Research briefing

Key causes of economic inequality

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Economic inequality can be caused by a number of different issues, which can include both wider societal and more personal factors. Societal factors can include increased globalisation - for example the movement of labour and trade has increased inequality in developed countries, including the UK. This has at times taken the form of decreased wages at the lower end of the spectrum whilst wages at the top have increased. However, evidence suggests this may only be by a small amount, and varies between different occupations. Research also suggests that increased trade with developing nations has decrease wages of low-skilled workers due to international competition (equalitytrust.org.uk).

There are also political issues that can impact on economic inequality, for example changes to the value of state benefits and taxes. The latter includes increases in VAT and indirect taxes, such as those on alcohol and petrol (economicshelp.org). Another factor could be increases in technology and de-industrialisation resulting in a decrease in the number of high-skilled trade jobs, pushing people towards low-skilled, low pay work or even unemployment. However, there is some disagreement as to the significance of technology on economic inequality and it is difficult to measure its impact, particularly as technology can also swell the effect of other causes, such as globalisation (equalitytrust.org.uk).

There are personal factors to an individual that can impact on economic inequality, such as family factors whereby inequality can pass from parents to children. Research shows that in the UK, the likelihood that children will have a similar income to their parents is the highest of any developed country. Evidence also suggests that this is unlikely to change in the near future as social mobility is on the decline. Additionally there is the direct effect of parental income, which can contribute towards childhood factors, such as educational performance, which can in turn affect the ability to earn a higher income in later life (equalitytrust.org.uk).

Impact of economic inequality can be widespread and can include an increase in crime, less social mobility, a decrease in educational performance, a less stable economy which can impact on the likelihood of financial crisis, debt and inflation and finally an increase in stress and anxiety, which can lead to a decrease in life expectancy and higher levels of other health issues (equalitytrust.org.uk).

There is far less written about ways to reduce economic inequality. Sources are generally in agreement that a fairer tax system is needed. This could include higher taxes for the more wealthy and a clampdown on tax loopholes to make sure businesses and individuals pay appropriate amounts of tax. In addition to this there could be other political measures to address inequalities in incomes which could include ensuring the gap between the highest and lowest paid employees is addressed, the minimum wage is increased or policies to reduce further unemployment are considered (financesonline.com).

It is also suggested to tackle issues that affect children and young people in particular. This includes ensuring they have sufficient access to food, education and childcare. This could include measures such as providing high-quality childcare available to all as such a measure would aid in giving all children a better start in life and also provide parents with greater flexibility to access the jobs market (neweconomics.org).

Link between poverty and economic inequality

Research by Naschold (2002) has found that there is a distinct relationship between economic growth, inequality and poverty. White and Anderson (2001) have illustrated how small changes in distribution of wealth or income can have a far bigger impact on poverty than on economic inequality. Their work demonstrated that if the share of national income that went to the poorest 20% increased by a quarter of one percent, this would represent a 4% increase in their total income, yet this would barely impact on the Gini coefficient. Based on these findings, Naschold (2002) has recommended that policies and growth patterns that improve distribution will help address poverty. Research by Jonsson, Mood and Bihagen (2013) on economic inequality and poverty during recession and growth in Sweden has suggested that increased economic inequality did imply increased poverty. However, their research findings suggest that during the recession when economic inequality was reduced, poverty increased and as the economy grew, economic inequality rose and poverty decreased. The Equality trust (equalitytrust.org.uk) has explained this result by pointing out that inequality can be high in a society that does not have high poverty levels due to the difference between incomes at the top and middle of the spectrum.

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