

SHORT OVERVIEW ON DRIVERS OF INEQUALITY

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ABSTRACT: *Income inequality is one of the ongoing concerns for people, organisations, governments, policy makers and the whole world. Understanding this phenomenon is very complex and requires extensive research as it is part of a hyper-complex environment in permanent change. The aim of this paper is to provide a short overview on some drivers of change determining the income inequality among and within regions in Romania.*

KEY WORDS: *inequality, income distribution, GDP, Romania*

1. INTRODUCTION

Identifying the drivers of inequality is rather challenging due to the multitude of potential factors that may influence the income distribution implicitly or explicitly. The most common elements that are referred to are the distribution of earnings and the impact of technological development and trade. Indeed, the earnings are the biggest portion of a household income and therefore its role in income inequality. However, the relation is rather complex since many other factors need to be considered in the analysis.

2. INCOME DISTRIBUTION

The distribution of income across the population is an important indicator for income inequality. In Romania, 39.5% of the income is held by the richest 20% of the population while the poorest 20% of the population hold only 8% of the total income.

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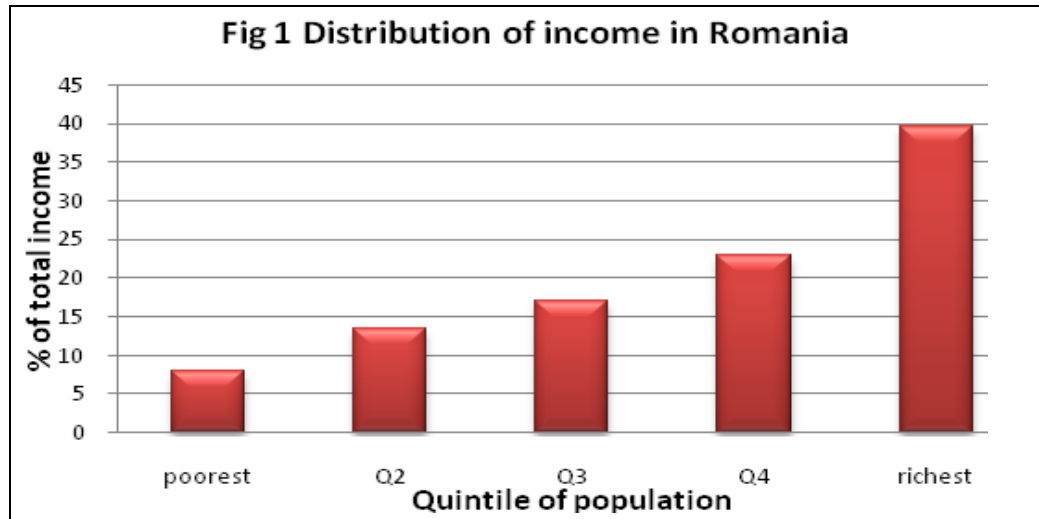
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According to the National Institute of Statistics of Romania, the national poverty rate was 21.5% (2006) and the percent of population living on less than \$1 a day is 2.8%.



Source: Data from the National Institute of Statistics, Romania

Figure 1. Distribution of income in Romania

3. LABOUR MARKETS

The main earnings indicators across regions and time have been identified in the previous section. The attention turns now towards other elements that can drive changes in income inequality. Definitely, the labour markets have a role to play in the distribution and explaining the distribution of income inequality. The unemployment rate had a sinuous evolution but a general decreasing trend towards 2007. The most significant decrease is in the richest area of the country, the capital region. However, with the current economic crisis the pattern is changing with an increasing rate of unemployment which will lead to higher disparities.

If we consider the poorest region of Romania, North East, we can notice that the unemployment rate is rather low compared to other regions and this means that there are many other factors to be considered when talking about inequality. When analysing the employment rate of the regions, remarkable is again the performance of the richest region with a rocketing trend and registering the highest employment rate in the country - the employment has increased in average in 2002-2006 with 2.59.

The employment varies across regions; some of them experiencing great performance in average over the period, while other seem to be less advantaged. If we turn to the poorest region North East, we can easily notice a rather high rate but falling since 2004. The lowest rates of employment are registered in the centre and the south eastern part of Romania. The difference between the region with the growing employment and the worst performing one is more than 3%.

4. HOUSEHOLDS STRUCTURE

The structure of the households is another element that might be interesting to analyse within the context of income inequality. One of the first striking things is the changing pattern of the structure of households. During 2000-2007 there is a significant increase in the households made of a single person, in average of 5%. This can have several implications and the first thing that comes into mind is that for a single person there is a higher burden to cover all the expenses of the household. In the case of two person household, the burden is shared among the members. However, the situation complicates when children are taken into consideration. But in the case of single households the risk of getting poorer is higher in my opinion. The same trend has experienced the household made of one parent with at least one child. Moreover, the households made of one person over 65 have increased by more than 6% over the period compared to 2000.

To conclude, the categories of households that may have an impact on the income distribution are those with single parents, with or without children and those with people aged over 65. This means that the ageing population phenomenon has a very strong word to say in the process. The households with two adults and 1 child have remained somehow constant over the period, experiencing only small variations.

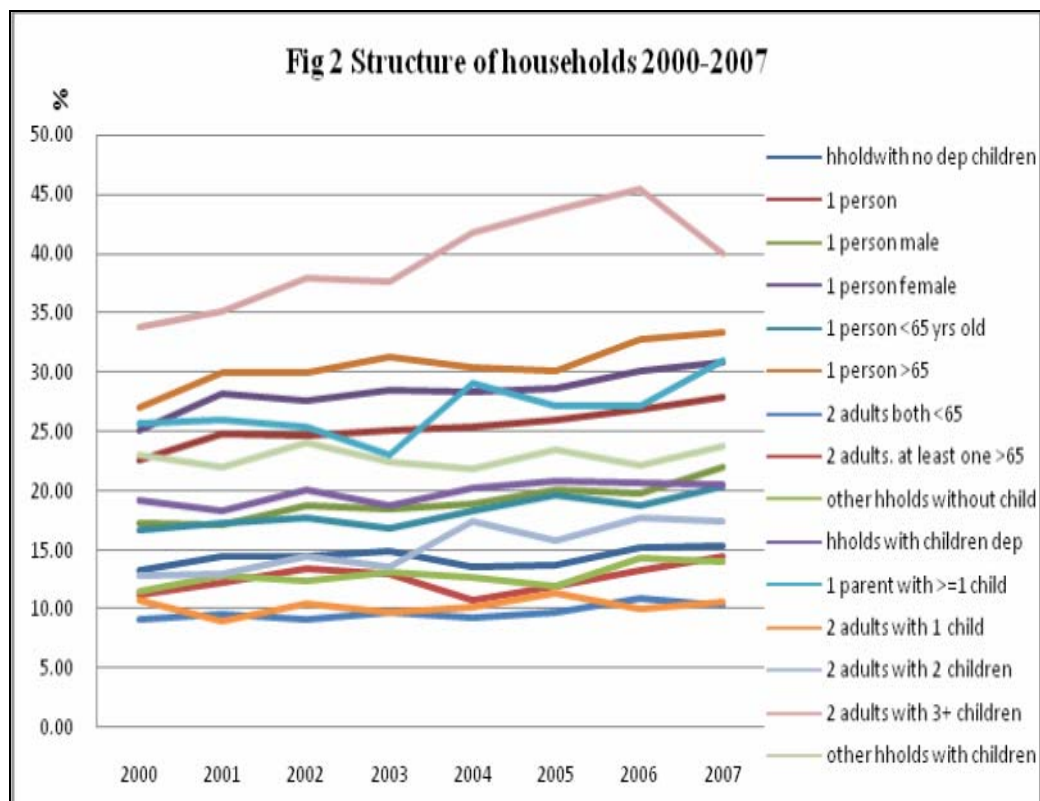


Figure 2. Structure of households 2000-2007

The demographic structure and the decrease in households' size fall in the structure of population of children and youth, population ageing and discrimination are only some of the drivers that have an impact on the distribution of income across the regions and within the country.

So far, I have touched upon the household structure, income distribution. However, the complexity of the issue would require an extensive study on the drivers of income inequality. There are several other elements that need to be considered: education, access to resources and training, policies, institutions, rule of law, the existence of the regulating framework, black market, and corruption. Transparency, responsibility, efficiency, multi level governance, competitiveness are key words that should be the pillars of every system. However, every structure has its own gaps failures and deficiencies. The discussion can go further in human capital, innovation, infrastructure, effects of agglomeration, distance to markets and accessibility and can provide the starting point for an extensive research.

The context is hyper-complex and there is no one size fits all solution to address the problem of income inequality. Moreover, whether it is good or bad to have inequality is debatable. I consider that inequality is inevitable given the current democratic system and inequality will always exist. Even if the access to resources, skills and information is equal, people are different and so their behaviour. The way they decide to make use of their assets is a rational choice more or less and it will be based on the needs at a certain moment in time. Preferences change in time and so are the assumptions. Once the assumptions are changed, different directions of action may emerge.

The pattern of income inequality is determined by the system as a whole as every component has a specific role and a certain degree of influence. Answering to the challenge of reducing income inequality or understanding the drivers behind it is necessary to go back to the theoretical background and to the theory of growth in particular. All the factors considered by the theory are relevant drivers sustained by empirical evidence more or less relevant.

When considering the drivers of inequality, the labour markets would be interesting to analyse extensively. The employment rate across regions, the unemployment rate, the households' structure and evolution over time, ageing population are only some of the elements that provide some ideas for the patterns of income distribution. However, the real causes are deeper and more complex. A main concern is regarding the regulatory system, access to public services, information, skills, resources and way of managing the situation and assets according to the needs and assets requirements and the assumptions made at a specific moment in time. The situation of the natural resources and the management of the assets of the region can have a great influence on people's ability and capacity to develop.

Corruption is another important aspect which is rather difficult to measure and monitor. This failure to measure it cannot provide too much advice as in Romania the problem has a deeper root in the mentality and trust of people. But one thing it is certain: corruption allows for a unfair distribution of income which is deepening the gap at a small scale in a first step but which may add up and have a more significant contribution overall.

5. CONCLUSION

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The context is hyper-complex and there is no one size fits all solution to address the problem of income inequality. Moreover, whether it is good or bad to have inequality is debatable. We consider that inequality is inevitable given the current democratic system and inequality will always exist in one way or the other. Even if the access to resources, skills and information is equal, people are different and so their behaviour.

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