INEQUALITY IN WEALTH AND INCOME: AN AGE-OLD TRAGEDY WITH A POSSIBLE ALTERNATIVE REMEDY

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ABSTRACT

The recent release of the World Inequality Report 2018 strengthens to case for a comprehensive review of the existing systems economic distribution and invites scholars fervent about improving fairness, i.e. enhancing equity in the allocation of wealth and income to generate practical ideas to deal with the worsening gap between income groups. The underlying purpose of this conceptual paper is of two-fold; firstly, to highlight the glaring variation between the top 20% and the bottom 40% even among the most developed OECD countries and next to propose the adoption of Shariah based mechanisms to regulate distributive justice. It is no coincidence for economies globally to face such record breaking inequalities despite experiencing steady growth and emerging as role models for others. Compared regionally, national income seems to be heavily concentrated in the Middle East, followed by India and Brazil. Furthermore, the percentage share of income of the global top 1% remains above 20% leaving the global bottom 50% to oscillate around 9%. Studied closer, evidence reveals that overlooking critical factors such as institutions and sustainability had led a number of successful economies to their current state of affairs. Amongst others shifts in tax, education, and wage- setting policies deserves earnest attention. On the contrary, left unattended, the malice of inequality has the potential to reverse the outcomes of effective national policies targeted at improving wellbeing. The sources of revealed knowledge provide all the necessary guide sufficiently for all aspects of our life, economics included. It is therefore, only right that we seek the essence to help us manage the worldly matters. This work aims to do just that, but focused at handling in widening gap between the haves and have nots.
Keywords: distribution, income, inequality, wealth

Introduction

The issue of income inequality is neither new nor has become any less relevant in today's challenge posed by increased competition. Whether a member of household, commercial organization or government office, the concern of allocative efficiency remains highly important to both the allocating body and the recipient.

Recognized as distributive justice in philosophy, political and behavioural sciences, the idea of a generally accepted level of fairness can be drawn from Aristotle and Plato. They argued that justice in distribution is achieved only when those who are equal in relevant ways are treated equally and those who are unequal in relevant ways are treated unequally in proportion to their inequality. The assignment of economic benefits and burdens must take into account the process of division to the same degree as outcomes sought.

A variety of economic theories and approaches provide insights to distributive justice, including the theory of inequality and poverty measurement, welfare economics, theory of social choice, theory of bargaining and cooperative games and theory of fair allocation (Fleurbaey, 2012). The Holy Quran, being the key reference for all Muslims clearly outlines the importance of social justice whereas the traditions of Prophet Muhammad (S.A.W) sets sizable lessons for all to learn from. Nevertheless, the reality in the Muslim world paints a different picture. Distortions in distribution of wealth has been suspected to be the primary cause for income inequality to widen over the years.

The systematic data collection and remarkable analysis by a team of over a hundred researchers located on five continents, covering 180 countries now enables investigators to study the problem of concentration of wealth more comprehensively. The wealth and income database avails access to the most extensive information pertaining to the historical evolution of income and wealth inequality, within and between nations.

The motivation of this conceptual paper is to highlight the critical need for attention towards the continued widening gap in income and wealth distribution between and within economies globally. Next is to propose a *Shariah* based framework which is partly in place in many Islamic countries but requires the know how to put the mechanisms into practice. Ultimately, the researcher aims to suggest that the distributive tools readily available in the sources of knowledge in Islam has the capacity to improve the current extreme income inequality problems in all parts of the world.

Selected Literature Review

Economists have traditionally equated distributional issues to fairness, which is in modern times operationalized and known as equity. According to J.O. Wilson (1989), when it comes to defining what is a desirable degree of equality in the distribution of income and wealth, or an acceptable degree of inequality, economic theory is woefully inadequate. The issue is viewed as a trade-off between efficiency and equality; a problem of determining the appropriate distribution of income and wealth through the political system and then allowing the economic system to achieve maximum efficiency in the production and distribution of commodities. Given the limitations of the traditional economic understanding of distribution, we must turn to the literature of philosophers and others who have dealt with this issue in far more depth.

J. Tinbergen (1956) acknowledged that the fairly satisfactory state of affairs with respect to the statistical description of income distribution contrasts with the unsatisfactory state in the area of economic interpretation. More remarkable is the reality of the issue being at the bottom of other most important problems of economic policy. He admitted to the absence of a generally accepted body of theory and maintained that much of what was found under the heading of Theory of Distribution is concerned with the determinants of payments to factors of production. In response to a question of the ideal or desirable distribution of income and wealth, Musgrave stated:

The distribution of income and wealth in a market economy depends on a number of factors including the laws of inheritance, the distribution of innate talents, the availability of educational opportunities, social mobility, and the structure of markets, As a result of these factors, a state of distribution, with a given degree of equality or inequality, comes about This state will seem appropriate to some, while others will prefer a greater, and still others a lesser, degree of equality. (1959: 17).

R. Ruggles (1970) claims that the difficulty with the topic is that a single-scaled distribution of income which is statistically derived is quite inadequate for describing other relevant dimensions. He concludes that, given the apparent wide range of institutional, historical and sociological factors directly related to the overall distribution of income, the progress in the field of its theory is dependent upon analytical techniques, empirical information as well as the theoretical model themselves.
The Millennium Development Goals[1] as the accepted basis for action to improve dehumanizing conditions resulting from extreme inequalities of income and wealth estimated that more than a billion people to be in absolute poverty. Pathetically, at least 40% of these are residing in a member of Islamic countries. To be exact, the five largest states, Indonesia, Pakistan, Nigeria, Bangladesh and Sudan with a cumulative population of 690 million people, is registered to have 250 million living below the poverty line.[2] It is suspected that, the underlying cause for such a shocking figure despite the multiple approaches and continuous efforts by their respective governments to deal with the malice of poverty, is actuality the lack of attention to issues relating to distribution of primary resources. As will be discussed in the proposed framework, basic rights are a set of important resource that affects future opportunities.

Alternatively, the *Shariah* approaches distribution from the single most important axiom, Tawheed. The implication of the concept of Unity of God are two-fold; Absolute ownership rest with the Creator and thus all men have equal rights over his bounties. Therefore, is not more than a deputizing vicegerent. He can only manage what he owns within certain limits, specified by Allah.

"And certainly you have come to Us alone as We created you at first, and you have left behind your backs the things which We gave you, and We do not see with you your intercessors about whom you asserted that they were (Allah's) associates in respect to you; certainly the ties between you are now cut off and what you asserted is gone from you." (6:95)

"Believe in Allah and His Apostle, and spend out of what He has made to you to be successors of; for those of you who believe and spend shall have a great reward". (57:7)

But, Allah (S.W.T) says, *"Hath exalted some of you in rank above others"* (7:166). This indicates that equality is not absolute and there are bound to be some form of disparity even on the basis of *taqwa* (God consciousness). The next objective of the Islamic system of the distribution of wealth is to enable everyone to get what is rightfully his. However, in Islam the concept and criteria of this *haq* (right) is somewhat different from other systems of economy. Under materialistic economic systems, there is only one way of acquiring the right to "wealth", and that is a direct participation in the process of production.

On the contrary, the basic principle of Islam in this respect is that "wealth" is, in principle the property, of Allah Himself and He alone can lay down the rules as to how it is to be acquired and used. So according to the Islamic point of view, not only those who have directly participated in the production of wealth but those to whom Allah has made it obligatory upon others to help, are the legitimate sharers in wealth.

At this point, we can safely conclude that while Islam is in harmony with the basis of distribution of the Western scholars, it certainly prioritizes the rights of the needy and destitute well above the qualification according to equity or merit. The justification is simply because the poor and less fortunate deserve to share the wealth and income of the more advantaged for the sake of returning what is rightfully theirs in order to seek Allah's pleasure. Ausaf Ahmad (1984), admits that to date no optimal system of distribution has been devised yet. Equity and justice are serious issues which involve problems of definition and value judgments, he claims requires due attention. He quotes Ricardo to have declared that the discovery of laws which regulate distributive shares as the Principal Problem in Political Economy.

Mabid Al-Jarhi (1985) in his paper, Towards an Islamic Macro Model of Distribution: A Comparative Approach attempted to construct a macro-distribution model for an Islamic Economy. As the division of social class is theoretically meaningless in a hypothetical Islamic economy, in general the society is seen as capital holders (salaried predominantly). Based on the premise that the prevailing distribution of wealth could deviate from the most desirable level, the *Shariah* has provided means to modify people's behavior towards saving and investment, making it theoretically difficult to study redistribution separately, unlike in the Western models.

[1] The world's time-bound and quantified targets for addressing extreme poverty in its many dimensions-income poverty, hunger, disease, lack of adequate shelter, and exclusion-while promoting gender equality, education, and environmental sustainability, set by the United Nations in 2000

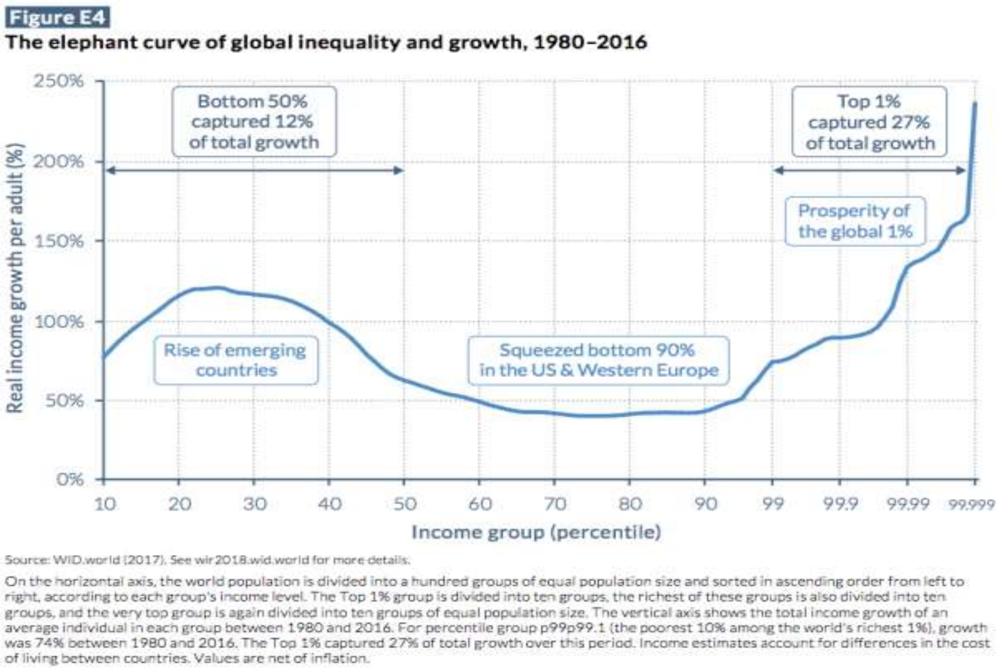
[2] The Express Tribune (6/15/2013) by Javaid Laghari

Choudhury, M.A (2003) concludes the social aspect of wealth to be linked with the productive nature of spending and not with the existing stock of money, savings or conspicuous consumption, and therefore the distribution of wealth is impeded through the obstruction caused on the productive and ownership sides by interest and savings rates.

Literature Critical Analysis

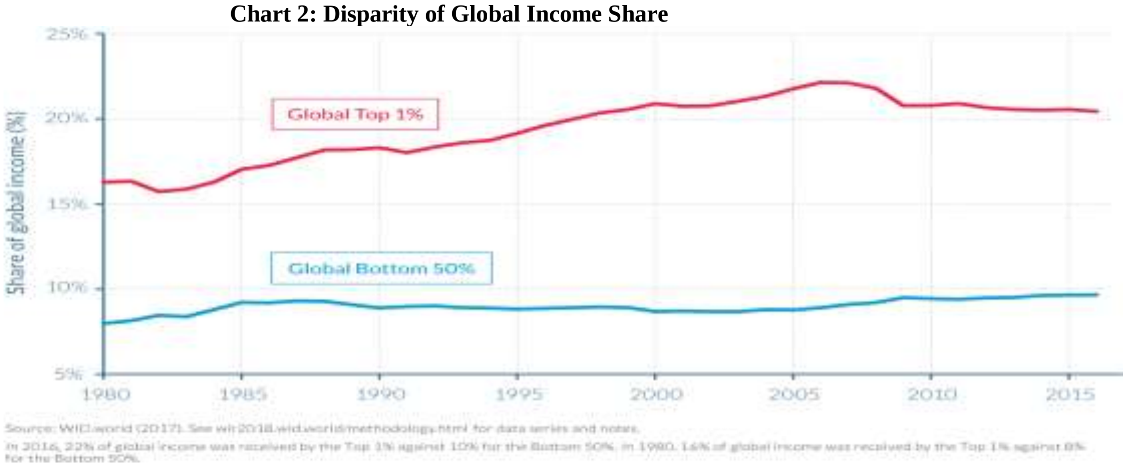
The Elephant Curve of Global Inequality and Growth explained in the works of Alvaredo, Chancel, Piketty, Saez, and Zucman (2017) reveals that while both Asia and North America experienced a rapid increase in income inequality, for the Middle East, sub-Saharan Africa and Brazil it had been stably extreme.

Chart 1: The Elephant Curve of Global Inequality and Growth



Another common way to better understand the widening gap is by comparing the share of world income held by the global top 1% against the bottom global 50% (measured at purchasing power parity). Evidently, the former group's share grew steadily by almost 6% before dipping slightly at the eve of the crisis in 2007. In contrast the income of the latter barely improved over the last 35 years, implying a factor 100 difference in average-adult income levels.

Chart 2: Disparity of Global Income Share



Following the general preference to focus on gross domestic product to as a comparative measure of economic performance, the table below provides the summary of the distribution of world national income by region. Again, America and Europe record per adult national income above the world average of Euro 16,100 leaving Asia far behind at Euro7,000 if India is included. The effect of oversized population can be detrimental to economic growth, making efforts to improve income inequality even more challenging.

A closer look into the data of United States however, reveals that income inequality within between income groups is deteriorating. The top 10% benefits from 47% of the pre-tax national income, followed another 40% to the middle income with a residual of approximately 12.5% to the bottom 50%.

Table 1: Distribution of National Income (Pre & Post Tax)

		Pre-tax national income			Post-tax national income		
Income group	Number of adults	Income threshold ($)	Average income ($)	Income share	Income threshold ($)	Average income ($)	Income share
Full Population	234 400 000	–	66 100	100%	–	66 100	100%
Bottom 50%	117 200 000	–	16 600	12.5%	–	25 500	19.3%
Bottom 20%	46 880 000	–	5 500	1.7%	–	13 400	4.1%
Next 30%	70 320 000	13 100	24 000	10.9%	23 200	33 600	15.2%
Middle 40%	93 760 000	36 900	66 900	40.4%	45 000	68 800	41.6%
Top 10%	23 440 000	122 000	311 000	47.0%	113 000	259 000	39.1%
Top 1%	2 344 000	469 000	1 341 000	20.2%	392 000	1 034 000	15.7%
Top 0.1%	234 400	2 007 000	6 144 000	9.3%	1 556 000	4 505 000	6.8%
Top 0.01%	23 440	9 789 000	28 773 000	4.4%	7 035 000	20 786 000	3.1%
Top 0.001%	2 344	48 331 000	124 821 000	1.9%	35 122 000	90 826 000	1.4%

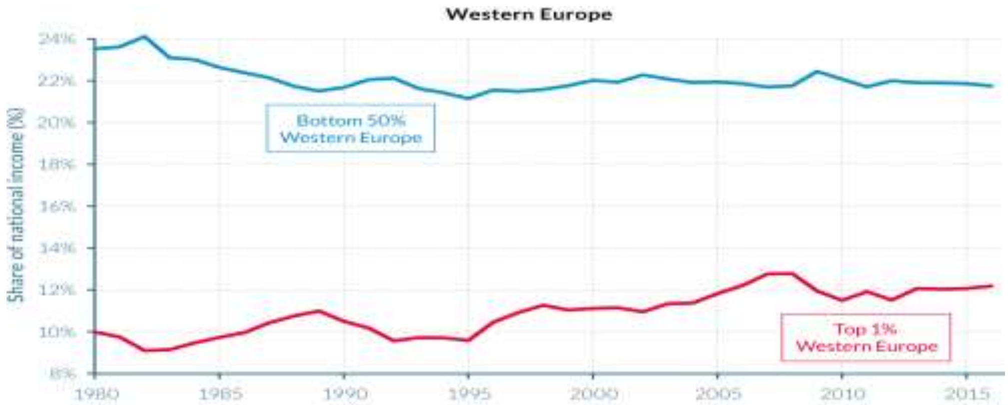
Source: Piketty, Saez and Zucman (2018). See wir2018.wid.world/methodology.html for data series and notes.

In 2014, the average pre-tax income of the Top 10% was $311 000. Pre-tax national income is measured after the operation of pension and unemployment insurance systems (which cover the majority of cash transfers), but before direct income and wealth taxes. Post-tax national income is measured after all taxes, transfers, and government spending. All values have been converted to 2016 constant US dollars (accounting for inflation). For comparison, $1 = €0.8 = ¥3.3 at Market Exchange Rates, and $1 = €0.9 = ¥6.6 at Purchasing Power Parity. Numbers may not add up due to rounding.

Therefore, income inequalities can be moving in completely different directions within economies although at regional level certain countries may for the time being be considered safe from the danger zones.

On the brighter side of the globe, inequality in the enlarged Europe (with a population of 520 million) is substantially smaller. As will be discussed in this paper later, the ability of European governments to maintain lower inequalities is attributed to their effective redistributive policies.

Chart 3: Income Share Distribution in Western Europe



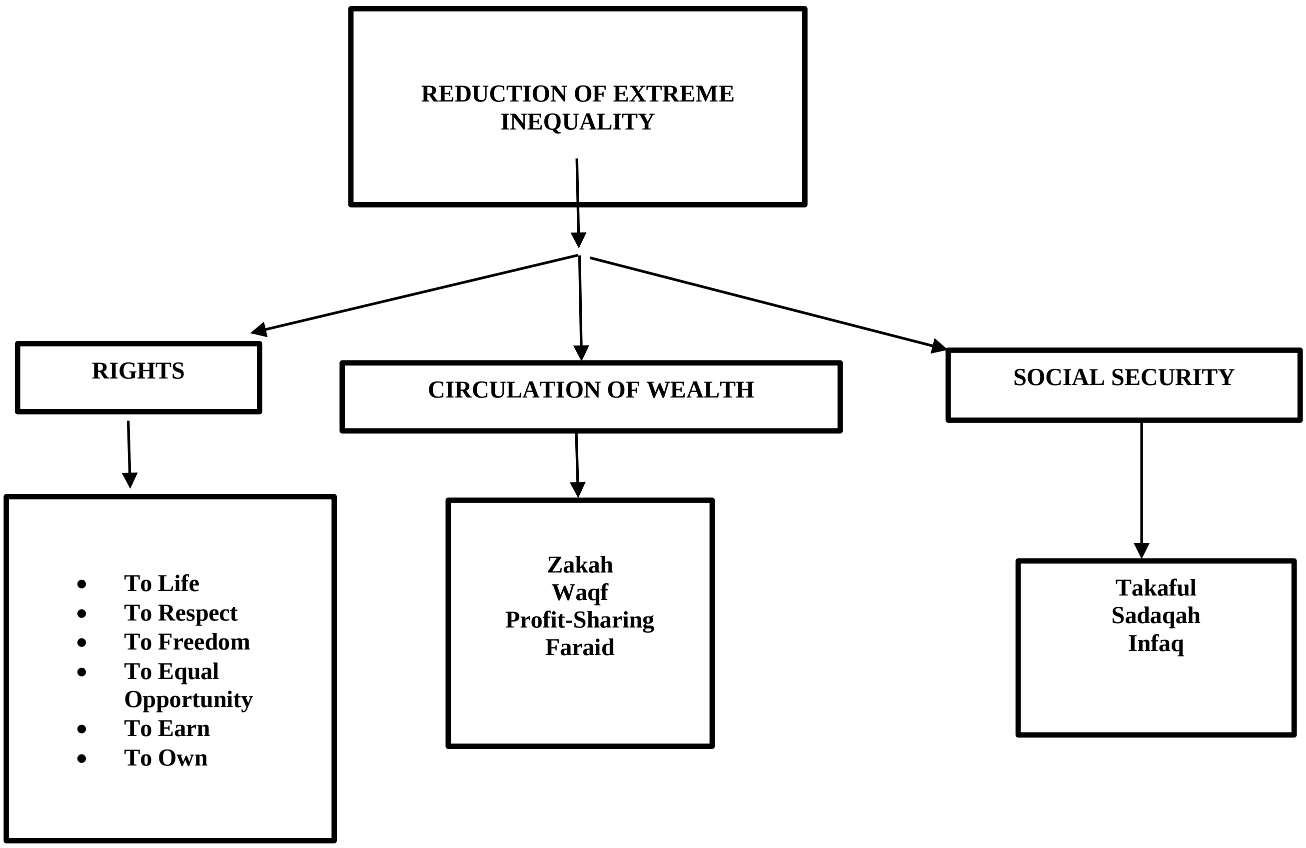
Source: WID.world (2017). See wir2018.wid.world/methodology.html for data series and notes.
In 2016, 22% of national income was received by the Bottom 50% in Western Europe.

Studies reveal that western Europen economies with lower than the global income inequality share common social policies. Most socialist turned republic and democractic nations place high priorities in development oriented national agendas instead of focussing on expanding growth per se. Emphasis on developing the human capital precedes investments in other factors of production or resources. The private and public sectors are complemented successfully by the voluntary sector, made of non-governmental and non-profit organizations.

Findings shared by Askari and Rehman in a chapter of their book, A Survey of the Economic Development of Organization of Islamic Conference (OIC) Countries clearly exposes the hard truth of how behind the majority of Islamic countries in all aspects concerning economic development as underlined by the United Nations. In their massive effort to assess the broad economic performance of the members of the OIC relative to the other regional groupings, the discoveries were daunting. Indexes measuring the income and wealth distribution, and poverty levels show that the OIC countries are performing well below those of the developing Arab countries. Despite economic and social justice being the heart of the Islamic system, and equity a central objective in all policy making, the income disparity in this group and the Arab region has remained constant over the 3 decades, Also, by any standard, the OIC countries have not done well with respect to managing inequality or lowering poverty levels. In fact, it has been persistently high and rising for many.

A Shariah Based Approach

Coincidentally, the Islamic Economic Framework readily provides for institutions to play an active role in combating poverty, improving living standards and ultimately ensuring an equitable economic growth.
At least three key structures standout to be effective in reducing the extreme gaps income and wealth in the Muslim countries. No doubt, monetary measures such as the prohibition of riba' and its alternative profit and risk sharing schemes are powerful ways to help ease the exploitative nature of interest rates, the revival of the systems of rights, circulation of wealth and social security as prescribed by the revealed knowledge is believed to generate favourable lasting effects to distribution of income and wealth within and between nations.



There is a clear difference in the way rights are treated in Islam due to the significance of the concepts of *amanah* (trusteeship) and *khilafah* (vicegerency). Perhaps, this factor contributes the most towards the preference of Muslim scholars to focus on equity when deliberating on issues concerning distributive justice. In view of natural interpersonal differences in human talent and capacity, Islam permits variations in income. As a matter of fact, it considers equalizing earnings to be detrimental to productive efficiency. Although the question as to an acceptable or optimal level of inequality remains, work in any forms that contributes to value production is the criteria to entitlement. Rights to earnings and ownership of property is the returns to labour that must be honoured as mutually agreed in the terms of service exchange.

Under ideal conditions, markets are institutions enabling the factors of production, such as labour and capital to negotiate just returns based of the forces of demand and supply. In reality though, when markets fail to provide environments necessary for fair dealings, the State intervenes to regulate and compensate for the market imperfections. For instance, in the case of labour market, the government's introduction of a minimum wage policy provides the floor benchmark to guarantee the rights to earn a decent level of income for workers in general.

The fulfilment of *zakah* as the fourth Islamic pillar emphasizes the priority of taking care of the less fortunate, in Islam. While philanthropic activities amongst the rich and famous are common now, it is delighting to realize that Islam as an *Adeen* has positioned the importance of giving away a portion our earnings and belongings as an act of worship. In fact, the compulsory rulings of zakah reflects the clear take on communal responsibility. Such is the beauty of *ukhwah* in Islam, for those who believe in totality.

Whereas *waqf*, the inalienable charitable endowment under Islamic law involving fixed assets and of late cash is an easy opportunity for the members of public to share their fortunes for permanent causes. Many institutions of higher learning and health care have embarked on setting up waqf funds to expand their services to the less financially able but in need of education and medical assistance.

Islamic micro financing institutions have also proven to effectively transfer resources and change the welfare of the recipients for the better. The institutions of *sadaqah* and *takaful* are capable of providing for added social security measures above and beyond the basic welfare schemes provided by the government. The researcher unanimously agrees with the proposal made by Rehman and Askari (2010a, 2010b) with regards to classifying countries as Muslims based on their adoption and practice of Islamic teachings, when it comes to assessing the effect of Islam on economic development and growth. The reality is, despite the economic indicators confirming the general belief that the OIC member countries are lagging behind in key socio-economic aspects, there is no credible correlation to Islam (or any other religion for that matter). It is reasonable to suspect that while these economies profess Islam but do not follow the Islamic teachings as a whole, the rest of the nations with acceptable and improving levels of income and wealth inequalities are benefiting from the economic values emphasized in the Holy Quran.

Summary of the Overall Islamicity Index

Economies	Ranking by Economy
New Zealand	1
Canada	7
Norway	11
Germany	17
Malaysia	38
Bahrain	64
Oman	99
Saudi Arabia	131
Indonesia	140

Source: An Economic Islamicity Index (2010)

Concluding Remarks

A critical review of literatures by the contemporary Muslim scholars and the mainstream economists with regards to distribution of economic resources which subsequently affects the distribution of income and wealth provide mixed scenarios. On one hand, the appraisal of works relating to fairness in distribution by contemporary Muslim scholars indicates that justice which has been established (by implication) in Islam does not necessarily conflict with the principle of equity suggested and accepted in Western economics. On the other hand, equity as recognized in Islamic economics is relatively more comprehensive in exercise with far reaching purposes [inclusive of pleasing Allah (S.W.T)] than the equity as a socially accepted principle of distributive justice to Western economists.

Developed by behavioural psychologist, Stacey Adams in 1963, the equity theory was based on the premise that employees will put forth a particular level of effort that they feel compares to the reward potential. This idea of equitable distribution of returns to labour involves a direct reciprocal relationship between the inputs and outputs. Whereas in the perspective of Islamic economics, equity revolves around the concept of fairness that is not limited to rewards based on merits alone but rather extending to the rightful for assistance and a share. The equity available in the *Shariah* constitutes the underlying means to and ends of justice.

Rehman and Askari (2010), took it upon them to develop two composite indexes (overall and economic Islamicity) in their quest to better measure and understand how well nations (primarily Muslim) will fare if they were to adhere to Islamic economic teachings properly. Their preliminary results indicate that the majority of Islamic countries fail to apply the economic values and practices as prescribed by the *Shariah*. The average ranking of the 56 Islamic countries is 139, well below average ranking of the 208 countries measures. When the OIC members are compared with the OECD countries, the disparities are even more pronounced. Relative to the 178 non –OECD countries (average rank, 118), the performance of the OIC countries remains to be the worst, with an average of 133.

Therefore, the full and proper applications of economic rights in general and those relating to own earnings and properties as prescribed by the Holy Quran is expected to be able to reduce the inequality in income and wealth in the Muslim countries, significantly. A revision of all affirmative policies that is aimed at providing equal opportunities, regardless of race, gender or social status has a promising possibility to improve the least developed countries to reverse the economic disparities due to the gender discrimination. Once the distortions at the pre-production level are straightened out, the effective functioning of the third sector in complementing the roles of the markets (labour, capital, etc.) and the States to relocate resources and national income can bring about desirable changes to the gap between the extremely rich and poor.

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