International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

Income Inequality and the Billionaire

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Abstract

"Income Inequality is omnipresent in modern era ". It grapples every economy of the world, be it developed, developing or underdeveloped. Though income inequality is viewed from different perspective because it is defined differently by different economists, it can be seen as income gap between different sections of society or different population group. This income inequality results in making some people rich and some poor. You must have observed yourselves that incomes of the vast majority are relatively small. These are the people who work in different capacities. They are agricultural workers, small farmers, artisans, industrial workers, and persons engaged in odd jobs. In contrast, incomes of industrialists, traders, transporters, big farmers and professionals like doctors and engineers are relatively large.

Firstly, we tried to define income and inequality because of its simple but intricate definition Further we present reasons, consequences and income inequality is measured using Gini index The result of the analysis represents a relationship between income inequality and economic growth. The analysis shows that how rich people exploits the wealth and resources they have that ultimately left the poor with less disposable income.

1.Introduction

1.1 Income

Income is defined as household disposable income in a particular year. It consists of wages, self-employment and capital income, and government transfers; income tax and social security contributions paid by households are deducted from this.

1.2 Inequality

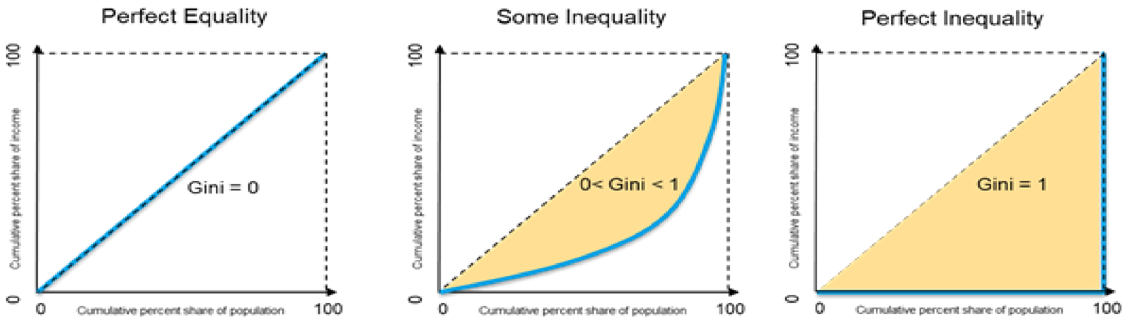
According to economics, inequality means how economic variables such as living of standard, education, income/ wealth is distributed among individuals in a group, among in a population, or among countries.

1.3 Income Inequality

Inequality can be of many types but the major one that the economists around the world is concerned is income inequality, which can be understood as how unevenly income is spread over the entire population. Income inequality studies helps to understand the disparity of income among different population segment. Income inequality effects not only developing countries but developed countries also, because it is like a ripple.

1.4 How income inequality is measured

Population can be divided in different levels and forms to show inequality such as gender, ethnicity, geographical location, occupation. The Gini index is a popular method to measure income inequalities around the world. Gini income inequality refers to disposable income or consumption and this already reflects any redistribution through tax and income. The factor varies between 0 and 1, where 0 represents perfect equality and 1 complete inequality.



1.5 Reasons behind Income inequality

Multiple global and domestic factors which may be intertwined can be the causes of income inequality. The key factors include the following

A) **Inheritance:** The institution of inheritance not only creates income inequality but also accentuates its over time. In an economy like the one we have in this country, children born in the families of agricultural workers, marginal farmers, industrial workers and artisans have no future. Having born in poor families, they inherit virtually nothing, when they grow up, they have no option but to seek work which is invariably low paid. In contrast, children born in the families of landlords, capitalists, businessmen, bankers, contractors and successful professionals often inherit large property.

B) **Race, caste and class barriers to opportunities:** In all class. societies, equal opportunities do not exist for all. For example, in a capitalist society people belonging to the working class do not have much freedom to choose jobs. Often lacking in skill, education and training they cannot hope to become well paid professionals. Their poor background prevents them from going for higher education or pursuing professional courses. Generally poor people lacking capital can neither start business nor undertake any industrial activity. In fact, business, industry and highly paid professions are open to only those people who have sufficiently strong financial background. The racial discrimination in the USA and South Africa is a major cause of differences between the incomes of the whites and the blacks in these countries. The blacks and other colored people are being discriminated in these countries in employment and are often paid lower wages than those paid to the whites. In the caste-ridden Indian society, socially oppressed Harijans have been denied most of the opportunities available to high caste. Hindus. This discrimination at social level over a long period has contributed a lot to inequality of income in the Indian society.

C) **Discrimination in education:** In capitalist countries, all the children do not have equal access to education. Most poor families cannot afford education for their children. Moreover, there are special schools and colleges in these countries which cater to the needs of the children with elitist background. The higher and professional education being costly is generally a privilege of the rich. Those persons who pursue courses like business management, medicine, engineering etc. after completing their studies start their careers with higher salaries, whereas graduates in social sciences, or humanities look for low paid jobs. It should be obvious to you that in a class society, education also acquires a class character and instead of eliminating income differentials, perpetuates them

D) **Differences in the ability:** To an extent income differentials can be explained in terms of differences in the personal abilities of the people. Some persons are hardworking and dynamic. In a competitive social system, such persons leave others far behind. Generally, incomes of these persons are higher than those of the lethargic and unenterprising people. These differences associated with biological inheritance and social and economic environment should not be exaggerated. Paul A. Samuelson very rightly asserts, "These personal differences provide us with only part of the answer to the puzzle P of income dispersion." He further states, “. The history of great fortunes shows that, differences in personal abilities are dwarfed by differences in property owned."

E) Rise of multimillionaire one reason of income inequality is a number of millionaire and billionaire present in a country. These people have so much wealth the GDP of two or three countries in Asia region will be less than their wealth. Wealth of 80% to 90% of people is available to 1% to 2% of people. This increase income gap between general population and those individuals which in turn lead to social injustice, poverty, increase of mobility of people from rural to urban area and that lead to increase of slum areas. What happens due to this is rich are getting richer and poor are getting poorer.

UNITED KINGDOM

■ Income inequality in the United Kingdom today

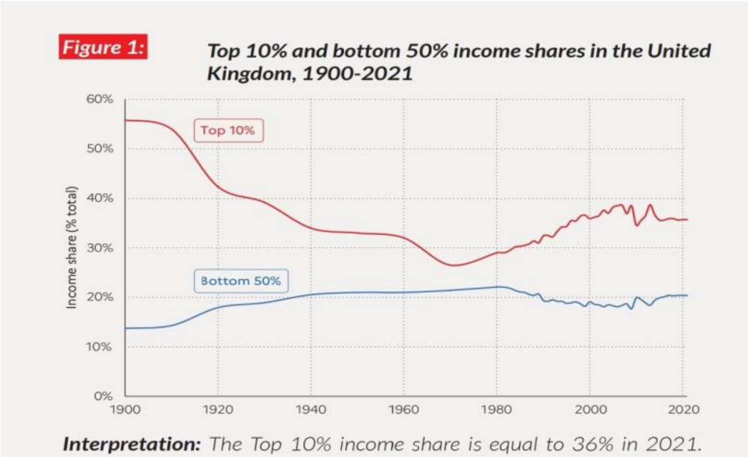
The top 10% captures over 35.5% of total income and the bottom 50% less than 20.5% of it. The gap between top 10% and bottom 50% incomes is smaller than in some European countries, including Germany and Poland (10) but higher than others, for example France (6) and Sweden (7). This gap is much smaller than in the US (21) and China (14).

■ Income inequality in the long run

The United Kingdom was one the most unequal countries on earth in the early 20th century, with a top 10% income share over 55%. In the 1950s, the development of the social state in the UK further reduced inequality in a context of high average income growth rates. The financial crisis of 2008 slowed this increase but also depressed average incomes: these were lower in late 2019 than 10 years before.

Table 1 Inequality outlook

	Income	Wealth
	Share of total (%)	Share of total (%)
Top 1 %	12.7 %	21.3 %
Top 10 %	35.7 %	57.1%
Bottom 50 %	20.4%	4.6%



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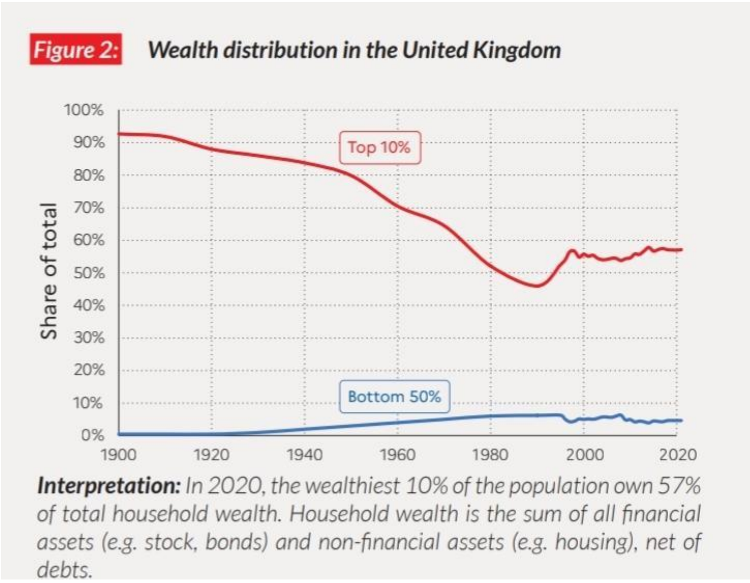

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UNITED STATES

Income inequality in the US is among the highest among rich countries

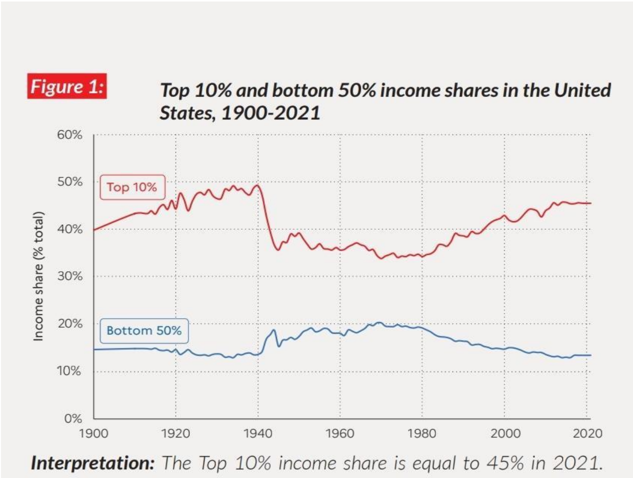
The ratio between the top 10% to Bottom. 50% Income gap is 17%.
The top 10% captures 45.5% of total income while just 13.3% goes to the bottom 50%

Table 1 Inequality outlook

	Income	Wealth
	Share of total (%)	Share of total (%)
Top 1 %	18.8 %	34.9 %
Top 10 %	45.5 %	70.7 %

Bottom 50 %	13.3%	1.5%

Source : wir2022.wid.world/methodology



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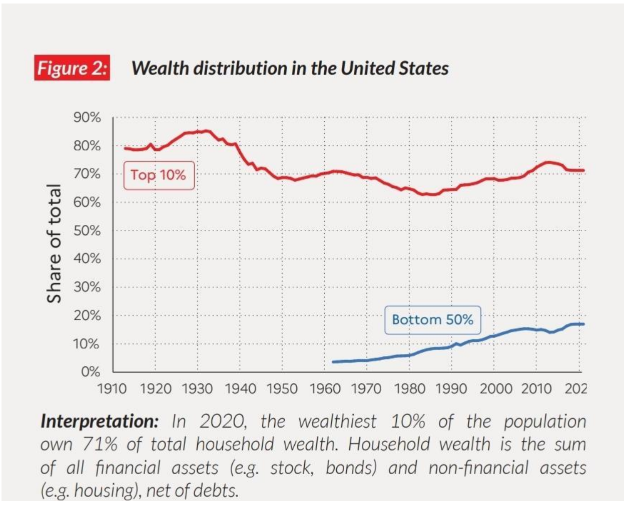

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INDIA

■ Extreme income inequalities in India

India is a 'poor and very unequal country' and ranked it in the bottom half of the list in terms of both income and wealth. The report, showed that while the bottom half of India's population earned ₹53,610 on an average, the top 10 per cent earned 20 times higher, roughly ₹11,66,520.

The ratio between the top 10% to Bottom. 50% Income gap 1 to 22%. The top one per cent held more than one-fifth of the total national income. In India particularly, private wealth increased from 290 percent in 1980 to 560 percent in 2020.

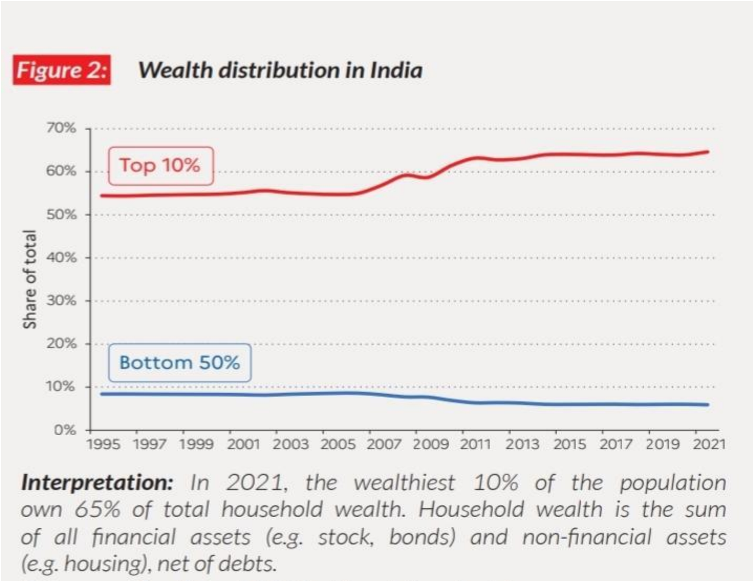
■ Income inequality in the long run: a historical high

Going back in time, the report shows that income inequality in India during British colonial rule (1858-1947) was very high, with the top 10 percent earning about 50 percent. After independence, this share decreased to 35-40 percent due to the socialist five-year plans. Due to the weak economic situation after independence, India began to deregulate and loosen controls in the form of liberalization policies. The report argues that these policies have led to some of the most extreme increases in income and wealth inequality in the world. It says that while the top percent have benefited greatly from these economic reforms, growth among low- and middle-income groups has been relatively slow and poverty persists.

Table 1 Inequality outlook

	Income	Wealth
	Share of total (%)	Share of total (%)
Top 1 %	21.7 %	33.0 %
Top 10 %	57.1 %	64.6%
Bottom 50 %	13.1%	5.9%

Source : wir2022.wid.world/methodology.



Source: wir2022.wid.world/methodology.

Literature Review

Saez, E. and G. Zucman. Fall 2019. “Progressive Wealth Taxation.”
Brookings Papers on Economic Activity, shed light on progressive taxation system.
In this paper a comprehensive definition of wealth and income is provided and how it is distributed and data about how income tax losses is happening due to not implementing progressive taxation system both financially and economically is provided.
"Taxing our wealth” by Florian Scheuer, Joel Slemrod 2019 criticized present taxation system and countries which are not determined in implementing this system. Through this paper, authors gave insight on property tax, inheritance tax and provided optimal way of implementing this taxation system.
Wealth inequality: Data and models by Marco Cagetti, Mariacristina De Nardi, 2008 authors highlighted how richest 1% hold one third of the total wealth in the economy. Authors provided key facts and figures regarding Income inequality in united states.

Research Methodology

The chapter discusses the overview of the research problems and highlights the research gaps identified based on the literature review. This section is followed by the research questions and research objectives framed based on the suggested research gaps. Next Section discusses the significance of the study, followed by a discussion on the research methodology adopted and various steps of research undertaken. The chapter mention the ethical considerations kept in mind while undertaking the research. Going ahead, the chapter discusses the variables used in the study and the sources of collecting the data.

Problem Overview

Everywhere in the world, where means of production are privately owned, distribution of income is far from equitable. Without exception in all the capitalist countries -developed and underdeveloped - a small minority appropriates a large part of national income whereas a vast majority subsists on meagre incomes. This pattern of income distribution is largely due to the various factors that exist in these countries. It has been observed that inequality of income is generally greater in less developed countries. It often increases during the early stages of development, reaches a peak, and then declines. It hence is imperative to delve into the study of dynamics of existing distribution in most countries is far from satisfactory and the inequality of income has a tendency to increase in the early stages of development unless the state decides to pursue some corrective measures.

Research Gap

The extensive research of the relevant literature suggests the following research gaps:

1. The relationship between income, and inequality has been carefully studied by various authors. The inconsistency in the results from the researchers paves the path for further research in this area.
2. Very few studies are available which assess the impact of income inequality on Indian economy.
3. The existing studies fail to capture the impact that how much the multimillionaires holds and its impact on the general population and they failed to establish the relationship with each other.
4. The existing studies is bereft of information about Multinationals providing tax heavens to the wealth individual and its impact on income inequality around the world.

Research Questions

1. Is there any significant relationship between income, income inequality and economic growth in the Indian context?
2. How income inequality hinders the Gross domestic product of India?
3. Is the Indian economy heading towards extreme income inequality?

Research objectives

Primary Objective: To understand the dynamics of income inequality in India.

Specific Objectives:

1. Investigate the relationship between income, income inequality and economic growth in the Indian context.
2. Assess the impact of income inequality on Gross domestic product of India.
3. Estimate the time-varying dimensions of income inequality on world economy.

Choices of Data Collection Techniques

The research is primarily based on the quantitative method and qualitative data is used as a supplementary method to provide the results.

Techniques and procedures

1. Data Collection: Secondary sources: internet, websites, books and journals
2. Geographical Area of Research: India
3. Sample size: Vary over each objective

RESULTS

Why tax wealth

During the pandemic in India, many of the million and billionaire were successful and there was a noticeable surge in their wealth also. One reason is that these personalities and businessmen control the wealth of our nation. It is to be understood that during the course of the pandemic, every business company, Supply change management suffered major losses, but these people were generating profit at next level.

As we shift towards European continent, United Kingdom has a major problem of this cause-and-effect relation which slows down the growth of the UK. All of the financial and economic turmoil was noticed when the Russia-Ukraine crisis began in 2022. It was noticed that few billionaires which were living in United Kingdom were actually funding Russia after utilizing the wealth and resources. This created a huge circle of money supply towards Russia causing the economic growth being stagnant.

For example – roman Abramovich, Former Owner of Chelsea, football club had his wealth quadrupled before the crisis, and all the wealth earned during the period was supplied towards Russia and helped Russian President, Vladimir Putin to fund the on-going crisis.

As we see in the above example, we understand that all the resources, wealth and assets which were supposed to be used by the native people of United Kingdom was being misused by these billionaires and politicians, also causing increase in income gap between rich and poor. Due to this, self-sufficient and developed countries are not able to provide basic necessary goods and services to the poor people.

According to recent investigations, many offshore properties and bank accounts were found to be linked with Russian President, Vladimir Putin's allies and close friends. This indicates the condition of 98% of population living in these countries is facing Income Inequality and the gap is getting bigger day by day.

Progressive wealth tax

There has been an ongoing discussion to implement progressive wealth taxation system in many countries be it developed or developing country. Rich country is bereft of progressive wealth taxation, they still exist in varying form in several countries such as Netherlands, Norway, Switzerland. Recently, many countries have voted in favor of new wealth tax system.

This has been because of two critical factors: the surge in aggregate private wealth relative to national income and the increase in wealth concentration. This phenomenon was accelerated during the COVID crisis: while national income fell, the value of private wealth increased, and this increase was particularly extreme among billionaires. With a progressive tax, the tax rate rises as taxpayers' income or wealth increases. Progressive tax system is helpful in maintaining economic equality and stability in the society due to its favorable taxation capacity.

However, most countries in the world already tax individual wealth with property and inheritance taxes. Wealth taxes on individuals–including property and inheritance taxes- typically generate 2-3% of national income in rich countries, 1% in middle income countries and 0.5% in low-income and emerging countries: they represent non negligeable fractions of total tax revenue.

But the issue that in Today, in most countries, property taxes are flat, i.e., proportional to value: whether an individual owns a 10 million mansion or a 50 million flat, they will pay the same tax rate. With a progressive tax, the tax rate rises as taxpayers' income or wealth increases. Therefore, the flat rate on property tax stands against to modern progressive income and wealth taxes.

Revitalizing personal wealth taxation

The best way to modernize property tax would be to extend its base to all forms of wealth, rather than just real estate, and to shift from flat rates to progressive tax schedules. Today, the wealthiest mostly own financial assets, rather than real estate and land, which in real terms means that the property tax represents

a much smaller fraction of the total wealth for multimillionaires and billionaires than for the middle class. Transforming property taxes into modern progressive taxes, encompassing all forms of assets, would be a major step towards a more coherent and integrated tax system.
Progressive wealth taxes also contribute to containing the rise of extreme wealth inequality, and therefore help to mitigate the potentially negative impact of extreme wealth concentration, such as the rise of monopolies or the risks of political capture by financial interests.

Table Global millionaires and billionaires, 2021

				Tax scenario 1		Tax scenario 2		Tax scenario 3	
Wealth group ($)	Number of adults	Total wealth ($ bn)	Average wealth ($ m)	Effective wealth tax rate (%)	Total revenues (% global income)	Effective wealth tax rate (%)	Revenues (% global income)	Effective wealth tax rate (%)	Revenues from group (% global income)
All above 1m	62,165,160	174,200	2.8	1.0	1.6	1.2	2.1	3.2	5.3
1m - 10m	60,319,510	111,100	1.8	0.6	0.6	0.6	0.6	0.6	0.6
10m - 100m	1,769,200	33,600	19	1.3	0.4	1.1	0.4	1.3	0.4
100m - 1b	73,710	16,500	220	1.5	0.2	2.4	0.4	5.2	0.8
1b - 10b	2,582	7,580	2,940	2.3	0.2	4.5	0.3	12.9	0.9
10b - 100b	159	4,170	26,210	2.8	0.1	6.4	0.3	40.1	1.6
Over 100b	9	1,320	146,780	3.2	0.04	8.3	0.1	66.6	0.9

Interpretation
Above table presents the number of individuals in different wealth brackets in 2021, along with their total net wealth and the taxes they should pay according to three global wealth taxation scenarios. At the global level, there are 62 million individuals owning more than a million dollars at market exchange rates. This represents the top 1.2% of the global adult population. There are a little less than 1.8 million individuals owning more than $10 million (top 0.04%), 76,500 owning more than $100 million (top 0.001%) and 2,750 owning more than a billion dollars (top 0.00005%). Pooled together, global billionaires own more than $13 trillion, which amounts to 3.5% of global wealth.
Source: wir2022.wid.world/methodology.

Taxing Multinationals
The role of corporate tax in the progressivity of the tax system.
Now we turn upon the corporate sector and how this sector is increasing the gap via various methods and policies.
Corporate Tax refers to the tax which is supposed to be paid by various corporate companies and firms to the government.
Practically speaking, corporate tax contributes to the progressivity of the tax system because it is a tax on corporate profits, and corporate profits tend to be concentrated at the top of the income distribution. As such, increasing the corporate income tax rate can increase the progressivity of the overall tax system. There are three major considerations to look upon before taken into account the corporate tax Firstly, corporate tax is a relatively sharp instrument to increase tax progressivity, because it is typically levied at a flat rate. In other words, a profit of 1 billion is taxed at the same rate as a profit of 1 million. In theory,

corporate profits could be subject to a progressive tax rate schedule, with higher rates applying to larger profits.

Tax havens

The main obstacle while taxing Multinationals is tax haven that provides foreign individuals and businesses with minimal tax liability. Tax havens do not require businesses to work outside their home country or individuals to reside in their home countries to receive tax benefits. Tax havens collectively cost governments between $500 billion and $600 billion a year in lost corporate tax. American Fortune 500 companies alone held an estimated $2.6 trillion offshore in 2017. Corporations aren't the only beneficiaries. Individuals have stashed $8.7 trillion in tax havens. Both added they put income tax losses at around 200 billion in a year.

As a general rule, the wealthier the individual and the larger the multinational corporation—some have hundreds of subsidiaries offshore the more deeply they are embedded in the offshore system and the more vigorously they defend it.

Corporate Tax Haven Index ranks the top three as the British Virgin Islands, Bermuda, and the Cayman Islands—all British Overseas Territories as the top three offshore for private wealth. The engine of the offshore system is competition among offshore to provide the best ways to avoid taxes, disclosure, and financial regulation.

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