

# Gini Coefficient is as important as Growth Rate, Per Capita GDP, Inflation and Unemployment,

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**Abstract:** Media discussions and Political Campaigns around economy are focused on growth rate inflation, unemployment and per capita gdp. However there is very little discussion in political debates or media coverage on the inequality of economy. Since most political divide is around right vs left or socialism vs capitalism, a discussion on prevailing equality is expected. Gini Coefficient measures the extent of inequality of incomes. Hence media and politics must give equal emphasis on Gini Coefficient.

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Date of Submission: 08-01-2023

Date of Acceptance: 23-01-2023

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## I. Introduction

Democracies function through discussion and debate. What gets discussed and debated finds its way to decision making bodies that determine policies. Speeches of Politicians and Articles in Media reflect thinking of the nation and society.

Government's main task, apart from defence, foreign relations, crime prevention is of course economy. Hence discussion on the performance of government naturally focuses on economy.

Usually Unemployment gets discussed in democracy, with politicians making mileage by hurling abuses at each other. So does Inflation. Even a slight increase in inflation can topple governments. Recession or reduction in growth rates is discussed. The per capita GDP of a nation gets discussed, especially in developing economies.

However surprisingly and indeed paradoxically equality of the extent of equality is hardly discussed. This is shocking because usually in a democracy political parties are divided on extent of preference for equality - left leaning socialist parties seeking more equality and right leaning capitalist parties seeking more growth.

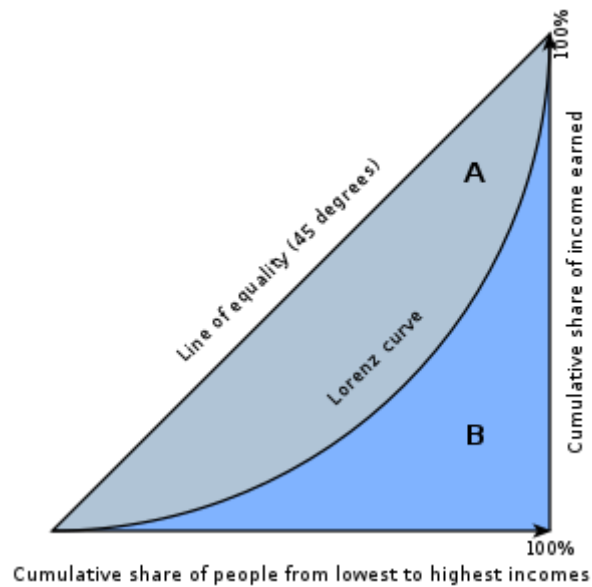
This paper makes a case for discussion on economic equality to be at forefront of political discussion in a democracy. Because unless there is discussion on performance on parameter of economy equality in an educated manner, there is very little action that may be expected from democratically elected government on the issue of economic equality.

## Gini Coefficient

There are several measures of inequality in an economy. The ratio of income of top 10% to bottom 10% is one of them. Very similar could be ratio of income of top 20% to bottom 20% is another. The wealth owned by top 0.01%, top 0.1% and top 1% of population can be another indicator of inequality. The income share of capital and labour can be another indicator of inequality.

However Gini Coefficient is widely accepted as a good indicator of income inequality in an economy. Now there are many detractors of Gini Coefficient. Some argue that Plasma Coefficient is a better indicator of income inequality. However without getting hair splitting discussion on the best indicator of economic inequality, it is safe to presume that Gini Coefficient is a good enough indicator of economic inequality.

The Gini coefficient is usually defined mathematically based on the Lorenz curve which plots the proportion of the total income of the population (y-axis) that is cumulatively earned by the bottom x of the population (see diagram). The line at 45 degrees thus represents perfect equality of incomes. The Gini coefficient can then be thought of as the ratio of the area that lies between the line of equality and the Lorenz curve (marked A in the diagram) over the total area under the line of equality (marked A and B in the diagram); i.e.,  $G = A/(A + B)$ .



A higher Gini Coefficient represents greater degree of Inequality and a lower Gini Coefficient represents a lower degree of income inequality. 0 represents perfect equality and 1 represents perfect inequality. Usually nations have Gini coefficients between 0.25 to 0.45

**Gini Coefficients of Some Developed Nations**

It would be interesting to compare Gini coefficients of some developed nations of world. Of course we could compare Gini Coefficient of 200 nations of the world, but that is not in scope of this article. And perhaps, it would be inappropriate to compare GiniCoefficient of a developed nation with a developing nation.

Of course one way would be to compare Gini Coefficient of Middle Income Nations, Low Income Nations and High Income Nations. But in the interest of simplicity, this paper just focuses on Gini coefficient of few OECD nations of world.

This section is meant to show how different are levels of inequality in same development level category. The nations chosen are from the higher end of income in OECD nations and OECD nations with lower income levels are dropped to ensure fair comparison.

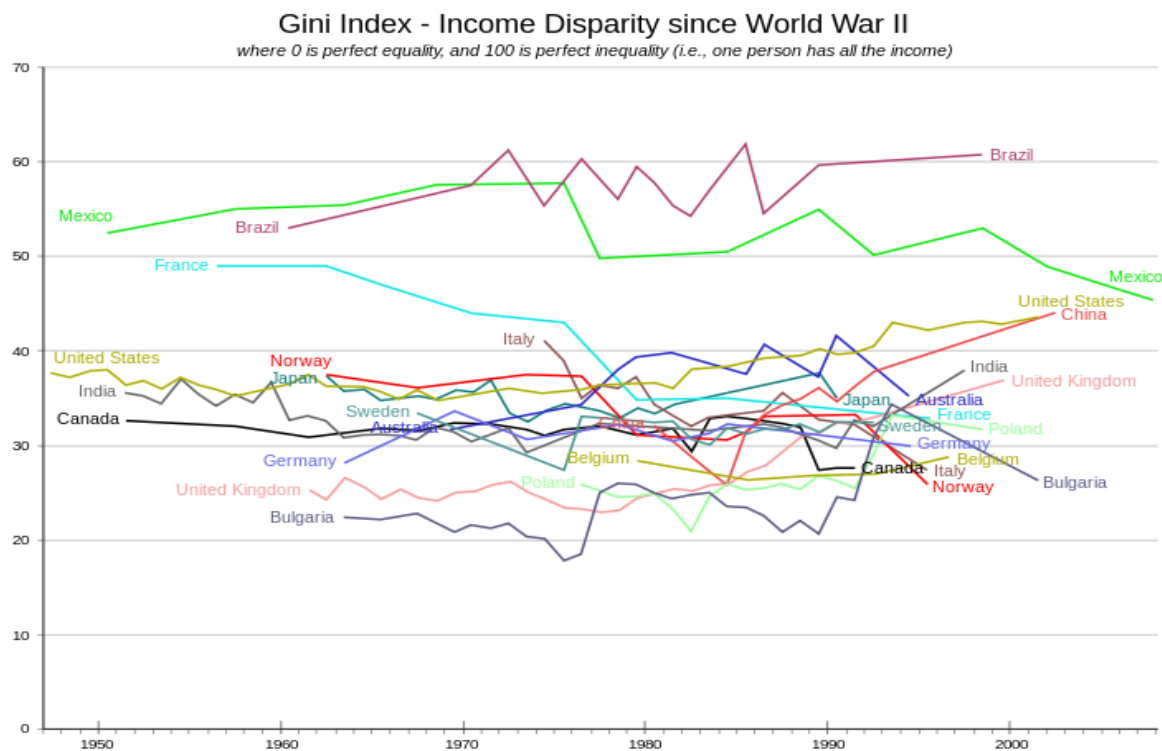
This is meant for just a quick view of the extent of inequality in various nations of world in various years as mentioned in the table below

Nation	Gini Coefficient	Year
United States of America	0.375	2019
Norway	0.265	2020
France	0.292	2019
Belgium	0.262	2019
Germany	0.296	2019
Japan	0.334	2018
United Kingdom	0.355	2020
Italy	0.33	2018
Spain	0.32	2019
Canada	0.28	2020

Clearly some nations have a higher gini coefficient like USA and UK, whereas nations like Canada and Norway have lower Gini coefficient. Policy makers in any nation can compare the gini coefficient of their nation with gini coefficient of other nations of world.

**Gini Coefficient variation over time**

Let us compare variations in Gini Coefficients of few nations of world.



The above figure compares Gini Coefficient of various nations from 1950 to 2010. Clearly inequality in some nations has increased and inequality in some nations has decreased. Remember higher gini coefficient means greater inequality and lower gini coefficient means lesser inequality. While Norway and France gini coefficient has reduced. The gini coefficient of USA and UK has increased slightly. Of course this is not best of information. But the variation of gini coefficient of nations over period of time can be of interest to policy makers of nation.

## II. Conclusion

This paper is not bring out anything new or original or seminal. However this paper is revolutionary in its own way. While discussion on unemployment, inflation, growth rate and gdp per capita is carried out ad nauseam, there is very little discussion on inequality.

This paper serves as reminder call that in a democracy the discussion on economic inequality has to be conducted. And it is best that such a discussion is informed and precise rather than ignorant and nebulous.

Politicians usually speak in polemics and rhetoric. However there has to be educated and informed discussion and communication in inequalities of income in an economy and its change over time as well as its comparison with other economies of the world.

Gini Coefficient is just one of the many ways to measure inequalities of income and is by no means either perfect or comprehensive. This paper is not a discussion on relative merits of various indicators of economic inequality.

This paper just is a wakeup call to media and politicians alike that gini coefficient of similar indicators of inequality in income deserve attention and discussion in a democracy to make it effective and efficient in meeting mandate of populace.

If inequality of income in economy was as adequately discussed as growth rates, per capita gdp, inflation and unemployment, then this paper would not have been necessary. Hopefully this paper will serve to open up a discussion on media coverage of economic inequality as opposed to academic discussion on economic inequality.

## References:

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