

# “Impact of the economic growth and development on income distribution in the world”

1- Dr. Akbar Khodabakhshi, Department of Economics, Bu Ali Sina University,  
Hamedan, Iran akbarkh2006@gmail.com

2- Dr. Mohammad Jafari, Department of Economics, Lorestan University,  
Khoramabad, Iran, mohjafari@gmail.com

## Abstract:

Economic factors are produced in increased revenue. Sum of the incomes of total production factors is called the national income. National income produced is distributed among agents. Income distribution is a value to the economy, it is not proof. Unequal distribution of income in terms of social justice is undesirable. Increase in inequality due to the lower social classes is that dissatisfaction is undesirable. Some economists due to unequal distribution considered the wealth and unfair income distribution. Preference or priority in economic development on income distribution, there are three perspectives on economic growth. Many economists argue that defense. The first perspective growth to income distribution has priority. The second perspective, income distribution to growth has priority. Third, none have priority over another. Many factors effect on income distribution inequality so that some of these factors are resulted from personality differences in society but some of these results are due to government policies and social terms. HDI data which reported and published by UN show other things about income distribution. In this study we are going to study trend of the growth, development and income distribution as an element of human development index in some of countries which reported by section of the human development resource affiliated of united nation organization.

**Keywords:** income distribution, economic growth, development, HDI

## Introduction

Until the before of twentieth century most of countries were looking for high economic growth but experience showed that although the growth of the economic in this country was growing to up but the rate of unemployment also has a fast growth. In other side gap of income between people of wealth and poverty people was more and more. The main goal of economic growth, which should destroy all theories of development that has led to poverty, the poverty is enveloped most people of countries. Income inequality is only part of social inequality in most countries. Inequalities in income its own will be an important reason for inequality in education, health, social, credibility, job satisfaction, participation rates, freedom of choice, working conditions, and other inequalities. The second part of this study will consider the various measures of income distribution. How to measure income distribution is presented in third Section. Analysis of different views about the relationship between economic growth and income distribution will describe in fourth. The fifth part of the study is explained Islamic economic theory about the conflict between economic growth and income distribution. Factors which have effect on unequal distribution of income are examined in sixth Section. And finally impact of the government on unequal distribution and conclusion of the study will be analyzed.

## Past of the study

Research with economic growth and income distribution in member states Economic Cooperation and Development from Alfranca, Martin and Robles, 1999 has been the target. This study has been evaluated the relationship between economic growth and welfare in member of countries (Organization for Economic Cooperation and Development). This study provides evidence about the relationship between economic prosperity and economic growth using data nineteen members of the Economic Cooperation Organization and development deals with taste. In Northern University Kamran Dadkhah (2001) has studied a complainant as income distribution and economic growth in the United States during the years 1947 to 2001. In this study theories Common in the relationship between economic growth and income

distribution were taken then Correctness of each of these theoretical profit using time series data and regression model. In 2002 a study has been issue of inequality and economic growth based on the hit U.S. economy. This study has evaluated the relationship between inequality and economic growth in 48 states for the period 1940 to 1980 (Panel data) the data from panel. The results of this study not show relationship between inequality and positive growth. In 2004 the University of Sao Paulo (Garcia and Banderia, 2004) have done a research with economic reforms, inequality and economic growth in Latin America and the Caribbean Basin countries. The data include information economic thirteen Latin American countries during the 1970 to 1995. In this study The Kuznets curve has also been evaluated for these countries. The results of this study, no direct causal relationship exists between economic growth and inequality. Farahbakhsh Ali and Masoud Nili Pesticides Division in 1998 using the time series Kuznets hypothesis using ordinary least squares method in Iran have the test. The results show that increasing economic growth to improve the distribution has an effective role to help earnings and income distribution leads to slow economic growth. Econometric analysis shows a significant positive correlation between economic growth and improve income distribution and also There are the lower forty percent income.

## Definitions

Income distribution has always been a central concern of economic theory and economic policy. Classical economists such as Adam Smith, Thomas Malthus and David Ricardo were mainly concerned with factor income distribution, that is, the distribution of income between the main factors of production, land, labor and capital. Modern economists have also addressed this issue, but have been more concerned with the distribution of income across individuals and households. Important theoretical and policy concerns include the relationship between income inequality and economic growth. The distribution of income within a community may be represented by the Lorenz curve. The Lorenz curve is closely associated with measures of income inequality, such as the Gini coefficient. Concept of inequality is distinct from that of poverty and fairness. Income inequality metrics (or income

distribution metrics) are used by social scientists to measure the distribution of income, and economic inequality among the participants in a particular economy, such as that of a specific country or of the world in general. While different theories may try to explain how income inequality comes about, income inequality metrics simply provide a system of measurement used to determine the dispersion of incomes.

### Income distribution theories

Some economists look to the distribution of production perspective; David Ricardo more than other economists, has discussed the income distribution. David Ricardo believed that over the time revenue of the feudalist and landlords will increase and revenue of the capitalists will decrease but revenue of the workers will be fixing. Income distribution is as a value subject and there has not attention to it in positive economy. Further discussion of microeconomics to the optimal allocation of resources is concerned. The part of the discussion deals the distribution is thinking about maximum profit. Unequal distribution of income in terms of social justice is undesirable. Almost all economists, the economic boom thanks to consider government intervention in economic activities. Currently one of the important criteria for economic development is income balancing and income distribution. Without government intervention in economic activities equal distribution will nor definitely is impossible because, the private sector in developing country are not efficient and sources allocation will direct to beneficial targets in short term. Consequently income distribution will become unequal. In this regard, the Islamic economy based on private sector activity in production and distribution related to public sector. Preference or priority of economic growth on income distribution, income distribution, there are three perspectives on economic growth which Economists argue that defense. The first perspective on growth in income distribution has priority. The second perspective view of income distribution on growth in the third priority, and none have priority over another. Now, we analyze in some perspectives. The priority of economic growth on income distribution This group believes that unequal income distribution is essential condition for growth and developing of economy. They also consider high saving rate to obtain growth and

development of economy. So to increase the saving rate should increase the income for people with high income level, because they resolve and they decrease with increasing income, the marginal propensity to consume and marginal propensity to save increases. Additional revenues are wealthy savings and economic growth is accelerating. According to some of the economic theories unequal distribution of income is the main conditions of economic growth. It will be violated and it is that the needs of low saturated society it is not possible and if equal distribution of income strata down all of their funds to purchase goods, in case they walks up basic needs to be removed, and reject appropriated their savings. If unequal distribution of income be accelerated economic growth, But opponents of the theory is that they say, firstly; experience in undeveloped countries, has shown that the rich communities that their surplus savings instead of making buying luxury goods and luxurious, they are. Second; low income caused the poor physical weakness and a decrease in productivity they do, and it will reduce the amount of production and result in national income, will be. Third; the poor income has increased the demand for necessary goods are made in that, which in turn has increased employment and production, Fourth; distribution of income to increase the motivation of the psychological People for participation in economic development.

### Income distribution in developing countries

The situation of income distribution in developed industrial countries is better than developing countries. This is due to progressive direct taxes and social security system including unemployment insurance, compensation insurance, minimum wage, health insurance and job security. Some economists considered unequal income distribution due to unequal distribution of the wealth and possessions. Therefor they suggest to obtain equal income distribution should be providing a concept of equal distribution of the wealth and possessions to obtain and treat the income distribution. In the developing countries some little group of people have most wealth and possessions and majority of people have a little of wealth and possessions. In these countries most of people are under the line poverty. Today's world is characterized by wide income inequality between countries at the international level and among social groups within countries. According to World Bank, the unequal distribution of income

in the last thirty years has been very unequal and the gap is growing. Organization for Economic Cooperation and Development member countries per capita income (OECD) to twenty times the level of low-income countries, such as Mozambique, Tanzania and Ethiopia has been.

According to popular theory Haq Pakistani economist economy had taught us, if you are looking for economic growth (higher production), distribution of income itself is resolved. But I found myself for having economic growth, we need a better distribution of income. Most scholars also about developing a positive role in broad middle class in a community focus. They say that such a very small percentage of wealthy people in third world and a large percentage of them are very poor. Percent of the middle class is small and less important. In other words, the economy as a cassette and the class is closed. Gini statistics of different countries can be associated with the following results: there is no more unequal income distribution in developed countries. Although most of the income distribution in developing countries are inadequate, but no special relationship between per capita income and Gini coefficient does not exist for them. In other words, some very low-income developing countries with a high Gini coefficient Gini coefficient and others with low Gini coefficient are moderate and the third category. Said to be more a function of income distribution in these countries Branhast regime. Of course this is also true about the developed countries. Another point worth mentioning here is that the bad distribution of income in a poor society than a rich community is harmful. Due to low production, poor communities, poor distribution of income is the spread of severe poverty. The highest percentage of poor countries in sub-Saharan Africa countries and Argentina and Taiwan with the lowest percentage of poor is announced. UNDP estimates that the National Programmed (UNDP) in 2003, 54 countries are poorer than in 1990, has more than 21 countries, the number of hungry people in 14 countries, more children die before 5 years of age, 12 the primary school enrollment is declining and life expectancy in 34 countries is declining.

## Conclusions

One of the important issues in economics is income distribution, which is considered through economy. In this study we have considered income distribution and its impact on economic development and growth in some developing and developed countries, and also we considered situation of poverty and with considering the income distribution and growth by explanation of income distribution theories. We should say that there is no a same method or result for all countries either developing or developed countries in income distribution. We obtained that some developing countries had high unequal income distribution but they had not high growth and some developed countries had high unequal income distribution but they had a high growth in its economy. In other side some poor countries had a equal income distribution and some wealthy countries had a unequal income distribution. Therefore we can not say that situation of the equal income distribution in developing countries is better or in developed countries is better. Thus, unequal income distribution in any country has been related to more variables and also is related to structure of the economic in that country. So, most of the countries with same economical system have usually same situation in poverty income distribution and economic growth.

## References

1. Alesina, Alberto, and Rodrik, Dani , “Distributive Politics and Economic Growth,” *The Quarterly Journal of Economics*, Vol. 109, No. 2. (May, 1994), pp. 465-490.
2. Aghion, Philippe, Caroli, Eve, and García -Pealosa, Cecilia, “Inequality and Economic Growth: The Perspective of the New Growth Theories,” *Journal of Economic Literature*, 27, 1999, 1615-
3. Blinder, Alan S., “Distribution Effects and Aggregate Consumption Function,” *Journal of Political Economy*, 83, 1975, 447-476.
4. Aghion, Philippe, Caroli, Eve, and García -Pealosa, Cecilia, “Inequality and Economic Growth: The Perspective of the New Growth Theories,” *Journal of Economic Literature*, 27, 1999, 1615-1660
5. Kaldor, N., “Model of Distribution,” in *Growth Economics*, edited by Amartya Sen, Penguin Books, Middlesex, England, 1970, Pp.81-91 [Originally published in 1955-6].
6. Lambert, Peter J., *The Distribution and Redistribution of Income*, 3rd ed., Manchester University Press, Manchester, 2001.
7. World Bank (2005), *Poverty Reduction in the World Bank: Progress in Fiscal 1998*,
8. Poverty Reduction Board, Washington DC.
9. World Bank (2006), *World Development Report*, Oxford University Press, New York.
10. World Bank (2008), *World Development Report*, Oxford University Press, New York.
11. World Bank (2007), *World Development Report*, Washington DC, draft.

## Web sites

12. [www.data.un.org](http://www.data.un.org)
13. [www.unp.ir](http://www.unp.ir)
14. [www.undp.org](http://www.undp.org)
15. [www.amar.org.ir](http://www.amar.org.ir)
16. [www.tsd.cbi.ir](http://www.tsd.cbi.ir)