

## A LITERATURE REVIEW ON THE PSYCHOLOGICAL, SOCIAL AND ECONOMIC ASPECTS OF INCOME INEQUALITY

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### Abstract

*This paper provides a summary of current theories and relevant studies on income inequality conducted in the last 10 years. Excessive income inequality is one of the most painful and controversial topics for modern society. A person with high self-awareness has the ability to anticipate his real possibilities, the meanings of the "I", manifested as a result of actions, and the inequality that generates deprivation among significant groups of the population causes a sense of helplessness, the inability to improve one's situation, and adversely affects the socio-psychological state of the individual and society. In this case, it not only serves as a source of psychological tension, but also deforms the motivation for social behaviour.*

**Key words:** economic aspects, income inequality, psychological aspects, social aspects

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### Background of income inequality

The concept of "income" as a result of people's awareness of the category of "money". In the early stages of historical development, everything that a person received had a natural character, therefore incomes were perceived as something tangible, material. With the advent of money, property acquired a monetary expression, which allowed us to treat incomes in an abstract form, as something generalized. Income inequality is the unequal distribution of individual income across the various participants in an economy (Investopedia, 2017). Inequality between individuals is determined by the difference in their ability to earn and the size of their property.

The *Oxfam* report for January 2017 states that 8 people own the same as half the world (Oxfam, 2017). In 2010 the number of these people was 6 times higher; this ratio really makes

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one wonder. Undoubtedly, people perceive the very concept of "income" differently. It depends on a number of different variables: cultural, economic, social and psychological. General cultural values, established in a concrete society, form the strategy of human economic behaviour, for example, "living on credit" is quite common in American culture, but quite uncommon in the post-Soviet space. The economic aspect is that incomes are viewed from the point of view of their use, as a basis for purchasing power. Incomes are a sum of money intended for the acquisition of consumer goods and for accumulation. From the standpoint of sociology, income is seen as one of the factors that denote the status of the individual in society. In psychology, income is approached as a symbol of psychological evaluation of the individual, both external (social recognition in society) and internal (self-esteem).

From an economic point of view, a logical question arises: what is the optimal degree of inequality? A generally accepted answer to this question has not yet been found. In the works of Russian authors the concepts of "normal" and "excess" inequality are used (Iurievici, Juravliov & Iurievici, 2013). In various literatures there are provided arguments "for" and "against" the strengthening of income equality. The main argument in favour of equal distribution of income is that income equality is necessary to maximize the satisfaction of consumer needs. The main argument in favour of income inequality is that it is necessary to keep incentives for production and income.

The World Social Science Report 2016 entitled "Combating inequality: the path to a just peace" was presented on September 22 at the Royal Swedish Academy of Sciences in Stockholm (ISSC, IDS and UNESCO, 2016). The Report highlights the existence of significant gaps in social science data on inequality in various regions of the world. The report calls for more in-depth research on the links between economic inequalities and differences in areas such as gender equality, education and health. Analysing the studies devoted to the problems of inequality, we can note that excessive inequality bears exclusively negative consequences and this requires real measures to overcome it. The very problem of "income inequality" is economically well studied. Economists Lorenz and Ginny laid the foundation and elaborated the tools to study this issue about 100 years ago. R. Barro's works showed that the nature of the impact of inequality on economic growth is different in countries with different income levels: in low-income countries, increasing inequality reduces economic growth, and in high-income countries, on the contrary, a high level of inequality is no longer an obstacle for economic growth (Salmina, 2015). Russian researchers believe that the negative social consequences of excessive inequality are dangerous (Akulov, 2014, Balatschii, 2010, Ghimpelson, 2014; Juravliov, 2013; Iurievici, 2013). Excessive

inequality demotivates people to invest money and time in their own development. A "poverty trap" is created, i.e. people understand that they will not get out anywhere, since there are not enough strong "elevators", and people no longer strive for active work (Salmina, 2015). In the world of science, psychologists connected to the study of this problem about half a century ago. Today, in the "world economic" forum there are not only dry economic figures, but also their interrelation with the social and psychological component of the population.

According to the leading Russian specialists in social psychology, "the most clearly socio-psychological consequences of excessive inequality are not among the rich, but among the poorer segments of the population, including the "lower" part of the middle class. "In particular, the negative psychological effects of social comparisons are especially acute in situations where they are artificially imposed, for example, through the media, knowingly unattainable role models (glamor, the lifestyle of new Russians, etc.) that engender in society only Discontent, irritation, discomfort, aggression, suicidal intentions, protest moods, which finds expression in the relevant statistics" (Juravleov, 2013). And, it is not just the income inequality itself, but also its perception. After all, inequality, as such, cannot be eradicated. People have different skills, competencies, apply a different amount of effort and time to perform different activities, which of course, must be paid according to their efforts. And besides, in relation to the payment of a person's work, the perception of the income by the person himself plays an important role. Considering that we live in society, a person compares himself (and his level of income) with that of other people. The perception of the process of income generation by a person, in addition to the degree of economic development of society, is influenced by several factors:

- comparison of their income with a number of other values:
  - a comparison of the income with the amount of labour and the working conditions. If they are incommensurable, a person has negatively coloured experiences;
  - comparison of the amount of income with information on the counter offer of goods and services. In conditions when the consumer market is saturated with goods much faster than the increase in wages, the population's discontent with the level of incomes is growing;
  - comparison of own incomes with incomes of other people. With an "unsuccessful" comparison for an individual, negative emotional reactions and envy result. The reason for perceived income inequality can be seen by an individual or a group in themselves (insufficient efficiency of work, low responsibility) or in other people, circumstances. For example, in the case when two people working in different conditions, but receiving

the same amount of wages, those whose work conditions are more difficult will be less satisfied with their income.

- perception of income depends on the nature of their receipt. The impact is on the frequency of receipt of funds (monthly, weekly, daily), income level (high or low), as well as constant income, and the potential to increase one's income.

- As society develops, income is increasingly being considered by people from an economic position (as a mean for acquiring goods), but also increasingly from a psychological perspective, as a factor of the social prestige of the individual. This feature of income perception is more typical of men who estimate the income received as an indicator of their social status, a step in the hierarchical ladder.
- The perception of income, the individual is affected by the nature of income expectations. In this case, we are talking about positive or negative expectations (for example, anticipation of purchases or payment of a loan).

In Moldova, actual income inequality is really present, while figures show a softer picture. Take, for example, the data from Table 1 (Wikipedia, 2017).

**Table 1.** *UN and CIA combined list – income ratios and Gini<sup>2</sup> indices*

	UN R/P		World Bank Gini		CIA R/P		CIA Gini	
	10%	20%	%	Year	10%	Year	%	Year
 Moldova	8.2	5.3	28.5	2013	8.3	2003	33.0	2010
 Romania	7.5	4.9	27.3	2012	7.4	2003	27.3	2012
 Russia	12.7	7.6	41.6	2012	12.8	2002	42	2012
 United States	18.5	9.4	46.1	2013	14.0	2014	47.0	2014
 France	9.1	5.6	33.1	2012	8.3	2004	30.1	2013

**Key:**

**R/P 10%:** The ratio of the average income of the richest 10% to the poorest 10%

**R/P 20%:** The ratio of the average income of the richest 20% to the poorest 20%

**Gini:** Gini index, a quantified representation of a nation's Lorenz curve

**UN:** Data from the United Nations Development Programme.

**CIA:** Data from the Central Intelligence Agency's The World Factbook.

<sup>2</sup> The Gini index is a measure of statistical dispersion intended to represent the income or wealth distribution of a nation's residents, and is the most commonly used measure of inequality (Gini, 1912).

The National Bureau of Statistics informs that in the first quarter of 2017, the average nominal accrued salary was 5218.9 lei (= \$ 286.75), an increase of 11.3% compared to the first quarter of 2016. But, although the income level of the population is growing, it grows at a slow pace (National Bureau of Statistics of the Republic of Moldova, 2017). It turns out that with a sufficiently low level of differentiation of society in Moldova, there is a very low standard of living in the country. In addition to the economic component, there is also a socio-psychological aspect. In this context, it is also necessary to take into account the socio-cultural characteristics of the attitude towards money, which is manifested in the structure of spending, in saving money, in relations to guests, in feelings experienced by richer or poorer fellow citizens in problems of equalization. For example, in the traditions of many Eastern peoples, it is customary to receive a guest generously with the participation of the entire family clan. Among the European nations, brought up in the spirit of Protestantism, in the traditions of respect for work and receiving money for it, there were established settings for individual use of them: guests are met modestly; in the restaurant the guest pays for his own order. In Moldova, we can observe the mixed cultures, i.e. the presence of both collective and individualistic attitudes, and their correlation requires additional attention and research.

## **Method**

The literature search focused primarily on «income inequality» and secondarily on the «perception» of it. We have taken into account the fact that the "perception of income inequality" differs according to various levels (micro-group, social, ethno-cultural, within the framework of a particular state), as well as the actual difference in incomes. In this case, it is worth remembering that in addition to the "perception of income inequality," there is also the actual inequality caused by the sphere of human employment and the economic development of the state.

The key words used during the literature search included: "perception of income inequality", "consequences of income inequality", "income inequality". We have used these key words to search in electronic databases and open-ended search period. The electronic databases used for the literature search include: DSpace - Institutional Repository of Moldova State University, LibUnivCatalog, The Universal Digital Catalogue of Russian state library. We paid special attention to the psychological, social and economic sides of the issue.

Our literature review included national studies. In Moldova, the topic of income inequality has been addressed by: Barna Cristina (Income Inequality in Context of Globalization, 2002), Childescu Valentina (Welfare and Economic and Social Inequality, 2004), Livitchi Oxana

(Income Inequality as a Global Factor of Poverty, 2008), Stromenovscaia Zoia (Analysis of inequality in disposable incomes of the population of the Republic of Moldova, 2014), Buzoianu (2016) and other authors.

This topic is being actively studied in America, Europe, and Russia, and scholars from Moldova have gradually paid attention to the problem of income inequality and its perception. We filtered the sources into domestic and foreign ones, based on the fact that we are planning to conduct a study on the perception of income inequality within the framework of our country (Moldova). Therefore, we looked for advanced foreign research that would guide us and give us food for thought and comparison, and at the same time pay attention to the achievements of our scientists. Our data analysis implied reading and summarizing the articles that we have found related to income inequality – it's psychological, social and economic aspects: perception and consequences. Based on this, we compiled a table in which we noted the most relevant sources and highlighted the main findings of these works.

## Results

At the moment, there are many works and studies on the topic of "income inequality". Much less work was identified on the topic of "perception of income inequality," which would include all 3 aspects of interest to us: psychological, social and economic. We chose the literature most relevant for our topic, the authors of which have done fruitful work (Table 2).

**Table 2.** The results of the literature analysis on the issue of "income inequality"

Author(s)	Aspects of inequality			Notes
	Psycho-logical	Social	Eco-nomic	
Balatschi (2010)	+	+	+	- Tolerance of the population to income inequality; - Diagnosis of the level of altruism, selfishness and envy in society; - Economic growth, incomes and mental attitudes of the population
D'Hombres et al. (2012)	+	+	+	"More precisely, while the bivariate analysis will be done for all the social outcomes, the multivariate analysis will focus on the harmful effect of income inequality on political agency and criminality"
Milanovic (2012)	+/-	+	+	"Either poor countries will become richer, or poor people will move to rich countries"

Precupetu (2013)	-	+	+	« ..there are also important inequalities between several large developed cities and the rest of the country, between rural and urban areas, between big cities and small towns, between large villages and small, poor, aged villages, as well as between various regions of the country»
Juravliov et al. (2013).	+	+	+	"Reducing income inequality would have a multifaceted positive impact on our society, including a socio-psychological one"
Dumitru (2014)	-	+	+	«Nine out of ten Romanians regard inequality as too high; most of them think there are few opportunities to get a job and have a full life»
Poppitz (2016)	+	+	+	«Results strongly indicate that material and non-material factors jointly determine the self-perceived social status of individuals. Perceived social status increases with income and wealth, irrespective of gender and age. The subjective social status is not only determined by economic but also by cultural and social capital»

There are quite a few studies analysing the level of inequality between certain groups of the population (by level of education, profession, position, etc.), while these indicators not only more fully and objectively reflect the structure of income inequality and the corresponding opportunities for improving (and expanding) the human potential, but they are the most tangible for an individual citizen (Juravleov, 2013). Russian psychologists have conducted a study on the characteristics of the attitude to money in representatives of different cultures, social strata and people with different income levels (Balatschi, 2010): they found that teachers of state universities in Russia and Canada almost equally treat money, perceive money as a peripheral factor of life, as a means, not a goal, i.e. The factor of belonging to a certain social stratum covers the factor of cultural differences. If the poorest do not see the opportunity to climb the vertical social elevator to the next level of well-being for a generation, they will rather treat the existing socioeconomic system as unfair and begin to claim social protection rather than the possibility of increasing their own market income (Juravleov, 2013). Thus, income inequality under such conditions ceases to be an "incentive" and can lead to a decrease in the rate of economic growth in the country. Dissatisfaction with one's income has psychological consequences. Unmet needs, debts, disappointing comparisons with others can cause anxiety, depression, helplessness and even serious illnesses. Normal inequality manifests itself as a positive factor, and excessive - as a negative one, it is noticed that inequality hinders the process of economic growth (Gimpelson, 2014). The rich do not want any of the middle and lower classes to be among them, the poor are

striving to become richer, and the middle class is more or less comfortable with the status quo and, in terms of income inequality, it is the most progressive and tolerant.

## Conclusions

Subjective perception of income inequality can influence the thoughts and actions of a particular person, regardless of the objective situation. Knowing how other people live and how much money they earn makes a big impact on our perceptions of our income and place in the income pyramid (Branko, 2013). In the economic behaviour of man there must be harmony. Studies have shown that people retain their health longer, remain mentally balanced and physically strong, if they do not deny themselves the pleasure of spending money, and people who deny themselves everything, have lower rates in personal and financial achievements, pessimism (Balatchi, 2010). Knowing the negative consequences of excessive income inequality, we need to think about how to begin to stop the process of increasing the abyss between the rich and poor, and to create incentives for production, which is currently an urgent problem for Moldova.

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