

Income Inequality in Nepal

Kamal Raj Dhungel¹

¹ Tribhuvan University

Correspondence: Kamal Raj Dhungel, Tribhuvan University.

Abstract

Income inequality refers to a situation in which most of the national income is being distributed unevenly. Nepal is a small country with a population of nearly 30 million. It consists of a diverse society with disparity in health, education, opportunities, and income. The disparity in income distribution is measured with the help of Gini Coefficient with value ranges from zero (absolute equality) to 1 (absolute inequality). Presently the Gini coefficient of Nepal is 0.4. It indicates a big inequality in the distribution of the national income pie of Nepal in which a small portion of the population say the upper 10 percent are getting a big chunk of national income.

Keywords: inequality, Gini coefficient, conflict, consumption

1. Introduction

The differences in terms of income between person, families, community and society can be attributed to the manner in which the income pie is being distributed among the citizens of a particular country. Income consists among other things the revenue streams from wages, salaries, interest on savings account, dividends from shares of stock, and profit from selling something. It does not include the value of the home, stock or other possession. Income inequality refers to the extent to which income is distributed in an uneven manner among a population. In general, citizens of a particular country not only are divided in terms of income disparities but also are divided in terms of the disparities in education, health and opportunity. Disparities in education, health and opportunity can destroy social harmony, resulting in a conflict. Conflicts frequently occur in a society not only because of political reasons but also because of economic matters particularly the unjust distribution of income pie. From time unknown, conflict has persisted between individuals, families, societies and states. The uneven ways in which Nepal's national income has been distributed irrespective of its shape and size among the citizens has been attributed to bring devastating consequences which of course can create deep social tensions. Every nation has its own story to tell so far as the conflict is concerned. Nepal was plagued by conflict for more than a decade (1996-2006). It was often advocated by those (the Maoists) who led the conflict that the fight was between the haves and have-nots, and between the powerful and the powerless. The unjust distribution of the fruits of democracy during the 1990s has left us a great liability whose effect of course has been spreading all over the country (Dhungel, 2020).

2. Causes of Income Inequality

Causes of inequality in modern times are more complex and diverse. These are deeply rooted in history as well as the political and institutional structures of society. Moreover, the extent of inequality in the distribution of income and wealth in a given society depends on the distribution of political power. There are various causes of inequality among which differences in wages are crucial and critical. Some people get more wages than others. Some have minimum earnings for livelihood while others earn millions. Following paragraphs try to address why such differences occur in the earnings of people.

(1) Wages: Wages are determined by the demand and supply of labor. If supply exceeds demand in the labor market wages tend to be lower and vice versa. Shortage of supply of skilled manpower required in the labor

market is the major cause for higher levels of wages and vice versa. Thus, wages are a function of the market price of skills required for a job (Hazlitt, 1988).

(2) Education: A study (Tambani, 2016) found a positive relationship between educational training and earnings, resulting in an increased probability of getting higher salaries the higher the studies an individual has. It indicates that education is an important factor for getting or receiving higher wages. However, receiving the same level of education by each individual does not guarantee to earn the same level of wages. Wages rate can differ from individual to individual even if they are holding the same degree from the same or different institutions. Saying the same in another way that receiving the same level of education does not mean receiving education of the same quality. Skill levels possessed by individuals differ because of inherent qualities like intelligence, drive and personal ability. Persons having such qualities can get better wages than those who lack it. Furthermore, a higher level of education obviously gives a higher level of wages. Thus, differences in education in terms of level and quality play a dominant role in economic inequality (Leung, 2015). In Nepal the quality of education differs in community schools and private schools. Private schools produce more skillful and competitive manpower than those produced by the public schools. People who graduate from public schools may have the higher chances to get opportunities with higher wages. This also aids another step in economic inequality.

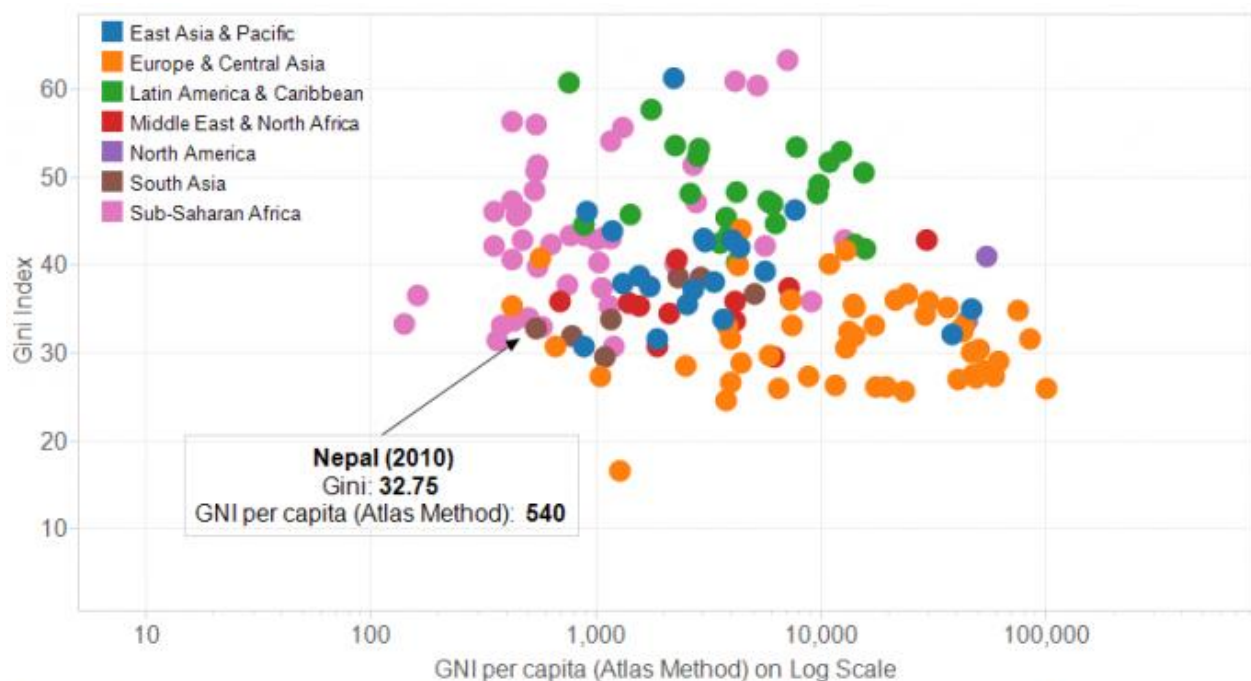
(3) Technology: Many jobs have become autonomous. Computers, robots and various others perform a particular job in a faster way. This vanishes jobs to unskilled and semiskilled people. Computers need highly skilled personnel. Construction works mostly fully or partially are performed by automatic machines. Such activities kill jobs. It means people become partially unemployed. It increases the stock of labor so that supply of labor exceeds demand in the labor market. It reduces wages of unskilled and semiskilled people while the wages of high skill manpower is rising. This creates a huge gap in the earnings of people.

(4) Gender: Gender income gap is a burning issue. Wages differ between male and female. Male are paid more than females in a different and identical nature of work. In many developing countries like Nepal even in the developed countries women are discriminated against. It is sure that gender does contribute to a difference in wages in society and hence economic inequality. Furthermore, in Nepal women are mistreated in terms of social values and rituals. Nepal's social norms, values, rituals, cultures and traditions differ from one group of people to another. Each has both positive and negative impact on gender or sex, caste or ethnic group, children and elderly people. Nepalese society is characterized by a number of rituals which produce negative impact called social evils than positive impact.

(5) Personal quality: Intelligent, laborious and effortful people have different sets of abilities. Their abilities play a part in determining the wealth of an individual. These individuals may keep improving themselves and trying for better achievements. It justifies a higher wage. This follows that individuals possessing different sets of abilities may have different levels of wealth. Thus, it contributes to economic inequality.

3. Gini Coefficient

Gini coefficient (GC) with value between 0 and 1 (0 for perfect equality and 1 for perfect inequality) is a measure of the inequality in the distribution of income and wealth. If income and wealth was shared in proportion among the population, the bottom 10 percent gets roughly 10 percent of the income, the bottom 20 percent gets 20 per cent and so forth, and then the GC, a measure of inequality, would be zero implying equality in the distribution of income and wealth in a given society. If all the income and wealth went to one portion of the population, the GC would be one, in some sense perfect inequality indicating the distribution of income and wealth is highly skewed. More equal societies have Gini coefficients 0.30 or below. The most unequal societies have GC 0.50 or above in which case the upper 20 percent of the society earns 80 per cent of the total national income. The rest, 20 percent of this, goes to the people of the bottom 80 percent (Stiglitz, 2012). GC of 0.4 percent is considered a warning line. Exceeding this mark signifies that the biggest part of the wealth cake is enjoyed by a minority. If the GC points below 0.2, income distribution is highly balanced, between 0.2 and 0.3 is a relatively balanced distribution, 0.4 and 0.5 means that the distribution is being largely spread and if it reaches 0.5, then, distribution is highly unbalanced. The average GC of Nepal for the period 2010-2015 was 32.8 percent (HDR, 2016). This value is fairly moderate. It is based on consumption rather than income. The well known hypothesis proposed by the economist Simon Kuznets¹ expressed that inequality first increases as countries develop, then peaks and starts decreasing after a certain level of development is attained. It indicates that Nepal's level of development is at very primitive stages and that its growth largely is not able to generate a widening consumption distribution (Tiwari, 2016).



Source: World Development Indicators (World Bank, 2016), based on the latest data for all available countries.

Figure 1.

The value of GC would be higher if income is considered rather than consumption to measure the inequality in Nepal. But the results if inequality was measured through income rather than consumption would likely loosen reliability as there would appear a lot of survey errors. However, at present, Nepal's GC, a gauge of income gap, is 0.41 (Tiwari, 2016). However, the GC is increasing over the years. In 1985 the GC was 0.30. The Nepalese society at that period was more or less equal with respect to the distribution of national income. It was increased to 0.43, 0.46 and 0.49 in 1995/96, 2003/04 and 2010/11 respectively (Bhurtel, 2013). These figures have proved that Nepal's GC is nearly 0.5 and it indicates that the biggest chunk of the nation's income goes to only a few who are rich. It is because of the lack of equal access to opportunities and the unjust distribution of the national income pie. Opportunities inside the country are rare. Whatever opportunities are there inside the country, they are available only to those who are related with the powerful. Opening up the opportunities in most public sectors like police, military and civil service are not going to help as even such opportunities open other avenues for the powerful people for corruption. It indicates that the powerful and influential persons have hijacked opportunities, benefits, public spaces, shared resources, economic rights and political processes. Among other things, foreign aid is partly responsible for creating terrible inequality in the distribution of income. Policy lacuna is the reason that has made aid distribution unequal implying that few have access to aid leaving the majority living at the bottom untouched.

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¹ Simon Kuznets, a Nobel Prized American economist helped lay the foundation for the study of trade cycles, known as “Kuznets cycles”, and developed ideas about the relationship between economic growth and income inequality.

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