ECONOMIC INEQUALITY AS AN OBSTACLE TO DEVELOPMENT

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ABSTRACT

Top priority for far-sighted developing society in nowadays global inter-connected world is addressing the issues of poverty and economic inequality. It can be argued that today's standards of living across the world are a direct result of economic progress that has been registered over the years. It is also, however, true that millions of people are still trapped into abject poverty while few dozens of people control the wealth that could save many lives. Economic inequality has been a common threat throughout the history of mankind. Traditionally, the working class has been poorly protected from exploitation by a numerically small elite ruling class. This situation remains today, threats of global poverty and economic inequality particularly acute in contemporary society as the brakes of its development process, logically that we are not living in the Middle Ages to tolerate these facts. Thus obstacles to global justice and social welfare are the challenges we should consider and conduct deep research on the role of corporations and international institutions in global governance for sustainable development.

The aim of the research paper is to explore economic inequality in European and non-European countries by the Gini coefficient, to analyse the causes of the problem and present the solution for problem-solving - eradicate economic injustice by developing alternative model of financial and fiscal policy, in accordance to global social challenges and main future priorities, including specific objectives of the "Europe 2020" Strategy, for "smart, sustainable and inclusive growth".

Theoretical background and measurement of economic inequality in European and non-European countries are explored in the first chapter of the paper. Economic equality and justice in frame of the Economic Security are discussed in second chapter. The third chapter shows some aspects of Behavioral economics, indicates the growing impact of Corporate Social Responsebility Management and the logical need of community involvement to International Social Justice and Economic Equality Initiative. Forth chapter proves the idea of social capital development as a precondition for economic development, achieving social and economical equality in sociaty.

The paper emphasize the necessities to intensify global policy towards achieving economic equality in developing countries, adopt new social-oriented model of financial system, responsible public financial management development, legalize the concepts of Corporate Social Responsibility (CSR) and ethical banking, increasing pro-social impact of business and financial institutions, reorient the ordinary taxation system to the system of tax incentives by the ethical criteria.

As the issue of contemporary society (top ranked problem at Davos Global Risks 2012 list) economic inequality should be declined by moral methods, new solutions must be toward Sustainable Development and toward implementation of the Millennium Development Goals, even after year 2015 (Post-MDGs Development Agenda). Nevertheless contemporary Capitalized Economies are obviously exhausted; there are some other revolutionary options for socio-economical development based on moral and ethics values, safe economic behavioure.

Key words: economic inequality, social justice, income redistribution, Economic Security, ethic, social finance, social capital, on-line communities.

Introduction

Top priority for far-sighted developing society in today's global inter-connected world is addressing the issues of poverty and economic inequality. It can be argued that today's standards of living across the world are a direct result of economic progress that has been registered over the years. It is also, however, true that millions of people are still trapped into abject poverty while few dozens of people control the wealth that could save many lives. Economic inequality has been a common threat throughout the history of mankind. Traditionally, the working class has been poorly protected from exploitation by a numerically small elite ruling class. This situation remains today, threats of global poverty and economic inequality particularly acute in contemporary society as the brakes of its development process, logically that we are not living in the Middle Ages to tolerate these facts. Thus obstacles to global justice and social welfare are the challenges we should consider, while conducting research of the role of human behavioure and various organizational structure in global governance for sustainable development.

1. Theoretical background and measurement of economic inequality

Poverty and economic inequality is the core problems of contemporary society. Economic inequality refers to disparities in the distribution of economic assets and income. The term typically refers to inequality among individuals and groups within a society, but can also refer to inequality among nations. Economic Inequality generally refers to equality of outcome, and is related to the idea of equality of opportunity. It is a contested issue whether economic inequality is a positive or negative phenomenon, both on utilitarian and moral grounds. Raising the incomes of the poor generally makes the positive influence on poverty reduction, but it also matter whether incomes at the top are rising even faster, making us a more unequal society overall. If the gap between rich and poor gets too large, and if those at the bottom feel they have no meaningful route to the riches at the top, then the fabric of society will fray, collapse or even come unraveled entirely.

Ridiculous fact from global poverty and inequality statistic shows that: “The GDP (Gross Domestic Product, total of everyone's income) in the poorest 48 nations is less than the combined wealth of the world's three richest people. The average yearly income of the richest 20% of people in the world is about 50 times greater than the yearly income of the poorest 20% of people (Facts on World Hunger and Poverty, April 19, 2010).

The harmful effects of inequality could hypothetically include a disproportionate influence of the wealthy, political detachment on the part of a large sector of the population, support for populism, support for personalist rule, corruption, and low levels of accountability. While cautioning about the reliability and comparability of some data, experts reported a strong negative correlation between income inequality and measures of voice and accountability— evidence of the threat that inequality poses to the quality of democracy. The rich can use their financial means to pervert the democratic procedures and to distort the equal influence on which democracy is based. Another way in which income inequality may pervert democracy is its divisiveness. It polarizes societies and it can divide regions within countries. None of this is helpful for the adequate functioning of democracy.

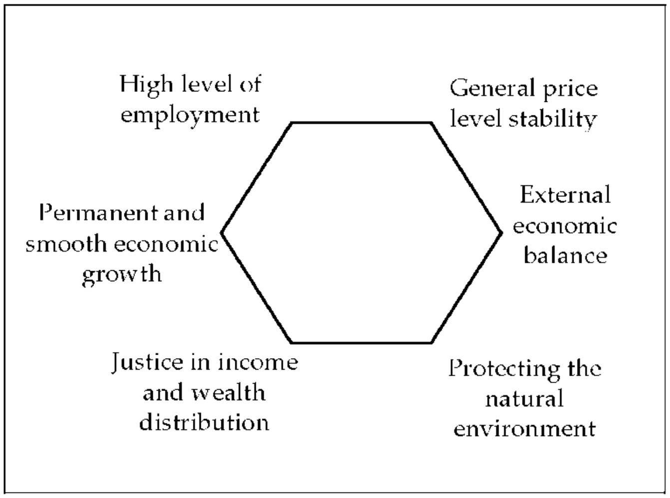
The rights enshrined in the International Covenant on Economic, Social and Cultural Rights and subsequent human rights instruments covering group rights (e.g. indigenous peoples, minorities, people with disabilities) are equally essential for democracy as they ensure an equitable distribution of wealth, and equality and equity in respect of access to civil and political rights (Bermeo (2009), p. 7)

Achieving a just income and wealth distribution is one of the six main targets of economic policy (Figure 1)(Mussel, 2000, p.53).

There exists an enormous amount of economic literature on the general topic of inequality. When looking specifically into the literature on inequality with a focus on transition economics it can be stated that one of the main papers in this field was Branko Milanovic’s Explaining the Increase in Inequality During Transition (Milanovic (1999), p. 323). He finds that the most important factors driving overall inequality upwards are to be found in the field of changing labour market outcomes.

Figure 1

Magic Hexagon of Economic Policy

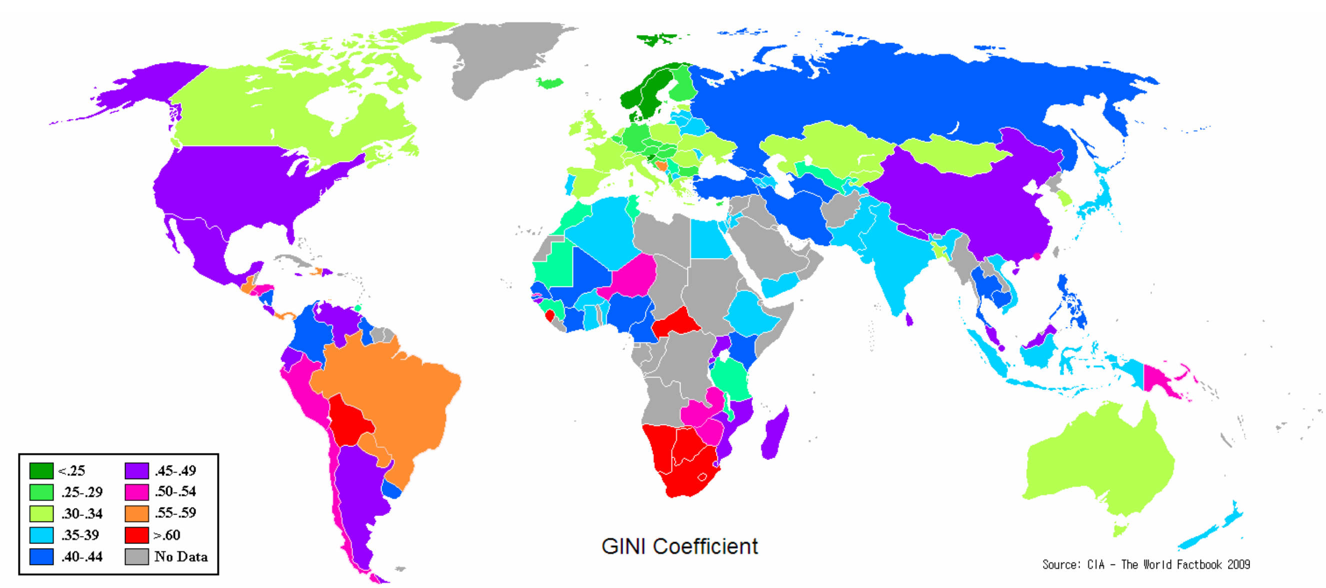


Differences in national income equality around the world as measured by the national Gini coefficient. The Gini coefficient is a number between 0 and 1, where 0 corresponds with perfect equality (where everyone has the same income) and 1 corresponds with perfect inequality (where one person has all the income, and everyone else has zero income). To make the numbers easier to interpret, the Gini Coefficient has been multiplied by 100. Thus, zero represents a society with perfect equality and 100 represents a society with perfect inequality.

Figure 2

Gini Cofficient around the world

Data source: Gini Coefficient World CIA Report (2009)



Worldwide, Gini coefficients for income range from 23.0 (Sweden) to 70.7 (Namibia).

Extremely High Levels of Income Inequality is representing by Namibia, South Africa, Lesotho. These three countries fit the description of what one would consider a typical developing country where the middle class is not developed and there is a large gap between the rich and the poor. The Gini Coefficent values of 60-75 represent the upper end of the scale of social inequality that the Gini Coefficient will reach and indicates a large imbalance in wealth between the rich and the poor in the following countries: Namibia - 70.7, South Africa - 65.0, Lesotho - 63.2.

One of the most rapidly changing regions of the world in the 1990s were the former centrally-planned economies in Central and Eastern Europe (CEE), including the Slovakia, Poland, Ukraine and Russian Federation, which are studied in this paper.

Table 1

Inequality in income or consumption in Central and Eastern Europe

Data source: World CIA Report (2009)

	HDI rank	Income group (2009 GNI per capita)	Share of income or expenditure (%)		Inequality measures		Population below income poverty line (%)
			Poorest 10%	Richest 10%	Richest 10% to poorest 10%	Gini index	National poverty line
Slovakia	HIGH HUMAN DEVELOPMENT	High-income economies ($12,196 or more)	3,1	20,9	6,8 (1996)	25 (2005)	21(2002)
Ukraine	MEDIUM HUMAN DEVELOPMENT	Lower-middle-income economies ($996 to $3,945)	4,1	22,6	6,0 (2008)	27,5(2008)	35(2009)
Germany	VERY HIGH HUMAN DEVELOPMENT	High-income economies ($12,196 or more)	3,6	24	6,9(2000)	27(2006)	16(2010)
Poland	HIGH HUMAN DEVELOPMENT	High-income economies ($12,196 or more)	3,2	27,2	9,0(2008)	34,2(2008)	17(2003)
Russian Federation	HIGH HUMAN DEVELOPMENT	Upper-middle-income economies ($3,946 to $12,195)	2,6	33,1	11,0(2008)	42(2010)	13(2009)
Georgia	MEDIUM HUMAN DEVELOPMENT	Lower-middle-income economies ($996 to $3,945)	2	31,3	15,9(2008)	40,8(2009)	31(2006)

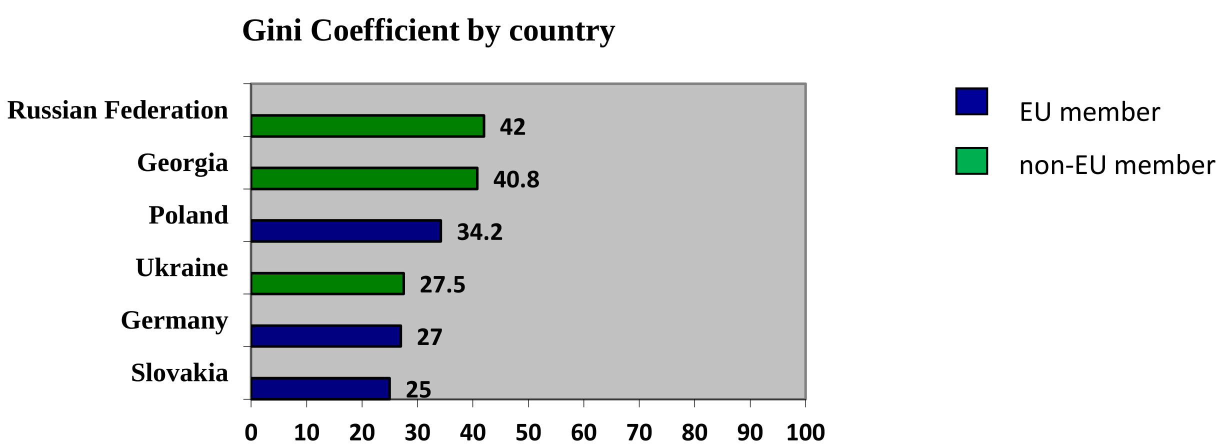
Ukraine has Low Level of Social Inequality – 27,5. Countries with a Gini Coefficient that fall into this category of low social inequality are developed European countries for the most part and includes Japan. This low Gini Coefficient value suggests a lower likelihood of domestic tension from social inequality. Even United States is the country with the High Level of Social Inequality (45.0). In comparison Ukraine seems not on so bad position, but it is only official statistic which not always can be considered as the real fact, specially because exicted datas on income inequality are outdated, these datas do not demonstrate the situation in different countries in the same period of time and at nearly the same global economy cycle. Moreover, according to UNESCO data 35% of population below national poverty line and more that 70% according to non-official statistic. Obviously income inequality is just one statistic; it doesn't reflect the size of the pie, only how it's divided. The Soviet Union was a very equal place - equally poor. As two distinct phenomena, economic inequality and poverty are not necessarily correlative.

The European Union is one of the richest areas in the world, but still 17% of EU citizens have such limited resources that they cannot afford the basics. Today in Europe, one person in six lives below the poverty threshold (almost 80 million people, of whom 19 million are children). Despite an improvement in overall living standards over the past decade, global processes of the last few years proves that poverty and social exclusion remain major issues in most countries, with substantial differences across the EU. As follows:

- One European in ten lives in a household where nobody works. Even so, work does not always guard effectively against the risk of poverty.
- For 8% of Europeans, having a job is not enough to work one's way out of poverty.

An increase in the Gini coefficient, for example, could reflect a fattening of the lower tail of the income distribution due to an inflow of relatively lowskilled, low wage-earning immigrants, or the abolition of minimum wages. Alternatively, a higher Gini coefficient could be caused an increase of inequality at the top of the distribution driven by greater demand for highly skilled workers owing to skill-biased technological change, capital market liberalization, or the “superstar phenomenon” (Harjes (2007), p. 20).

Figure 3



Variations in poverty and inequality across and within regions are higher in the Russian Federation than in the three EU countries. In these three non-EU countries, variations are somewhat but not considerably higher than in Western EU countries, Ukraine is almost on the EU-level by Gini Index.

While these results are somewhat tentative at this time, they point to both winners and losers in the changeover from planned to market economies in these three countries. They also suggest that regional differences may have been exacerbated by the transition and that national and international authorities need pay greater attention to regional disparities within and across nations as they design economic and social policies.

Looking below the national averages on population subgroups, four characteristics of inequality stand out for raising poverty risk (that is, poverty incidence) above average: being young, living in a rural area or (in some cases) a secondary city, being unemployed, and having low levels of education. The urban/rural gap seems to have increased in all countries.

Although a rise in inequality can be observed in the Central, East and Southeast Europe region from the breakdown of the communist regimes onwards, the situation differs from country to country, depending on the institutional heritages as well as the transition policies chosen. Looking at the development of average inequality in the three main country groups of the formerly socialist region, in all of these the liberalization of markets led to a sudden rise in income dispersion. The change was most dramatic in the CIS region, with Russia experiencing the strongest increases after the break-up of the Soviet Union.

Experiences of transition economies show a positive relation between growth and inequalities and a negative relation between growth and poverty. With the growth in GDP after the big recession in the beginning of transition process all the transition countries have become more unequal even though there was a wide diversity among countries and at times.

According to the literature on this issue the main sources of inequalities in transition can be listed as follows (Mitra-Yemtsov (2006), p. 11-15):

- Wage decompression and growth of the private sector: wage is an display of productivity in market economy and consequently wage differentials became an important driver of inequality.

- Restructuring and unemployment, reverting to subsistence economy: inequalities in transition economies is feeding by such developments in the labour market as open employment, lower labour force participation, and low productivity employment, which are result of closure and restructure of less productive firms.

- Changes in government expenditure and taxation: inequality increase-factors were: the low income and sharp decline in production, low level of social transfers with a distortion in income distribution. The farther recovery and growth formerly socialist countries has been accompanied by a sharp increase in the Gini coefficient.Value of this coefficient increased by 2 percentage points between 1990 and 2001 and consequently, Gini coefficient in 2003 became nearly 50 percent higher compared to that in 1981 (Mitra-Yemtsov (2006), p. 4).

Table 2
Gini Indices for Per Capita Incomes

Data source: Eurostat, OECD per equivalent equivalence scale, Mitra- Yemtsov (2006), p. 6

	1987-90	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Armenia	0.269									0.570		0.537		0.428
Azerbaijan	0.345					0.440						0.373		
Belarus	0.233				0.280	0.253	0.244	0.249	0.253	0.235	0.247	0.245	0.246	0.249
Bulgaria	0.245		0.344		0.340	0.384	0.357	0.366	0.345	0.326	0.332	0.333	0.370	0.351
Croatia	0.251								0.333					0.29*
Czech Rep.	0.197		0.228		0.270		0.258	0.230	0.239	0.212	0.232	0.231	0.237	0.234
Estonia	0.240		0.395		0.350		0.370	0.361	0.354	0.361	0.389	0.385	0.393	0.402
Georgia	0.313						0.430							0.469
Hungary	0.214			0.23		0.242	0.246	0.254	0.250	0.253	0.259	0.272	0.267	0.268
Kazakhstan	0.297				0.330		0.35							
Kyrgyz	0.308			0.35				0.470	0.411	0.399	0.414	0.377	0.382	0.342
Latvia	0.240				0.310			0.326	0.321		0.327		0.358	0.379
Lithuania	0.248				0.350		0.347	0.309	0.332	0.343	0.355	0.354	0.357	0.318
Macedonia	0.349						0.369	0.367					0.34*	0.34*
Moldova	0.267			0.36	0.360			0.420			0.437	0.435	0.436	0.411
Poland	0.255	0.26	0.274	0.28		0.320	0.328	0.334	0.326	0.334	0.345	0.341	0.353	0.356
Romania	0.232				0.290	0.312	0.302	0.305	0.298	0.299	0.310	0.353	0.349	0.352
Russia	0.259	0.26	0.289	0.39	0.409	0.381	0.375	0.381	0.398	0.399	0.394	0.396	0.398	0.404
Slovenia	0.220	0.22	0.282		0.250		0.302	0.305	0.298	0.299	0.310	0.353	0.22*	0.22*
Slovak Rep.	0.186						0.237	0.249	0.262	0.249	0.264	0.263	0.267	0.299
Tajikistan	0.334									0.470				
Turkmenist	0.308				0.360									
Ukraine	0.240									0.282	0.288	0.290	0.277	0.271
Uzbekistan	0.351				0.330									

As seen from the table above all transition countries experienced an increase in inequality. This increase was rapid in the countries that composed the USSR, but relatively gradual in the new members of the European Union (Doğan (2009), p. 90).

There is currently no consensus on why inequality increased in some industrialized countries, but not in others. Some argue that inequality in countries on transition was increased by the changes in job task demands driven by skill-biased technological change as a part of globalization. But others argue that the rise in inequality is largely explained by such factors as changes in labor market institutions, including minimum wages and the degree of unionization (Harjes (2007), p. 1-15).

Kuznets's classical work which claims that "at the initial stages of the development process, inequality rises with growth; then, at later stages, inequality starts to decrease with further expansion of the economy" (Kuznets (1955). p. 131). This view is broadened with more recent studies that point to the conclusion that it is not growth itself that brings lower levels of inequality in income distribution, but the way in which it folds out. The authors confirm their assumption that the link between economic growth and income inequality is far better corroborated if economic growth is based on an increase in employment and not solely on a rise in productivity. Therefore, their analysis shows that, although the new EU Member States recorded respectable rates of economic growth in the last decade, its effect on a decrease in the inequality of income distribution was not as great as it was in the old EU Member States (notably Ireland, Spain, and Portugal) that have recorded comparable rates of economic growth since that growth was mainly fueled by a rise in productivity.

The difference is that the economic growth of the old EU Member States was propelled by an increase in employment, whereas growth in the new EU Member States, as mentioned previously, was a consequence of a rise in productivity (Ward (2009), p. 214).

Citing historical experiences and case studies, Loehr and Powelson (1981) conclude that public policy could help inequality get progressively less as growth proceeds and that sustained growth and improved equality are compatible vehicles for poverty reduction. Poverty – Growth – Inequality triangle(PGIT) hypothesis is based on the idea that development strategy should be guided by the goal of reducing absolute poverty, which can be achieved by implementing country-specific combination of growth and distribution policies.

Indian Prime Minister Manmohan Singh said: "Even as absolute poverty may be reduced by growth, inequalities can get sharpened. This can be politically and socially extremely destabilizing."

Even if economic inequality and poverty are not necessarily statistically correlative, but destabilization caused by inequality is the cause of poverty.

Here we come to conclusion: channel of poverty reduction through the combination of growth and distribution policies (social-oriented economy) is more effective and sustainable than poverty reduction through economic growth without intervention of social welfare programs (pure capitalism).

We believe that issue of economical inequality and poverty is grounded in existed capitalism system. That was also Alan Greenspan who said: "Income inequality is where the capitalist system is most vulnerable. You can't have the capitalist system if an increasing number of people think it is unjust". Economic inequality is inherent of capitalist system. In fact, there are some really good things about capitalism system, namely that it motivates risk, hard work, and innovation. Money income is the reason for getting out of bed in the morning, this is what Adam Smith calls "invisible hand". Some modern experts even states that income inequality is a byproduct of a well-functioning capitalist economy. Individuals' earnings are directly related to their productivity. In ideal pattern of capitalism, wealthy people are not wealthy because they have more money; it is because they have greater productivity. Different incomes reflect different productivity levels. It is in ideal society, but current attitude toward market economy don't consider the morality of profit as main valuable principle. Philosopher John Rawls argued that decisions about economic justice should be made behind a "veil of ignorance." It is a method of determining the morality of a certain issue (e.g. slavery) based upon the following principle: imagine that societal roles were completely re-fashioned and redistributed, and that from behind your veil of ignorance you do not know what role you will be reassigned. John Rawls' "A Theory of Justice" states that only then can you truly consider the morality of an issue. With imperfect markets, inequalities in power and wealth translate into unequal opportunities, leading to wasted productive potential and to an inefficient allocation of resources. Moral and legal aspect of ability to become rich within a relatively short period, veries from country to country.

The following determination of richness could be observed (Guriev (2004), p. 3-5).:

- Trade opportunities—the market evolved in certain new segments or niches (banks, foreign exchange, information technology, car imports, industrial consumer goods etc) as a result of liberalization, and large fortunes were obtained through the trading system.

- Insider privatization or buying out (using the privileged position of being a top manager);

- Control over resources (certain political or government elites gained control over the resources, resulting in large monopolies, particularly in the extracting industries);

- Patent technology (Important inventions or patent or defense related technology which were not properly valued and utilized in the state owned enterprises were obtained and commercialized, mainly through finding a foreign partner with whom joint ventures could be established);

- Exploiting the system (criminalized and corrupted government, the lawless system and the abuse of administrative power, what is typical over the las few decades for post-soviet countries).

Each opportunity is defined by Information Asymmetry, and each subsequent by privilege received from previous.

Additionally to the obvious factor of inequality of opportunities, the latest OECD overview, define few other key drivers of changes in wage inequality and employment:

1. Globalisation (Trade integration, Foreign direct investment (FDI) deregulation, Technological progress etc.)

2. Policy choices, regulations, and institutions (Declining union coverage, Product market deregulation, Less strict employment protection legislation, Declining tax wedges, Declining unemployment benefit replacement rate etc.)

3. Education.

The combination of those key factors and the approaches they facilitate can have positive as well as negative impact on overall earnings inequality.

While the progress, regulatory reforms and institutional changes generally increase the wage dispersion, the rise in the supply of skilled workers is reducing wage dispersion among workers and contributing to higher employment rates (An Overview of Growing Income Inequalities in OECD Countries: Main Findings", 2011, p.41).

The challenging assignment for govemental institutions is to implement hight employment protection legislation and to encourage access to employment for under-represented groups (youths, older workers, women and migrants etc).

As follows, the crucial factor for long run declining of income inequality and poverty reduction is development and investment in the human capital of the workforce.

OECD overview highlights two main strands of Human capital policies:

- Staff development (trainings, couching, team building, non-monetary motivation etc.).

- Equal life-long learning opportunities (equal access to formal education).

These require awareness from workers and additional investment from businesses (e.g. deduction of training expenses as business costs), inclusive employment promotion and well-designed tax/transfer redistribution policies (An Overview of Growing Income Inequalities in OECD Countries: Main Findings", 2011, p.41).

In conclusion, nevertheless the power structure in the Eastern European countries includes the political elite, top bureaucrats, army leaders, and politically involved top managers of the large private (“deputy’s”) firms, the moral and democratic changes underline the necessity of developing ‘middle class’ as the new owners of the privatized state property, necessary for the creation of a well functioning economy. The evolving middle class includes the small businessmen, professionals, scientists and journalists, and the middle and lower level staff in the NGO and public administration. Deeply ingrained economic inequality and inequalities of opportunities should be re-formatted to a system of equitable income distribution, equal access to resources, knowledge, technology and starting opportunities under the rule of law, democracy, forced or encouraged morality and responsibility. Capitalism system should be changed, according to global social responsible challenges.

2. Economic equality and justice in frame of the Economic Security

Economic security - is a state of national economy, which provided protection of national interests, resistance to internal and external threats, the ability to develop and secure the vital interests of the people, society and the state.

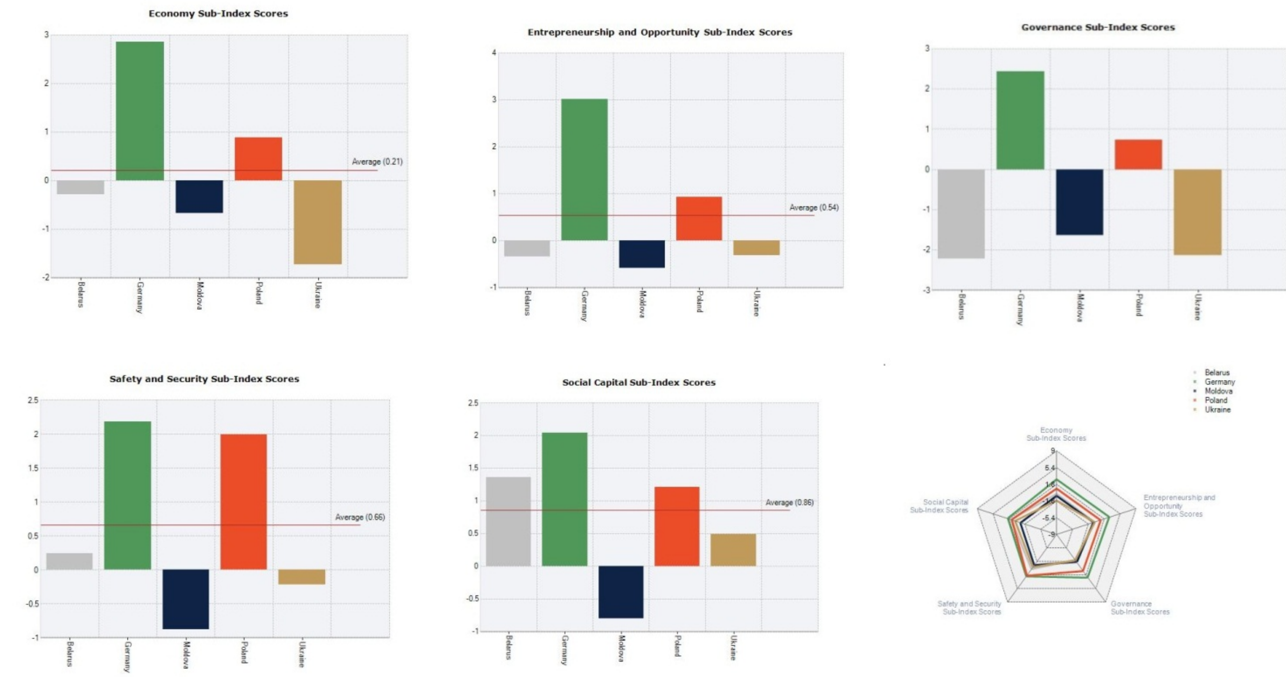
When important interests in this context understood set of requirements that ensure the existence and progressive development of the individual, society and state. The task of economic security include: ensuring continued economic growth, lower levels of inflation and unemployment, the formation of an effective structure of the economy and developed securities market, reducing the budget deficit and national debt, providing social protection and improve the quality of life, support stability of the currency and more. Resilience and stability of the national economy provides strength and reliability of all elements of the economic system, protecting all forms of ownership, control destabilizing factors. The ability to self-development and progress means the ability to sell and protect national interests, create a favorable investment and innovative climate, to develop intellectual potential. The objects of economic security are state, society, citizens, businesses, institutions and organizations, territory, individual components of economic security. We’re focusing on economic equality in frame of the economic security, because taking as a basis of economic security human being.

Justice - this is the real significance of the correspondence between different individuals (social groups) and their social statuses. In more concrete terms - the correspondence between their rights and obligations, crime and punishment, between the act and the reward, effort and reward, etc. The discrepancy in these ratios is estimated as an injustice.

Economic equity refers to the economic well-being. Here it is understood as impartiality or lack of interest (fairness). Such a conception of justice was named in honor of its author - justice by Rawls. In his book, "A Theory of Justice", he argues that justice - it is a sign of the structure of society, which individuals would choose, if they are not influenced by purely personal interests. In this state they are disinterested to conclude an agreement on the nature of society and its economic structure. "Ignorance" of their interests do not allow them to know what position (determined by ability, gender, race), they occupy in this society. In this case, the society will be chosen from the four properties and these properties can be regarded as property equity.

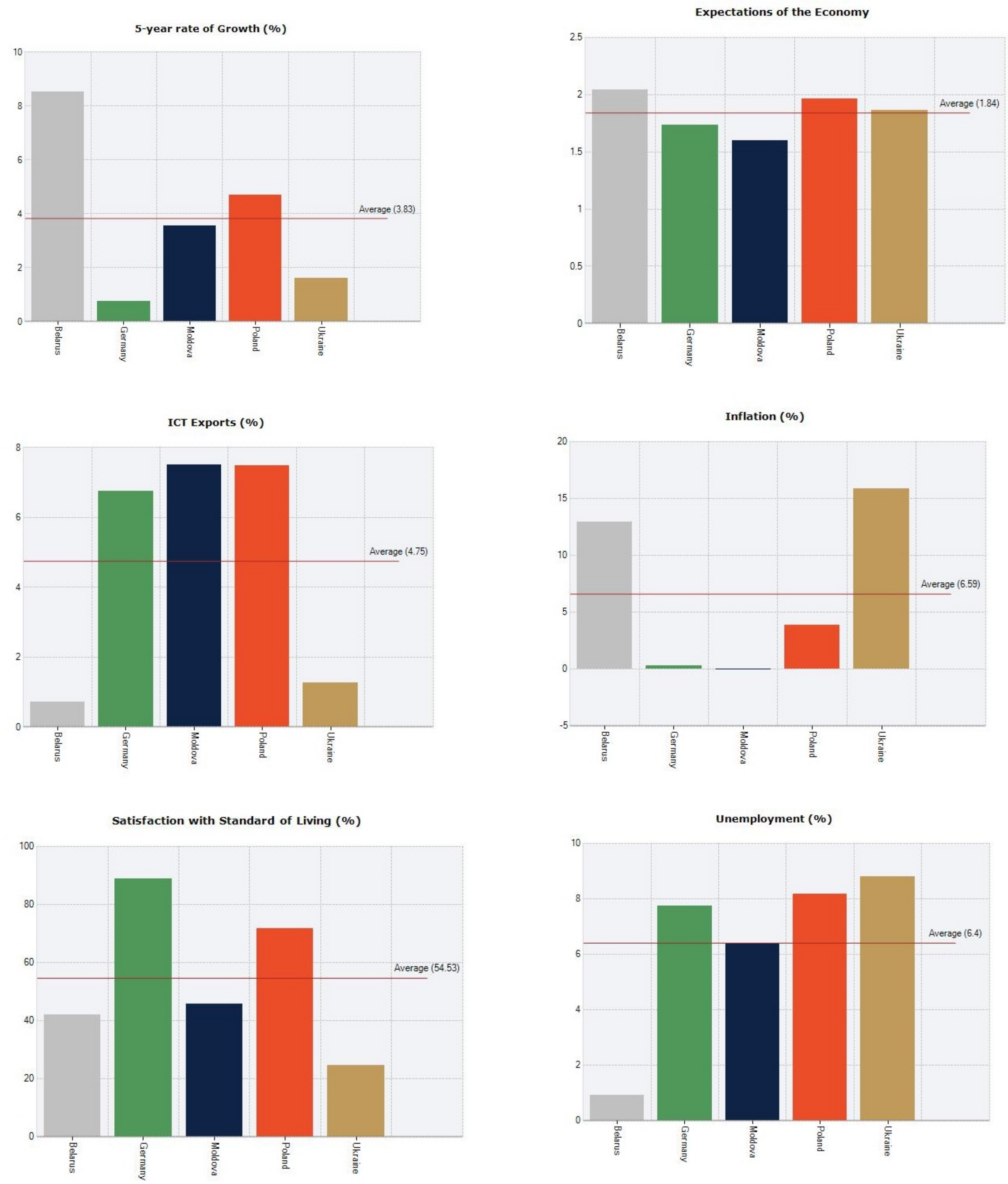
Next, we analyze the performance of the EU and the countries of the Eastern Partnership, which will allow us to compare the situation that affects the economic equality in these countries.

Figure 4

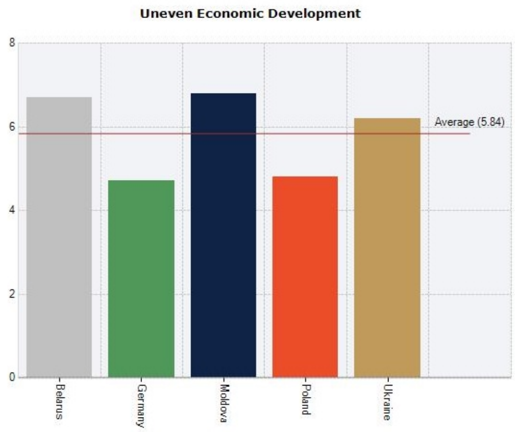


The Economy sub-index measures countries' performances in four areas that are essential to promoting prosperity: macroeconomic policies, economic satisfaction and expectations, foundation for growth, and financial sector efficiency. The Entrepreneurship & Opportunity sub-index measures countries' performances in three areas: entrepreneurial environment, innovative activity, and access to opportunity. The Governance sub-index measures countries' performances in three areas: effective and accountable government, fair elections and political participation, and rule of law. The Safety and Security sub-index measures countries' performances in two areas: national security and personal safety. The Social Capital sub-index measures countries' performances in two areas: social cohesion and engagement, as well as community and family networks. Sub-Index Score. Calculations from The Legatum Institute. Data are from 2011.

Figure 5



5-year rate of Growth (%)
10
8
6
4
2
0
Average (3.83)
Belarus
Germany
Moldova
Poland
Ukraine
Expectations of the Economy
2.5
2
1.5
1
0.5
0
Average (1.84)
Belarus
Germany
Moldova
Poland
Ukraine
ICT Exports (%)
8
6
4
2
0
Average (4.75)
Belarus
Germany
Moldova
Poland
Ukraine
Inflation (%)
20
15
10
5
0
-5
Average (6.59)
Belarus
Germany
Moldova
Poland
Ukraine
Satisfaction with Standard of Living (%)
100
80
60
40
20
0
Average (54.53)
Belarus
Germany
Moldova
Poland
Ukraine
Unemployment (%)
10
8
6
4
2
0
Average (6.4)
Belarus
Germany
Moldova
Poland
Ukraine



Inflation. Annual change in consumer price index. Percentage year-on-year increase (World Development Indicators. Most data are from 2009). Unemployment. Percentage of labour force not employed. Percentage of labour force (World Development Indicators. Most data are from 2009). Satisfaction with Standard of Living. Survey: Are you satisfied or dissatisfied with your standard of living, all the things you can buy and do? Percentage who are satisfied (Gallup World Poll. Most data are from 2010). Expectations of the Economy. Right now, do you think that economic conditions in the city or area where you live, as a whole, are getting better or getting worse? 1=getting worse, 3=getting better (Gallup World Poll. Most data are from 2010). 5-year rate of Growth. 5-year average GDP per capita growth (% annual) 2005-2009. % yr. avg of recent 5-yr. (World Development Indicators. Data are from 2005 – 2009). ICT Exports. Information and Communication Technology exports as a percentage of total goods exports. Percentage of total goods exported (World Development Indicators. Most data are from 2009). Uneven Economic Development. Group-based inequality, or perceived inequality, in education, jobs, and economic status. Also measured by group-based poverty levels, infant mortality rates, education levels. 1= equal development, 10=unequal development (Failed States Index. Data are from 2010). Calculations from The Legatum Institute.

Table 3

International Human Development Indicators

1	2011 year	Belarus	France	Georgia	Germany	Greece	Poland	Ukraine
2	Education index	0.776	0.870	0.839	0.928	0.861	0.822	0.858
3	Health index	0.794	0.971	0.848	0.953	0.945	0.885	0.765
4	Human Development Index (HDI) value	0.756	0.884	0.733	0.905	0.861	0.813	0.729
5	Inequality-adjusted education index	0.735	0.791	0.812	0.911	0.738	0.768	0.806
6	Inequality-adjusted HDI value	0.693	0.804	0.630	0.842	0.756	0.734	0.662
7	Inequality-adjusted income index	0.617	0.705	0.428	0.717	0.649	0.619	0.526
8	Inequality-adjusted life expectancy index	0.736	0.930	0.720	0.915	0.900	0.834	0.684

(Source: Education index: HDRO calculations, Health index: HDRO calculations, Human Development Index (HDI) value: HDRO calculations based on data from UNDESA (2011), Barro and Lee (2010), UNESCO Institute for Statistics (2011), World Bank (2011a) and IMF (2011). Inequality-adjusted education index: Calculated based on data in column 10 and the unadjusted education index. Inequality-adjusted HDI value: Calculated as the geometric mean of the values in Columns 5, 7 and 9 using the methodology in Technical note 2. Inequality-adjusted income index: Calculated based on data in column 9 and the unadjusted income index. Inequality-adjusted life expectancy index: Calculated based on data in column 6 and the unadjusted life expectancy index. Population, urban (%): UNDESA (2010)).

As we can see from previous information, non-EU countries have a much worse performance, respectively, their economic security is threatened. In the system of economic security the crucial role played national economic interests and their priorities. To determine the national economic interest it is necessary to analyse the current economic situation and identify trends, model and forecast socio-economic development, adjustment measures of state regulation to achieve desired goals. Non-EU countries need to create a socially oriented economy, preserve and develop the intellectual and technological potential and provide economically safe conditions of society, to build equal and mutually beneficial economic relations with other states.

3. Behavioral economics and the growing impact of Corporate Social Responsebility

Behavioral economics states that people are not rational as usual, they are taking precarious and impulsive decisions backdrop of systematic uncertainty, ignorance and behavioral biases. Ironically, but for centuries people repeat the same mistakes. Err is human, but it's also human to adopt patterns of behavior. Therefore, the objective of socio-oriented economy is to change selfish patterns of business and adopt pro-social desicion making norms. Profit is not immoral itself, but the materialism is immoral, ie.e., the attitude of people, business and government toward the profit. Wealth inequality translates into a power inequality what makes people envy and prevent the economy from just income redistribution and equilibrium. Contemporary Capitalism it's the system of sluggish middle class wages, steady rise in prices, drop in product quality and in the mean time constant appearance of new dozen of millionaires each day. The problem of economic inequality deepens by growth of large world corporations, by global conspiracy processes which concentrate riches in one hand and diminish possibilities for development of others, what is an exactly state by Wall Street Occupiers movement during last months in U.S. There should be setting up connections between profitable and non-profitable areas of human existence. It means that each business and financial sector should be forced with responsibility. Government authority and law (prerogative by international law) must set up responsibility of profitable organization (such as banks, insurance companies, investing founds and etc.) about non-profitable areas (environmental, Energy Saving, emergency, medical, educational sectors etc.). Nowadays, as the governments are ruled and lobbied by corporations, it isn't only government's problem how to finance the social sectors and sustain the development. According to social responsibility on different levels (personal and global), social-oriented business framework could provide more useful, humane and sustainable system.

We see global justice system as the chance to force with the responsibility finance sector and as result to make society more equal. Faster growth and human development in poorer countries are essential for reduction of global inequity and for achieving the Millennium Development Goals. Muhammad Yunus, the Nobel laureate known by many as the "father of microfinance, said: "Our Grandchildren will have to go to museums to see poverty". So it is my way to put poverty to museums.

As economy develops, the role of generator and initiator concerning the implementation of corporate social responsibility principles is re-directing: from the government to business and from marketing strategy to social awareness. Thus, in developed countries, the key actors of CSR are corporations, as the CSR is an effective tool for enhancing their competitiveness, promote their product and services, to act sincerely regarding their responsibility as active part of society, while the key actor of CSR in developing countries is a government, its role remains crucial in the society until the final rules of political and market game will be fixed.

It's still highly problematic to implement the concept of corporate social responsibility in undemocratic materialistic economies and especially in third countries' developing markets. But absolute majority of managers recognize the inevitability of responsible leadership and the neediness for sustainable development. The difficulty is that the economies of developing countries actually still are in the process of transformation and reform. Even conventional model of capitalism has some implementation and adaptation difficulties here. There's no clear economic, tax and legal regulations for the promotion and encouraging of corporate responsibility, development of social enterprises, corporate governance etc. Such circumstances make CSR in developing countries more like a marketing strategy in order to make profit and to survive in terms of external competitiveness, strong occupancy domestic markets by global corporations etc.

However, we believe that weakness in case of pos-socialist developaning countries is an opportunity: theoretically, the post-socialist countries are more mentally prone to economy socialization.

We consider sustainability as main feature to apply moral responsibility in human behavior. As the main goal of sustainability, CSR is synonymous nowadays to the triple bottom line - "People, planet and profit".

The triple bottom line reflects an integrated understanding of business performance in which social, environmental, and economic bottom lines are interdependent. The aim of a triple bottom line approach is to ensure business performance that is socially responsible, environmentally sound, and economically viable. Responsibility could appear and operate on global level and personal level as well.

Milton Friedman has argued that “only people can have social responsibilities, corporations are only responsible to their shareholders and not to society as a whole”. According to Milton Friedman responsibility starts with each of us and only than starts the responsibility of business.

For organizations to act irresponsibly, individuals must act irresponsibly. Nowadays, it’s not enough to tell people what to do, in times of materialistic system people act according to their own interest. And it’s not because people are bad, mostly it’s because they do not have alternative way to follow. Considering this terms, humanity need a Nudge, we need it in our everyday life to be neater, careful and more responsible in our everyday actions. As a fundamental part of corporations, people by their own are choice architectures and they are driving force of Sustainable Development.

This personal level of social responsibility leads us to Corporate Social Responsibility.

Providing concept of Corporate Social Responsibility in business is the main method nowadays to achieve positive changes in society. In finance area, this can be emphasized through ethical banking. For sure, in fact in XXI century in their mass, banks and othe financial institutions already are not the example of morality, ethics or justice. In many case, exceptional getting a profit for banks, make them unavailing for society, and in the conditions of financial crisis, even, dangerous, so as the financial system has authority and force to manipulate people and at such selfish position manipulates them exceptionally in the financial interests. Reflecting on the ability of bankers to deal with a financial crisis, John Kenneth Galabraith wrote, "The sense of responsibility in the financial community as a whole is not small. It is nearly nil" (Galbraith (1961), p. 20). And "It is often difficult to believe that international bankers belong to the thinking classes" begins a review in the Financial Times (The FT Review of Business Books, September 26, 1991, p.2). That was Hanry Ford who said:”It is well enough that people of the nation do not understand our banking and monetary system, for if they did, we believe there would be a revolution before tomorrow morning”.

People as individual consumers and inter-depended mass of consumers can contribute to reach Sustainability by boycotting, consuming pro-environmental products and services, acting responsibly and ethical toward environment, society and each other.

Philanthropic aid and donations are not enough to solve the injustices and inequalities between the developed and developing world. As English proverb tells us: “Sell a man a fish, he eats for a day, teach a man how to fish, he eats for the rest of his life”. So we see a chance for developing world not only in philanthropy and charity, but in new social-oriented economic system that would bring to developing societies combination of pro-social methods, real mechanism for it’s realization and first of all creation of new pro-social mentality.

Philanthropic aid is always beneficial, but is much more beneficial with the purpose to create new generation of ethical thinkers, to promote social-oriented model of financial system, legalize the concepts of CSR and ethical banking, re-orient conventional taxation system to the system with tax incentives by the ethical criteria.

There are variety of methods to realize social function of business and especially financial sector:

- corporate social responsibility;
- socially-oriented financial products and services;
- socially-responsible investment and social investment;
- microcredits;

- Islamic banking;
- codes of ethics;
- improving of financial literacy, the integration of ethical principles and social consciousness in business education;
- development of social entrepreneurship;
- socially responsible marketing;
- social partnership, corporate communications and social dialogue;
- social reporting;
- fair trade
- sponsorship and charitable activities (philanthropy), etc. ..

Theoretical background and measurement of economic inequality all over the world and in Europe specifically show its huge affect on poverty and welfare in society. Corporate Social Responsibility and Ethical banking is the way to reduce income inequality and improve life for average people.

Ethical (social) banks and modern socially-oriented corporations implement in their practice CSR management and newest IT and Web technologies, so there is no doubt that in the nearest future this type of companies will become more and more respected. But today, for our mind, ethical banking and CSR is not fashionable, not stimulated or even forced by government enough. Developing the idea of Social Business, Ethical banking and providing concept of Corporate Social Responsibility in business is the main method nowadays to achieve positive changes in society. First of all there is a great necessity to create and develop social mentality, to educate generations of responsible and naturally social minded human being. According to concept of nudge, which is proposed by authors Richard H. Thaler and Cass R. Sunstein in book ”Nudge: Improving Decisions About Health, Wealth, and Happiness”, if you want to shift behavior and to do so with a nudge, you might simply inform people about what other are doing. Therefore ethical banking as well as CSR should become a norm and habbit. We believe that fashion and public choice are nudges for people to become the consumers of ethical banks and companies. Image and reputation is a nudge for corporation to deal with ethical banks and other soccilally-responcible contactors. For banks and companies themselves to become ethical and responsible, however, just good will is not enough – there must be government’s incentives that provide certain exemptions or reductions of taxes.

Capitalized Economies are exhausted in fact, but there are some other revolutionary options for socio-economical development, that are based on moral and ethics values.

Accordingly to global resource Wikipedia: “Fair trade is an organized social movement and market-based approach that aims to help producers in developing countries make better trading conditions and promote sustainability”. The concept of fair trade is straightly develop with the purpose to advocates interests of developing countries and to make the payment of a higher price to producers (exporting developing countries) as well as higher social and environmental standards. Global Fair Trade Policy is important element of Sustainable development and one of the main methods to solve the injustices and inequalities between the developed and developing world. Nevertheless, Fair Trade is a good instrument only in unity with other social methods and in communities with developing social awareness, morality of profit, consumers’ ethics, inner and external nudge to act responsibly and to choose fair trade products on sale.

We believe that free trade between nations increases wealth and prosperity for all (both within and between countries), but it can have potential economic losses in case trading is uncontrolled and as result outweigh, irresponsible and immoral. So we think that free trade must be limited by strict regulation dividing good and services for two parts by ethical criteria. We think free trade is more likely to improve political relations and promote peace between nations, but it’s possible just in ideal utopian society, until we will get a responsible human being at the top of govern elite there would be no peace at all.

All of above mentioned methods of economy socialization are developed for private companies with the purpose to make contribution to social welfare. Corporations are responding to expectations of corporate responsibility by asking what is good for the environment, society and business. For some companies improving corporate environmental performance is simply “the right thing to do,” while for others it is viewed as a strategic business advantage to increase competitiveness. Adopting CSR methods in company’s daily work is the way to be highly ranked company that makes huge input for Sustainable development in general and global environmental protection, community development, global alleviation of poverty particularly.

In conclusion, the human behavior within privet life and working area, the decisions people make toward their own and others welfare determines the future we will get very soon. People can easily act in “No Future” way, but they are responsible not only for themselves but for future generation. Those who realize the global scope of their own simple decisions are emerging now as the new generation of thinkers and managers. Growing impact of Corporate Social Responsibility Management is a demand of this new generation and the only one right way to save social stability and prevent from new economic collapse.

Global challenges need global solutions and these solutions are based on the adequate global governance and appropriate global taxation system and moral human behavior.

4. Development of social capital and on-line communities as a precondition for economic growth

Social relations and social structures, which form deferent forms of social capital, facilitate developing of economy. Many scientists showed it on people relations level. The same goes to the governments’ level, international economic relations. Social capital can be “define as an asset that inheres in social relations and networks” (Leana and Van Burren. 1999). Actors establish relations purposefully and continue them when they continue to provide benefits. The main aspect of these relations is trust. The most useful way of producing interpersonal trust, scientists see in different social organizations. These organizations provide affiliation of citizens in society and integration. That’s why conception of social capital can explain many aspects of political culture in cross-national measurement. So, high level of social capital qualitatively influence on economical development and other fields of society.

The economic stream flies in the face of empirical reality: persons’ actions are shaped, redirected, constrained by the social context; norms, interpersonal trust, social networks, and social organization are important in the functioning not only of the society, but also of the economy (Festinger, Leon, Stanley Schachter, and Kurt Back).

In economics, Yoram Ben-Porath has developed ideas concerning the functioning of what he calls the “F-connection” in exchange systems. The F-connection is families, friends, and firms, and Ben-Porath, drawing on literature in anthropology and sociology as well as economics, shows the way these forms of social organization affect economic exchange (Coleman, James). Oliver Williamson has, in a number of publications, examined the conditions under which economic activity is organized in different institutional forms, that is, within firms or in markets. There is a whole body of work in economics, the “new institutional economics”, which attempts to show, within neoclassical economic theory, both the conditions under which particular economic institutions arise and the effects of these institutions (i.e., of social organization) on the functioning of the system (Festinger, Leon).

There have been recent attempts by sociologists to examine the way social organization affects the functioning of economic activity. Baker has shown how, even in the highly rationalized market of the Chicago Options Exchange, relations among floor traders develop, are maintained, and affect on their trades. More generally, Granovetter has engaged in a broad attack on the “under socialized concept of man” that characterizes economists’ analysis of economic activity (Granovetter, Mark. 1985). Granovetter first criticizes much of the new institutional economics as crudely functionalist because the existence of an economic institution is often explained merely by the functions it performs for the economic system. He argues that, even in the new institutional economics, there is a failure to recognize the importance of concrete personal relations and networks of relations – what he calls “embeddedness” – in generating trust, in establishing expectations, and in creating and enforcing norms. The main idea of embeddeness may be seen as an attempt to introduce into the analysis of economic systems social organization and social relations not merely as a structure that springs into place to fulfill an economic function, but as a structure with history and continuity that give it an independent effect on the functioning of economic systems.

If we begin with a theory of rational action, in which each actor has control over certain resources and interests in certain resources and events, then social capital constitutes a particular kind of resource available to an actor.

Social capital is defined by its functions. It is not a single entity but a variety of different entities, which two elements in common: they all consist of some aspect of social structures, and they facilitate certain actions of actors – whether persons or corporate actors – within the structure. Like other forms of capital, social capital is productive, making possible the achievement of certain ends that in its absence would not be possible. Like physical capital and human capital, social capital is not completely fungible but may be specific to certain activities.

The value of the concept of social capital lies first in the fact that it identifies certain aspects of social structure by their functions, just as the concept “chair” identifies certain physical objects by their function, despite differences in form, appearance, and construction. The function identified by the concept of “social capital” is the value of these aspects of social structure to actors as resources that they can use to achieve their interests.

By identifying this function of certain aspects of social structure, the concept of social capital constitutes both an aid in accounting for different outcomes at the level of individual actors and an aid toward making the micro-to-macro transitions without elaborating the social structure details through which this occurs (Coleman, James).

The concept of social capital allows take different resources and show the way they can be combined with other resources to produce different system-level behavior or, in other cases, different outcomes for individuals.

An important form of social capital is the potential for information that inheres in social relations. Information is important in providing a basis for action. But acquisition of information is costly. At a minimum, it requires attention, which is always in scarce supply. One means by which information can be acquired is by use of social relations that are maintained for other purposes.

A prescriptive norm within a collectivity that constitutes an especially important form of social capital is the norm that one should forgo self-interest and act in the interests of the collectivity. A norm of this sort, reinforced by social support, status, honor, and other rewards, is the social capital that builds young nations (and then dissipates as they grow older), strengthens families by leading family members to act selflessly in “the family’s” interest, facilitates the development of nascent social movements through a small group of dedicated, inward-looking, and mutually rewarding members, and in general leads persons to work for the public good. In some of these cases, the norms are internalized; in others, they are largely supported through external rewards for selfless actions and disapproval for selfish actions (Coleman, James). But, whether supported by internal or external sanctions, norms of this sort are important in overcoming the public goods problem that exists in collectivities.

So, we can say that effective norms can constitute a powerful form of social capital. Norms are very important because all social relations and social structures facilitate some forms of social capital. Actors establish relations purposefully and continue them when they continue to provide benefits. Certain kinds of social structure, however, are especially important in facilitating some forms of social capital.

In modern society widely spread informational-communicational technologies, which exist in another scale, than few years ago. And these cause condition changes for informational interaction between people, as result, there are also some changes in institutional structure (in economy too). To react for all these changes in society and grove social capital in a proper way we use Internet technologies. Online communities – is one of the most useful way – relations between people during their informational interacting, which based on Internet technologies. Its singularity lays in intensive informational exchanges between members of community of type “everybody share information with everybody” in informational interacting.

Online community is a part of theoretical picture of modern social-economical world. That’s why it is so relevant. And it is very important to use respective principals and mechanisms of interacting of online communities participants. Also, coordination and regulation methods of their collateral activity. Online community, like the research object, related to the class of complex social systems, which consist of big number of active and independent elements.

A virtual community, e-community or online community is a group of people that primarily interact via communication media such as newsletters, telephone, email, internet social network service or instant messages rather than face to face, for social, professional, educational or other purposes. If the mechanism is a computer network, it is called an online community. Virtual and online communities have also become a supplemental form of communication between people who know each other primarily in real life. Significant socio-technical change may have resulted from the proliferation of such Internet-based social networks.

The embeddedness of virtual community in the experiences of everyday life and its reflection of and influence on the communication practices and patterns of identity formation make online community a colossal research enterprise which requires continuous investigation and theorizing. Space of options, after using online networks to increase social capital, is very large. The possibilities that are opened to the social economy developed in the context of social capital provide hope for positive changes in general. Social equality, sustainable development and equity provided by strong and respectable ties between people.

Conclusion

Theoretical background and measurement of economic inequality all over the world and in Europe specifically shows its huge affect on poverty and welfare in society. Corporate Social Responsibility and Ethical banking is the way to reduce income inequality and improve life for average people.

Our conclusion is clear. Better living standards are needed for many people across the world and for some, good standards of living will remain unattainable unless the capitalist system is effectively changed and people are free from its unfairness. These changes are, however, possible if people are committed to social justice at all levels and this simply means that both individuals and corporations must take their responsibilities very seriously. The government's task is not to let ignore this problem by coercing people and corporations into submission ethical principles, sustainable contribution under the guidance of the international initiatives, in accordance with global social challenges, main future priorities, including specific objectives of the "Europe 2020" Strategy for "smart, sustainable and inclusive growth", United Nations Millennium Development Goals and it's further promotion through UN Conference on Sustainable Development ('Rio+20' & 'Earth Summit 2012'). The priorities for Developed Countries decision-makers are to elaborate proposals for the global governance, emphasized the necessities to intensify US and EU towards achieving economic equality in developing countries, strengthening regulation and promoting tax reforms in order to improve equalization mechanism of taxation system, adopting new social-oriented model of financial system, responsible public financial management development, legalizing the concepts of Corporate Social Responsibility (CSR) and ethical banking, increasing pro-social impact of business and financial structures, reorientation of the ordinary taxation system to system of tax incentives by the ethical criteria. Thus, the issue of economic inequality is more likely to be solved in cooperation with experienced EU countries and through adaptation of new methods of income redistribution policy and developing new institutional framework for sustainable development.

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