идентични њиховом доприносу друштвеној производњи. Економска ортодоксија делимично идентификује проблем неједнаке расподеле, диференцирајући њења разлика из неједнакости почетних услова као нелегитимну и друштвено оправдану неједнакост створену на основу напора, залагања привредних субјеката и сл.

Проблем неједнакости видио је присутан у Републици Србији. Релевантни показатељи дохodie неједнакости указују на то да је она изражена знатно више него у земљама Европске уније, па чак и у односу на бивше југословенске републике. Земља са некада релативно егалитарном расподелом ушла је у зону изражене доходне неједнакости највећим делом због своје бурне и погибеле привредне историје у последњим двадесет пет година, који се означава као „закаснела транзиција”, чији је исход био успон класе нових богаташа, појединца и група које су предаторском стратегијама у процесу приватизације дошли у посед преосталих употребљивих ресурса, уз истовремено слабљење средње класе.

Нова друштвено-економска стратификација условљава и специфичан облик перцепције неједнакости у Србији. Главни облик конфронтације у домену расподеле чини тензија поводом диспропорција у радном дохотку, у корист плате радника у јавном сектору у односу приватних, који треба додати и негативан друштвени став о новим власницима изненадним из процеса приватизације. Легитимност високих доходака других категорија становништва углавном није предмет превеликог оспоравања. Проблем неједнакости у Србији несумњиво захтева систематичну и обухватну друштвену акцију. Треба, притом, ваљано одмерити њене импликације, у смислу делократног равномерног баланса између нивоа једнакости и привредног раста, дестинирања прерасподељеног дела производа на такав начин да се избегну уходани механизм импозантне сиве економије код корисника средстава, избегавања даљег повећања већ ниако великом пореском притиском у привреди и сл.