

Poverty and Uneven Distribution of Income and Wealth: World and Armenia

Mariam A. Voskanyan*

Abstract Today, the world has a sharp contrast, from the world of high technology to the world of starving people. The uneven distribution of income and wealth in the world is observed not only in terms of the global north-south issue, when the capital is concentrated in high-income countries, but also at the level of different segments of the population, and even individuals.

On the background of an oversupply of financial resources in the world stock exchanges, we observe a high mortality rate from hunger and diseases in countries with a low level of per capita income.

This article is devoted to the analysis and assessment of the problem of poverty and the uneven distribution of income and wealth in the framework of modern realities, as well as the example of the Armenian economy.

Keywords: poverty, inequality, income level, Armenia.

JEL Classification: I32 O15

Formulation of the problem

Poverty and income inequality is an acute problem for many decades in the global economy. A lot of researches are devoted to this issue. Many governments have tried various ways to solve this problem in their own countries. However, the modern world today is characterized by a much greater stratification of income of the population both between countries and within countries.

Many studies are devoted to identifying the causes that determine the level of poverty in the country. Since the beginning of the 18th century, the most famous economists of the world (for example, A. Smith, D. Ricardo, T. Malthus, G. Spencer, J. Proudhon, K. Marx, S. Rounry, FA Hayek, P. Townsend).

Long-term studies have allowed developing certain approaches to the calculation of the level of poverty, which is based, for the most part, on the level of the family

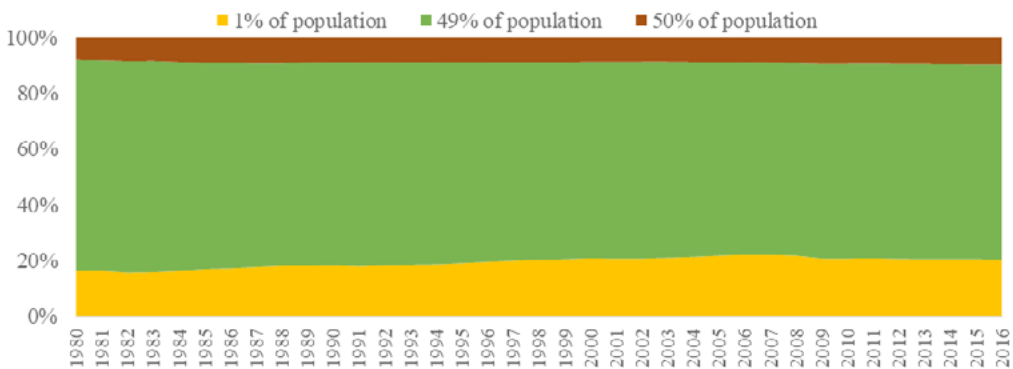
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budget, which, under certain parameters, was reflected in the calculations of the criteria for the level of poverty. Modern authors also pay considerable attention to the issues of poverty in the world [2,5,7]. Most of the authors, of course, consider a certain experience of countries or groups of countries, but you can also find studies on the whole issue of poverty in the world. And many of them [1, 4, 6] distinguish the unequal distribution of income and capital in the world as an accompanying factor of poverty, directly linking this factor with an increase in the level of poverty in the world.

Data published in the *World Inequality Report 2018* [3] shows a growing increase in inequality among the distribution of income and capital in the world.

Figure 1. Distribution of world income, 1980-2017



Source: World Inequality Report 2018 - <https://wir2018.wid.world/>

Statistics show that today more than 20% of world income is concentrated in the hands of 1% of the population, while 50% of the population has a share of less than 10% of total world income (see Fig. 1). In the case of the concentration of world wealth, a similar picture is observed. In other words, the current picture of the world is characterized by a significant income gap among various groups of countries, and this gap is increasing every year. At the same time, considering the dynamics of the number of countries included in one or another group of income levels indicates a reduction of low-income countries and an increase of high-income countries.

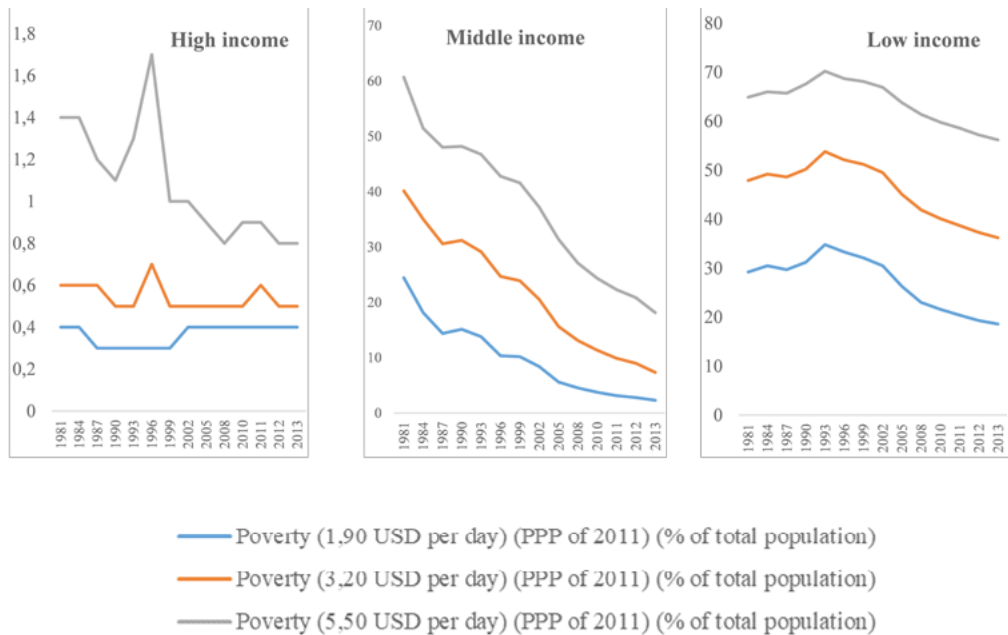
At the same time, the statistics are based on the existing criteria of the WB on income level. Revising the criteria would lead to an increase in the level of concentration of both world income and wealth. Thus, the North-South issue today is much more acute than the current assessment criteria indicate. In this regard, we have reviewed in detail the criteria for assessing the level of poverty and the methods for the distribution of countries based on per capita income.

Poverty and income inequality in the modern world: assessment criteria

It is known that the international community assesses the level of poverty both in the world as a whole and in individual countries, in particular, guided by the standards

developed by the World Bank and a number of other international organizations. However, a question arises - how objective are the indicators developed by the international scientific community assessing the level of poverty and the degree of inequality in the distribution of income and capital in the world in general and in countries in particular? WB criteria divide the poverty level into three main categories, varied by the daily expenditures of the population, adjusted by PPP (see Fig. 2).

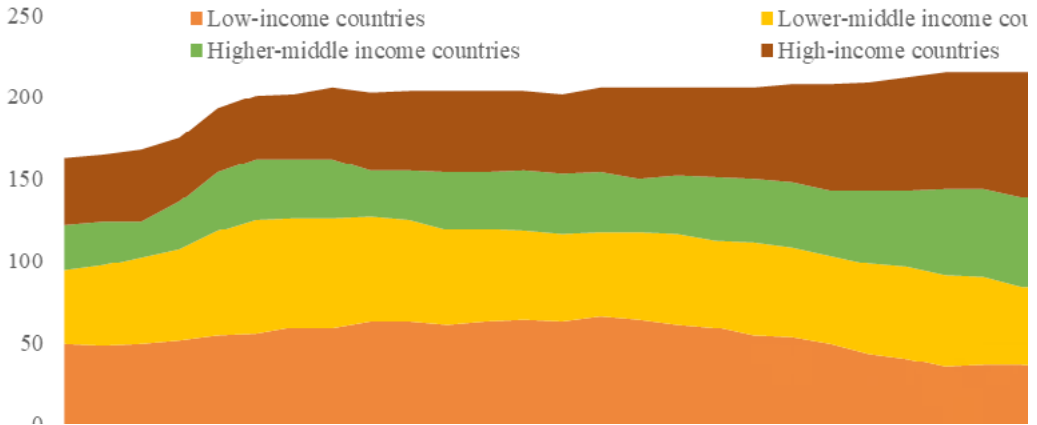
Figure 2. Poverty level depending on income level



Source: World Bank databank - <http://databank.worldbank.org>

In general, trends in poverty indicators based on the level of profitability of a group of countries are characterized by a reduction, which may be the result of successful policies to fight against poverty in countries. At the same time, initially very high rates in countries with low and medium incomes indicate fairly successful results of the fight against poverty in these groups of countries by 2017. The countries with high and middle incomes as a whole at the present stage practically equalized these indicators. Thus, the problem of poverty is most acute in low-income countries, which generally corresponds to the logic of the distribution of countries into different categories.

Figure 3. The number of countries depending on income level.



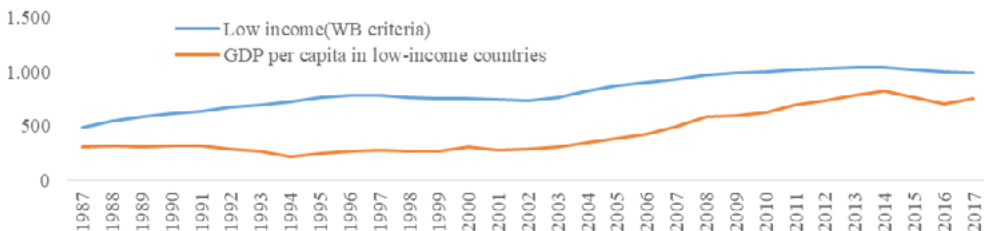
Source: World Bank databank- <http://databank.worldbank.org>

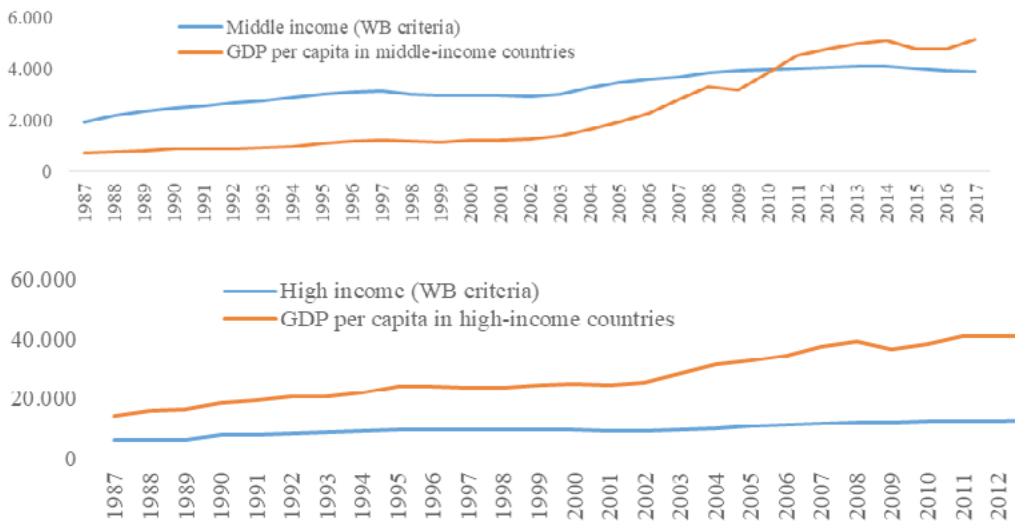
Considering the number of countries included in one or another group in dynamics, we can note that since the beginning of the 2000s, there has been a significant reduction in the number of low-income countries, and along with this the number of countries in the high-income group is increasing (see Fig. 3), which generally leads to conclusions about the improvement of the economic condition of many countries.

However, the criteria that determine the level of profitability of a country are based on GDP indicators per capita, which are also established by the WB (see Fig. 4). Considering these criteria, we can highlight several interesting facts. First, the criteria for the last thirty years have approximately doubled for all groups of countries. Thus, e.g. in 1987 a country was included in the low-income group, if the annual GDP per capita was below \$545, the average income in the group was \$1,940, and the high income was \$ 6,000, then in 2017 these figures were respectively \$995, \$3,850 and \$1,2555 of annual GDP per capita.

In practice, at the same time, the level of GDP per capita in countries with different income levels varied at a rather different rate. Thus, low-income countries improved their average GDP per capita twice in thirty years, middle-income countries sevenfold, and high-income countries three times.

Figure 4. Income criteria of World Bank and actual GDP per capita in the groups of countries in USD.





Source: World Bank databank- <http://databank.worldbank.org>

From such simple arithmetic, it can be concluded that low-income countries are falling further behind the middle-income and high-income countries every year. At the same time, middle-income countries their population welfare indicators with the highest speed improve, which highlights the high potential of this group of countries, both in terms of economic growth and development in the long term, since it is obvious that economic growth leads to corresponding changes in the level of welfare of the population.

On the other hand, comparing the average level of GDP per capita by groups of countries, we can see that the indicator for low-income countries is two times lower than the established criterion. In countries with an average level, the same trend was observed up to 2010, when the average GDP per capita for that group of countries exceeded the criterion set by the WB. At the same time, high-income countries are characterized by a significant margin of the criterion and average GDP per capita in this group of countries, and this gap widens every year.

Moreover, the difference between the average figures in GDP per capita among groups of countries also varies significantly (see table 1). If the criterion of low income was below the criterion of high 11 times in 1987, then as of 2017 this figure is lower 12 times. Moreover, the difference between the actual average values in countries with low and high income in 1987 and 2017 was respectively 50 and 56 times. Thus, the gap growth is also observed between the level of low and high income.

Table 1. Income criteria of World Bank and actual GDP per capita in groups of countries, in USD.

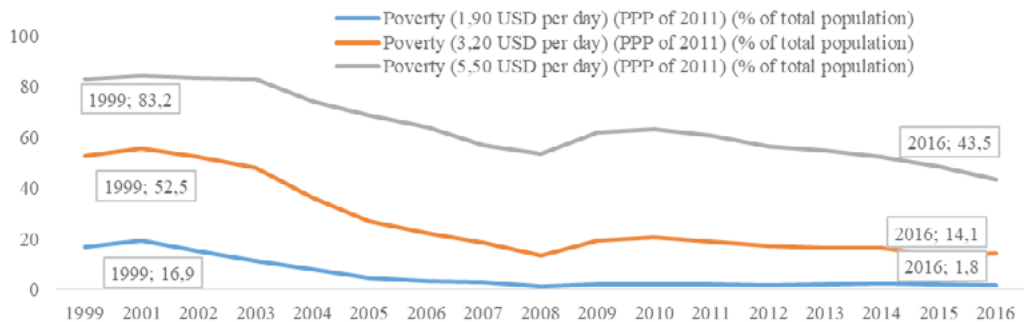
	Criteria, 1987	GDP per capita, average value, 1987	Criteria, 2017	GDP per capita, average value, 2017
Low income	545	318	995	750
Middle income	1940	742	3895	5169
High income	6000	15888	12055	41211

Source: World Bank databank- <http://databank.worldbank.org>

All of the above points at the need to revise the WB income level criteria, taking into account the actual income indicators in groups of countries, since the existing criteria do not reliably reflect the distribution of countries depending on the level of income.

The case of Armenia

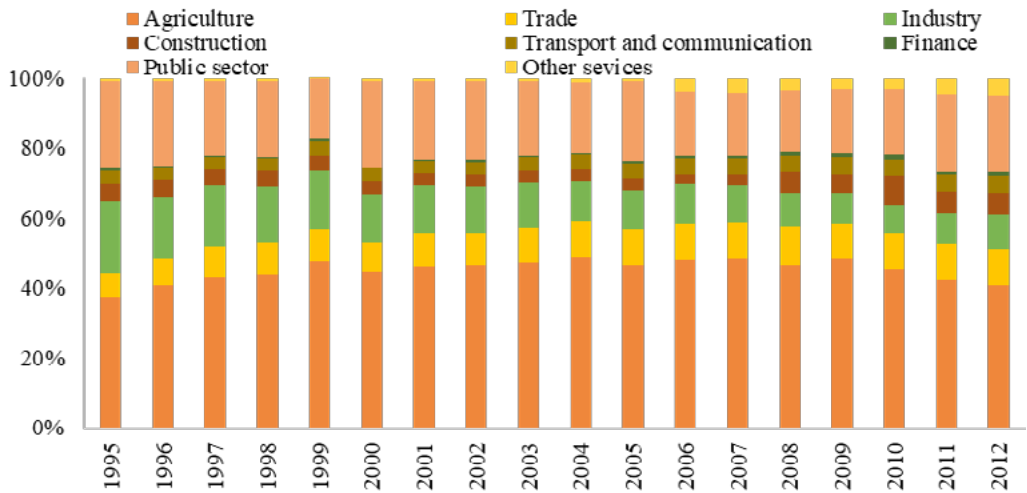
The last decade, the economy of Armenia is characterized by recession and stagnation, which certainly could not but affect the level of welfare of the population. We should note that the basis for determining the level in the country are internationally recognized standards. Considering the poverty level in the country, we can observe two trends (see fig. 5).

Figure 5. The level of poverty in Armenia, %.

Source: National Statistical Service of Armenia– www.armstat.am

The poverty level (5.5 USD and 3.2 USD per day) decreased from 62.1% and 19.2% in 2009 to 43.5% and 14.1% in 2017, which can be considered a positive trend. However, the indicators characterizing the lowest consumption per day per person did not undergo significant changes and remain at the level of 1.8%.

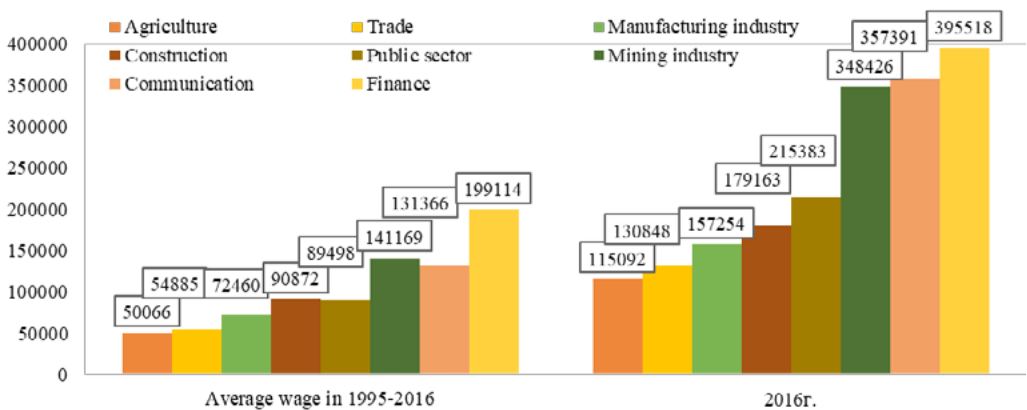
Figure 6. Employment rate by economic sectors in Armenia.



Source: National Statistical Service of Armenia– www.armstat.am

Nevertheless, the issue of poverty in Armenia is much more acute than it can be concluded from the above graph. Considering the structure of employment in the country, we can say that about 30% of the population is engaged in agriculture (see fig. 6). The second place in terms of the number of employees is occupied by the public sector. The smallest number of people are employed in the field of “Finance” and “Information Technology”, where this indicator barely reaches a few percents.

Figure 7. Average monthly wage by sectors, in thousand AMD.



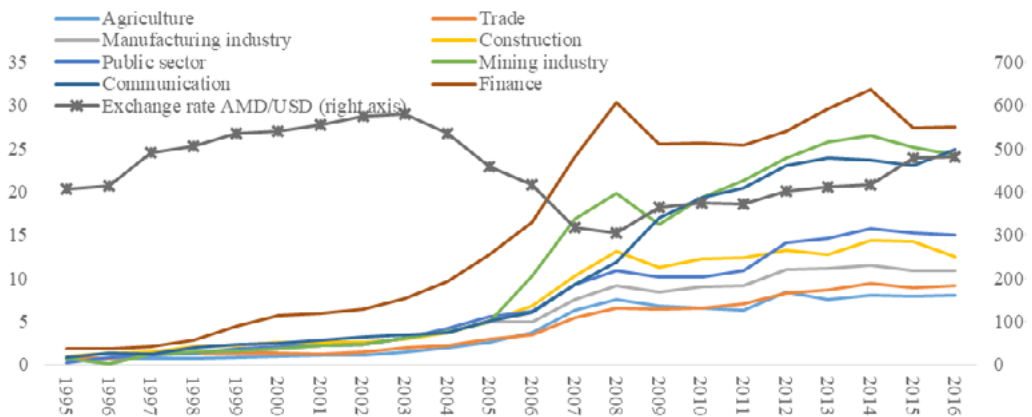
Source: National Statistical Service of Armenia– www.armstat.am

However, the distribution of income between these sectors is very different (see Fig. 7).

The difference between salaries in the “Finance” and “Agriculture” sectors is 4 times. At the same time, this picture does not change in average values over the past 20 years. In other words, a relatively high level of income in Armenia is concentrated in only a few sectors, where a very small proportion of the population is employed.

It is also important to note that the average wages by sectors of the economy have only doubled over the past twenty years. These are rather low indicators, which generally reflects the corresponding standard of living in the country.

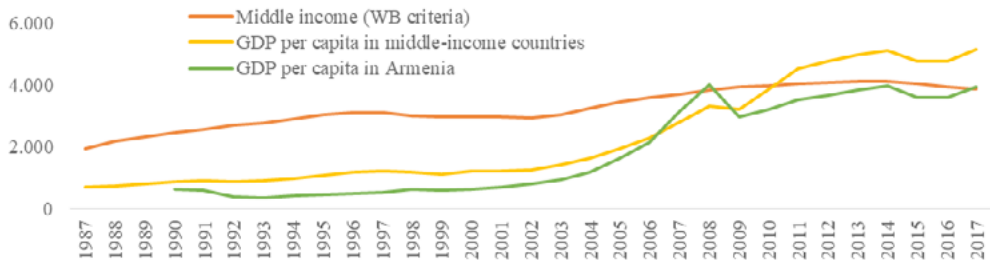
Figure 8. Daily consumption of the population by economic sectors, in USD and the exchange rate of USD/AMD.



Source: author’s calculations

On the other hand, as mentioned above, one of the indicators of the level of poverty is the average daily consumption. In the framework of this research, we calculated the average consumption of the population from accounting for each of the sectors of the economy separately (see Fig. 8). The assumption, in this case, was that the level of savings is zero, which means that all earnings were distributed to the consumption. Thus, we get not the actual, but the potential amount of daily spending of the population by sectors.

As we can see in the figure, the gap between the potential consumption of different sectors is increasing every year. Moreover, the growth rates of expenditures, and hence revenues, are very different for the sectors shown in the figure. At the same time, high growth rates of expenditures are observed in those sectors of the economy where the smallest share of the population is involved (for example, Finance, Mining industry), while in the sector where today more than 30% of the population is employed, the growth in expenditure is insignificant.

Figure 9. GDP per capita, Armenia, in USD.

Source: World Bank databank- <http://databank.worldbank.org>

Thus, in the economy of Armenia, there is a strong diversification of incomes of the population and uneven distribution of income and capital, which in turn leads to an increase in the level of poverty.

Considering the level of GDP per capita, we can also highlight some interesting trends. First, the indicators of per capita income in Armenia over the past few years have become equal to the established international criteria for countries with middle income. On the other hand, if we consider the average values of GDP per capita in this group of countries, we can observe the opposite situation. If until the mid-2000s, Armenia was very close in terms the actual value of per capita income to the countries with middle income, by the end of 2008-2009 the level of per capita income in Armenia lags further behind every year.

Secondly, the per capita income of Armenia over the past ten years has practically not changed, there has been no growth, which undoubtedly increases the level of poverty in the country. In this sense, the Armenian economy also stands out from the general trend characteristic of middle-income countries over the past decade.

Conclusions

Summarizing, we can conclude that poverty and the uneven distribution of incomes remain an urgent and still unresolved problem both in the world and in Armenia. In addition, the existing criteria for assessing the level of income, and as a result of the degree of evenness of income distribution in the world, require substantial revision, and maybe the development of new approaches to address this issue.

An analysis of the approaches to determining the level of income currently used by international organizations shows that they obviously do not fully assess the real picture of the distribution of the world's income. It is obvious that the criteria of high and medium income need substantial revision, at least in terms of approximation to the average indicators in each group. For example, an approach based on the principle of average GDP per capita in the income group, and a certain corridor within which the country fits, would allow a more realistic assessment of the distribution of countries based on per capita income and would well show the dynamics of the global economy as

a whole, and each individual country in particular. Such an approach would also allow doing a more objective comparative characterization of countries since it does not imply too much variation in the level of GDP per capita between countries in the same group.

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