World Journal of Sociology and Law
ISSN: 2960-0308
DOI: https://doi.org/10.61784/wjsl3006

FISCAL POLICY AND INCOME INEQUALITY: A COMPARATIVE STUDY OF POLICY EFFECTS

JuanJuan Huang*, ChaoMin Gao
School of Business Administration, Baise University, Baise 533000, Guangxi, China.
Corresponding Author: JuanJuan Huang, Email: 1652963527@qq.com

Abstract: This study aims to explore the relationship between fiscal policy and income inequality, analyzing the effects of different fiscal policies in regulating income distribution. Through literature review and case studies, the research finds that progressive taxation and public spending policies play significant roles in alleviating income disparity, especially evident in Nordic countries. In contrast, the effectiveness of fiscal policies in the United States and China is influenced by various factors, including economic development levels and social structures. The findings suggest that governments should optimize taxation and public spending while considering regional development differences to achieve more effective wealth redistribution and promote common prosperity.
Keywords: Fiscal policy; Income inequality; Progressive taxation; Public spending; Wealth redistribution; Common prosperity

1 INTRODUCTION

Income inequality is a significant issue facing today's society; it not only affects economic stability and development but also has profound implications for social harmony and equity. Many countries and regions worldwide are experiencing increasingly severe income inequality, a phenomenon that has sparked widespread attention and discussion. According to a World Bank report, global income inequality has significantly increased over the past few decades, particularly in rapidly developing countries, where this issue has become more pronounced [1]. Income inequality not only signifies an uneven distribution of wealth but also reflects unequal access to and utilization of social resources, which can lead to social unrest and instability. Across the globe, many countries and regions are experiencing worsening income inequality, which has led to extensive attention and discourse [2].
Fiscal policy, as a crucial tool for national economic regulation, plays an important role in narrowing income inequality. Through taxation and public spending, governments can adjust income distribution to some extent and promote social equity. However, different types of fiscal policies may have significantly different effects on alleviating income inequality. For instance, progressive taxation is generally considered effective in reducing the gap between high-income and low-income groups, while investments in social security and public services can directly improve the living quality of low-income households. Studies have shown that the effectiveness of health policies not only affects healthcare costs but also has far-reaching impacts on household economic burdens and income distribution [3]. As economic development models evolve, the design and implementation of fiscal policies face new challenges.
This study aims to compare the effects of different fiscal policies on income inequality and explore which policy measures are more effective. By conducting case analyses of fiscal policies in various countries and regions, this paper seeks to reveal the mechanisms by which fiscal policy operates in income redistribution and its potential in achieving common prosperity. The central question of the research is: in the context of rapid globalization and digitalization, how can reasonable fiscal policies effectively alleviate income inequality and promote social equity?

2 LITERATURE REVIEW

When exploring the relationship between fiscal policy and income inequality, it is essential to review relevant theories to establish a foundation for subsequent analysis. Income inequality is a significant topic in economic and sociological research, with scholars examining its causes, impacts, and potential solutions from various perspectives. The implementation of ideological education in courses can enhance students' sense of social responsibility, potentially influencing their views on the fairness of income distribution [4]. Key theories include Malthusian theory, the Kuznets curve, and modern economic growth theory. Furthermore, the accessibility of healthcare services has a direct impact on income inequality, particularly as targeted medical interventions can significantly improve the economic conditions of specific groups [5].

2.1 Theoretical Background of Income Inequality

Malthusian theory emphasizes that the contradiction between population growth and limited resources is a crucial factor contributing to income inequality. As the population continues to increase, the scarcity of resources intensifies, ultimately leading to a widening wealth gap. This theory provides a basic framework for understanding the roots of income inequality. However, it oversimplifies the causes of income inequality and fails to adequately consider the impacts of economic policies and institutional arrangements on income distribution.
The Kuznets curve posits that income inequality will first rise and then fall with economic development. This perspective suggests that in the early stages of economic growth, wealth tends to concentrate in the hands of a few, but

© By the Author(s) 2024, under the CC BY-NC-ND license (http://creativecommons.org/licenses/by-nc-nd/4.0).

as society develops further—especially with improvements in education and social security systems—income inequality will gradually diminish [6]. The introduction of the Kuznets curve provides important insights into understanding changes in income inequality at different stages of development, although its applicability to all countries and regions remains a topic of debate.

Modern economic growth theory highlights the importance of technological progress, capital accumulation, and the enhancement of human capital in promoting economic growth and income distribution. Technological advancement can lead to widening income disparities, particularly when high-skilled and low-skilled workers face different competitive environments in the market [7]. This theory offers a new perspective on how education and skills training can improve income distribution.

2.2 Types and Mechanisms of Fiscal Policy

Fiscal policy primarily includes taxation and public spending policies. Tax policy is a means by which governments generate revenue through taxing individual and corporate incomes, with progressive taxation widely regarded as an effective measure for reducing income disparities. Progressive taxation requires higher-income individuals to pay a larger proportion of their income in taxes, which helps to adjust income distribution to some extent [8]. Many countries implement progressive tax systems with the aim of redistributing wealth from high-income groups to alleviate social inequality.

On the other hand, public spending policy involves the provision of social services and infrastructure that directly impact the well-being of citizens, particularly those in lower income brackets. This type of policy can include expenditures on healthcare, education, and social welfare programs, which are essential for improving the quality of life and promoting equity among different socioeconomic groups. Research indicates that targeted public spending can effectively reduce income inequality by enhancing access to essential services for disadvantaged populations [9].

2.3 Types and Mechanisms of Fiscal Policy

Public spending policy involves the provision of social services and infrastructure that directly impacts the well-being of citizens, particularly those in lower income brackets. This type of policy can include expenditures on healthcare, education, and social welfare programs, which are essential for improving the quality of life and promoting equity among different socioeconomic groups. Research indicates that targeted public spending can effectively reduce income inequality by enhancing access to essential services for disadvantaged populations [10].

Furthermore, fiscal policies can influence income distribution through their impact on economic growth. For instance, well-structured public investments can stimulate job creation, thereby increasing income levels across various sectors. The effectiveness of public spending in reducing inequality, however, often depends on how equitably these funds are allocated and the specific needs of different communities.

Moreover, fiscal policy can also address income inequality indirectly by shaping the economic environment. For example, policies that promote small and medium-sized enterprises (SMEs) can lead to more equitable income distribution by fostering job creation and entrepreneurship opportunities in underprivileged areas [11-12].

In conclusion, both taxation and public spending are vital components of fiscal policy that can significantly influence income inequality. The effectiveness of these measures relies on their design, implementation, and the broader economic context in which they operate.

3 THEORETICAL ANALYSIS

Establishing a clear theoretical framework is crucial when analyzing the relationship between fiscal policy and income inequality. This paper will explore how fiscal policy affects income inequality through redistribution mechanisms, further analyzing the effects of different policies. Additionally, potential factors influencing these policy effects will be examined to provide a more comprehensive understanding.

3.1 Establishment of Theoretical Framework

The mechanisms of fiscal policy can be understood through several key links. First, tax policy directly affects income distribution by imposing different tax rates on various income groups. Progressive taxation is a common redistributive tool, based on the principle that higher-income individuals pay a higher proportion of their income in taxes, thereby reducing wealth concentration in society. According to this theory, progressive taxation can effectively adjust income disparities by transferring wealth from high-income groups to low-income groups. This redistribution of wealth not only enhances the consumption capacity of low-income groups but also promotes overall economic growth.

Secondly, public expenditure policies also play a significant role in income redistribution. The government improves the living conditions of low-income groups through investments in areas such as education, healthcare, and social security. Such investments can elevate the living standards of low-income groups and enhance their capacity to participate in economic activities. For example, universal education policies can improve the skill levels of workers, thereby increasing their income potential. Moreover, social security policies can provide essential economic support to low-income families, alleviating their financial pressures. The effects of these public expenditures interact with tax policies, forming a vital mechanism of fiscal policy in income distribution..

3.2 Comparison of Policy Effects

To better understand the impact of fiscal policy on income inequality, this paper selects several countries for comparative analysis. These countries exhibit significant differences in the design and implementation of fiscal policies, providing us with diverse perspectives.

Taking Nordic countries as an example, these nations are known for their high tax burdens and extensive social welfare systems. Studies indicate that Nordic countries effectively reduce income disparities through progressive taxation and high levels of public expenditure[13]. For instance, Sweden’s tax system encourages high tax rates on high-income earners, with the revenue allocated to public services such as education, healthcare, and social security, thus improving overall societal welfare.

In contrast, the fiscal policy of the United States presents different characteristics. Although the U.S. also employs a progressive tax system, the relatively low levels of social security and public expenditure limit the redistributive effects of taxation. Research has found that income inequality in the U.S. has continued to rise over the past few decades, partly due to the tax system and welfare policies failing to effectively address the widening income gap[14]. This indicates that mere adjustments to tax policy are insufficient to resolve income inequality; complementary and improved social welfare is also essential.

The situation in China is more complex. During its rapid development, China’s fiscal policies have made some achievements in alleviating income inequality, but significant challenges remain. Although the government has implemented a series of tax reforms and social security policies, the effectiveness of these measures is uneven across different regions and groups due to regional development disparities and urban-rural gaps. For example, the eastern region, with a better economic foundation, has a relatively high coverage of social security, while low-income groups in the western region face greater economic pressures. Therefore, the effectiveness of fiscal policies in China requires detailed analysis in conjunction with specific regions and groups.

3.3 Potential Influencing Factors

Numerous factors influence the effectiveness of fiscal policy, including economic development level, social structure, and cultural background. In countries with rapid economic growth, the implementation of fiscal policies tends to be more effective, as economic vitality and resource allocation can support effective redistributive policies[15]. Conversely, in regions with relatively lagging economic development, the effectiveness of fiscal policies is often constrained, with a weak tax base and insufficient public expenditure diminishing redistributive effects[16].

Moreover, social structure and cultural background significantly impact the effectiveness of fiscal policies. For instance, in countries with high levels of social trust, the public's acceptance of taxation and social welfare tends to be higher, making government redistributive policies more likely to gain support[17]. In contrast, in countries with low social trust, the public may be skeptical of government fiscal policies, thereby affecting their implementation effectiveness[18]. Thus, considering these potential factors helps provide a more comprehensive understanding of the role of fiscal policy in income distribution.

In summary, fiscal policy affects income inequality through two main mechanisms: taxation and public expenditure, with its effects constrained by various factors. Due to differences in economic, social, and cultural backgrounds across different countries and regions, the implementation effects of fiscal policies also vary significantly. By analyzing the relationship between fiscal policy and income inequality in depth, valuable references can be provided for policymakers to achieve a more equitable income distribution

4 CONCLUSION

Through an in-depth study of the relationship between fiscal policy and income inequality, this paper arrives at several important conclusions. First, fiscal policy plays an indispensable role in adjusting income distribution and promoting social equity. Whether through tax policies or public expenditure policies, fiscal policy affects the degree of income inequality through various mechanisms. This finding emphasizes the importance of fiscal policy as a tool for national economic regulation, especially in addressing the increasingly widening income gap.

Secondly, there are significant differences in the effects of fiscal policies across different countries and regions. For example, Nordic countries effectively reduce income inequality through high tax burdens and generous social welfare systems. In contrast, the experience of the United States indicates that relying solely on reforms in tax policy is insufficient to tackle income inequality. The limited impact of tax adjustments is compounded by relatively low levels of social security and public expenditure, which highlights the necessity for a more integrated approach that includes both fiscal policy reforms and enhancements in social welfare systems.

Lastly, China’s experience illustrates the complexities of implementing fiscal policy in a rapidly developing context. Although significant progress has been made in alleviating income inequality, challenges remain, particularly in balancing regional disparities and ensuring equitable access to social benefits. Therefore, it is crucial for policymakers to tailor fiscal strategies to address specific regional and demographic contexts to enhance their effectiveness.

In conclusion, a comprehensive understanding of the intricate relationship between fiscal policy and income inequality can guide policymakers in designing effective strategies that foster more equitable income distribution and promote social justice.

COMPETING INTERESTS

The authors have no relevant financial or non-financial interests to disclose.

REFERENCES

[1] Horner R, Hulme D. From international to global development: New geographies of 21st century development. Development and Change, 2019, 50(2): 347-378.
[2] Wu PX, Lan ZY, Huang W, et al. Discussion on the application of blended teaching mode based on MOOCs among medical undergraduates. Journal of Youjiang Medical University for Nationalities, 2020, 42(1): 119-122.
[3] Rao ZF, Chen JY, Zhao LY, et al. Comparative study of ultrasound-guided microwave ablation and laparoscopic resection for benign thyroid nodules. Journal of Youjiang Medical University for Nationalities, 2018, 40(6): 583-585.
[4] Pang XR, Liu F, Li L, et al. Initial exploration of teaching reform of "Introduction to General Practice" based on the concept of "Curriculum Ideology and Politics". Journal of Youjiang Medical University for Nationalities, 2020, 42(6): 806-809.
[5] Li J, Leng H. Clinical observation of respiratory muscle feedback training on respiratory and swallowing dysfunction in patients with post-stroke hemiplegia. Journal of Youjiang Medical University for Nationalities, 2018, 40(6): 586-589.
[6] Aiyar S, Ebeke C. Inequality of opportunity, inequality of income and economic growth. World Development, 2020, 136: 105115.
[7] Nordhaus WD. Are We Approaching an Economic Singularity? Information Technology and the Future of Economic Growth. American Economic Journal: Macroeconomics, 2021, 13(1): 299-332.
[8] Filippova NV, Akhmadeev RG, Bykanova OA, et al. Social equity: A route to progressive taxation of individuals. European Research Studies Journal, 2018, 21(4): 317-330.
[9] Ebunoluwa OO, Yusuf WA. Effects of economic growth on poverty reduction in Nigeria. IOSR Journal of Economics and Finance (IOSR-JEF), 2018, 9(5): 25-29.
[10] Morgan J. Inequality: What we think, what we don’t think and why we acquiesce. Real-World Economics Review, 2020, (92): 116-133.
[11] Liu W, Cai ZZ. International comparison of China’s economic growth and industrial structure upgrading in the new era. Management World, 2018, 34(1): 16-24.
[12] Zhao XD, Shen CF. Review of the impact of income inequality on economic growth. Economic Review, 2022, (5): 117-128.
[13] Yang ZY. Tax system reform in China towards common prosperity. Reform, 2022, (3): 1-9.
[14] Oishi S, Kushlev K, Schimmack U. Progressive taxation, income inequality, and happiness. The American Psychologist, 2018, 73(2): 157-168.
[15] Wang Q, Su M. Drivers of decoupling economic growth from carbon emissions: An empirical analysis of 192 countries using decoupling model and decomposition method. Environmental Impact Assessment Review, 2020, 81: 106356.
[16] Johnson HG. Economic policies towards less developed countries. 1st ed. Routledge, 1967.
[17] Davidovic D, Harring N. Exploring the cross-national variation in public support for climate policies in Europe: The role of quality of government and trust. Energy Research & Social Science, 2020, 70: 101785.
[18] Otto A, Gugushvili D. Eco-social divides in Europe: Public attitudes towards welfare and climate change policies. Sustainability, 2020, 12(1): 1-18.