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Review Article on Determinant of Income Inequality: An Evidence Based Approach

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Abstract: Income inequality is a situation in which there are differences in income and wealth within the country, region, small group of society and individuals. According to bigesten the main reason is that the distribution of income is the final result of the entire economic process. The classical period was characterized by focusing only on the functional distribution. For Marx, the distribution between capital and labour and thereby between capitalists and workers played a decisive role: it is the basis of the capitalist system of production. For both Ricardo and Marx, sources of income flows relate exactly to their social classes; i.e. landlords receive rent, capitalists receive profits and workers receive wages. According to Marx (1887), the value of each commodity is determined by the labour contained in it, measured in time. Since labour power is also regarded as a commodity, its value is determined by the time necessary for its reproduction and therefore rests on a subsistence level that enables the worker to maintain his work. Workers only possess their labour power and the capitalists own the means of production. Marx's conclude that the source of income inequality is capitalist system.

Keywords: Income Inequality, Literature, Determinant

1. Introduction

Literature reviews play a critical role in scholarship because science remains, first and foremost, a cumulative endeavour. As in any academic discipline, rigorous knowledge syntheses are becoming indispensable in keeping up with an exponentially growing income inequality literature, assisting practitioners, academics, and graduate students in finding, evaluating, and synthesizing the contents of many empirical and conceptual papers. Among other methods, literature reviews are essential for: (a) identifying what has been written on a subject or topic; (b) determining the extent to which a specific research area reveals any interpretable trends or patterns; (c) aggregating empirical findings related to a narrow research question to support evidence-based practice; (d) generating new frameworks and theories; and (e) identifying topics or questions requiring more investigation [45].

Literature reviews can take two major forms. The most prevalent one is the "literature review" or "background" section within a journal paper or a chapter in a graduate thesis. This section synthesizes the extant literature and usually identifies the gaps in knowledge that the empirical study addresses [40]. It may also provide a theoretical foundation for the proposed study, substantiate the presence of the research problem, justify the research as one that contributes something new to the cumulated knowledge, or validate the methods and approaches for the proposed study [40].

The second form of literature review, which is the focus of this chapter, constitutes an original and valuable work of research in and of itself [45]. Rather than providing a base for a researcher's own work, it creates a solid starting point for all members of the community interested in a particular area or topic [40]. The so-called "review article" is a journal-length paper which has an overarching purpose to synthesize the literature in a field, without collecting or analyzing any primary data [32].

When appropriately conducted, review articles represent powerful information sources for practitioners looking for state-of-the art evidence to guide their decision-making and work practices [45]. Further, high-quality reviews become frequently cited pieces of work which researchers seek out as a

first clear outline of the literature when undertaking empirical studies [20]. Scholars who track and gauge the impact of articles have found that review papers are cited and downloaded more often than any other type of published article [29]. The reason for their popularity may be the fact that reading the review enables one to have an overview, if not a detailed knowledge of the area in question, as well as references to the most useful primary sources [20]. Although they are not easy to conduct, the commitment to complete a review article provides a tremendous service to one's academic community [45]. Most, if not all, peer-reviewed journals in the fields of income inequality publish review articles of some type.

The main objectives of this chapter are fourfold: (a) to provide an overview of the major steps and activities involved in conducting a stand-alone literature review; (b) to describe and contrast the different types of review articles that can contribute to inequality knowledge base; (c) to illustrate each review type with one or two examples from the income inequality literature; and (d) to provide a series of recommendations for prospective authors of review articles in this domain.

1.1. Overview of Review Literature and Steps

As explained in the study [45], there are six generic steps involved in conducting a review article:

1. formulating the research question(s) and objective(s),
2. searching the extant literature,
3. screening for inclusion,
4. assessing the quality of primary studies,
5. extracting data, and
6. analyzing data.

Although these steps are presented here in sequential order, one must keep in mind that the review process can be iterative and that many activities can be initiated during the planning stage and later refined during subsequent phases [29].

1.2. Types of Review Articles

I. Narrative Reviews

The *narrative review* is the "traditional" way of reviewing the extant literature and is skewed towards a qualitative interpretation of prior knowledge [32]. Put simply, a narrative review attempts to summarize or synthesize what has been written on a particular topic but does not seek generalization or cumulative knowledge from what is reviewed [20]. Instead, the review team often undertakes the task of accumulating and synthesizing the literature to demonstrate the value of a particular point of view (10). As such, reviewers may selectively ignore or limit the attention paid to certain studies in order to make a point. In this rather unsystematic approach, the selection of information from primary articles is subjective, lacks explicit criteria for inclusion and can lead to biased interpretations or inferences [32]. There are several narrative reviews in the particular economics domain, as in all fields, which follow such an unstructured approach [45].

Despite these criticisms, this type of review can be very useful in gathering together a volume of literature in a specific subject area and synthesizing it. As mentioned above, its primary purpose is to provide the reader with a comprehensive background for understanding current knowledge and highlighting the significance of new research [10]. Faculty like to use narrative reviews in the classroom because they are often more up to date than textbooks, provide a single source for students to reference, and expose students to peer-reviewed literature [32]. For researchers, narrative reviews can inspire research ideas by identifying gaps or inconsistencies in a body of knowledge, thus helping researchers to determine research questions or formulate hypotheses. Importantly, narrative reviews can also be used as educational articles to bring practitioners up to date with certain topics of issues [32].

Recently, there have been several efforts to introduce more rigour in narrative reviews that will elucidate common pitfalls and bring changes into their publication standards. Information systems researchers, among others, have contributed to advancing knowledge on how to structure a "traditional" review. For instance, Levy proposed a generic framework for conducting such reviews [40]. Their model follows the systematic data processing approach comprised of three steps, namely: (a) literature search and screening; (b) data extraction and analysis; and (c) writing the literature review. They provide detailed and very helpful instructions on how to conduct each step of the review process. As another methodological contribution, offered a series of guidelines for conducting literature reviews, with a particular focus on how to search and extract the relevant body of knowledge. Last proposed a structured, predefined and tool-supported method to identify primary studies within a feasible scope, extract relevant content from identified articles, synthesize and analyze the findings, and effectively write and present the results of the literature review [10]. We highly recommend that prospective authors of narrative reviews consult these useful sources before embarking on their work.

As in most narrative reviews, the scope of the research questions being investigated is broad: (a) how development of these systems are carried out; (b) which methods are used to investigate these systems; and (c) what conclusions can be drawn as a result of the development of these systems. To provide clear answers to these questions, a literature search was conducted on six electronic databases and *Google Scholar*. The search was performed using several terms and free text words, combining them in an appropriate manner. Four inclusion and three exclusion criteria were utilized during the screening process. Both authors independently reviewed each of the identified articles to determine eligibility and extract study information. A flow diagram shows the number of studies identified, screened, and included or excluded at each stage of study selection. In terms of contributions, this review provides a series of practical recommendations for economic intervention development.

II. Descriptive or Mapping Reviews

The primary goal of a *descriptive review* is to determine the extent to which a body of knowledge in a particular research

topic reveals any interpretable pattern or trend with respect to pre-existing propositions, theories, methodologies or findings [32]. In contrast with narrative reviews, descriptive reviews follow a systematic and transparent procedure, including searching, screening and classifying studies [45]. Indeed, structured search methods are used to form a representative sample of a larger group of published works [45]. Further, authors of descriptive reviews extract from each study certain characteristics of interest, such as publication year, research methods, data collection techniques, and direction or strength of research outcomes (e.g., positive, negative, or non-significant) in the form of frequency analysis to produce quantitative results [10]. In essence, each study included in a descriptive review is treated as the unit of analysis and the published literature as a whole provides a database from which the authors attempt to identify any interpretable trends or draw overall conclusions about the merits of existing conceptualizations, propositions, methods or findings [10]. In doing so, a descriptive review may claim that its findings represent the state of the art in a particular domain [32].

Mapping reviews like descriptive reviews, the research questions are generic and usually relate to publication patterns and trends. There is no preconceived plan to systematically review all of the literature although this can be done. Instead, researchers often present studies that are representative of most works published in a particular area and they consider a specific time frame to be mapped.

III. Scoping Reviews

Scoping reviews attempt to provide an initial indication of the potential size and nature of the extant literature on an emergent topic [20]. A scoping review may be conducted to examine the extent, range and nature of research activities in a particular area, determine the value of undertaking a full systematic review (discussed next), or identify research gaps in the extant literature [45]. In line with their main objective, scoping reviews usually conclude with the presentation of a detailed research agenda for future works along with potential implications for both practice and research.

Unlike narrative and descriptive reviews, the whole point of scoping the field is to be as comprehensive as possible, including grey literature [20]. Inclusion and exclusion criteria must be established to help researchers eliminate studies that are not aligned with the research questions. It is also recommended that at least two independent coders review abstracts yielded from the search strategy and then the full articles for study selection [20]. The synthesized evidence from content or thematic analysis is relatively easy to present in tabular form.

Based on the above discussion the reviewer try to employ the whole type of reviewing since income distribution could narrate based the economist or ideologist view and describe based on researcher and employ mapping since the whole area could not be cover by one small paper This paper is a high contribution for those researcher since it employ evidence based approach and its enable to draw a conclusion over economic policy by the government since every policy now should encompasses the distribution of income due to increment of population with a fixed land size bring a greatest challenge to survive in our world today. In order to solve this problem the government the non-governmental organization practioners researcher highly benefit from this article.

2. Theoretical Review and Discussion

Income inequality is a situation in which there are differences in income and wealth within the country, region, small group of society and individuals. The term "income distribution" is usually coined to "picture" who receives how much income within a specific society. There are two principal concepts of income distribution encountered in the literature: the functional and the personal or size distribution of income.

The distribution of national wealth and income may be analyzed under the theory of personal income distribution and the theory at functional distribution. Functional distribution is based on "how income is earned". It refers to the source of income that individuals earn. In any given economy individuals earn income according to their distribution to the generation of aggregate income or output. [51]

For classical economists like Smith and Ricardo as well as for Marx, wages correspond to a subsistence level. Marx further assumes that distribution is determined by the relative bargaining power. For neoclassical economists, the distribution of national income is determined by factor prices, and factor prices are determined by supply and demand. Each factor of production is paid its marginal product. For (monetary) Keynesians, the profit rate is provided by the interest rate. According to Kalecki, distribution depends on the pricing behaviour of firms in monopolistic markets.

Following these different paradigms, it becomes obvious that every theory favors a different explanation in regard to functional income distribution. It comes as no surprise that the differences do not only relate to the theoretical level but also to the interpretation of recent developments. Neoclassical economists relate the declining share of labour in national income to technological change that increased the productivity of capital and high-skilled labour as well as to globalization. Whereas heterodox economists stress the role of neo-liberalism, financialisation and the decline in workers' bargaining power.

Personal income distribution rates to size of income received or earned by individuals irrespective of how it is earned and its sources. Here what matter is how much is earned not how much it is earned [51].

Types of Income Inequality

As well as the average per capita income being low in developing countries, the distribution of income, wealth and power are also typically very unequal and much more unequal than developed countries. All too often, the growth and development that took place in poor countries benefit that richest few and large number of population is untouched. Rural and urban poverty are still wide spread, and if any the degree of income inequality with in any developing countries is increasing. However income inequality among individuals can be seen them two different angles.

Vertical income inequality: It is how income is distributed across individuals and households, and also is the traditional measure of income inequality has development policies focuses upon. It should come as no surprise that the transformation of economic from a primitive subsistence state into industrial state societies with in a basically capitalist from work should be accompanied in the early stages in the early stages by widening Disparities in personal income distribution. Some people are more industrious than others and more adapt at accumulating wealth. Opportunities cannot in the very nature of things, be equal for all in the absence of strong redistribution taxation, income inequality and inequality of skills, wealth that make difference in individual ability and initiative to produce. [1]

Horizontal income inequality: It is concerned with how different groups in a society treated based on race, religion language, class, gender and so on. horizontal income inequality is also concerned with how economic differences, social demarcation and political power combine to produce in entitlement and capabilities for different groups in a society. Stewart develops the hypothesis that do not only is horizontal inequality responsible for much conflict within the societies [1]. But it is also affects the development process in a number of ways. For example, some groups may be denied access to public goods like education and health care, this impoverished not only the group but the economy at large. To be discriminated against on the basis of a particular groups identity has psychological effect and affects the core goal of development: life sustenance, self-esteem and freedom. Thus, horizontal inequality is a important dimension of wellbeing and can have economic and political consequences which are highly determinants to development and yet international development policies are rarely focuses on the narrowing of group divisions. Therefore, it is clear that development policy needs to tackle horizontal income inequality between groups as well as vertical inequality with respect to the income distribution across individuals [51].

If some agreement arises from all the debates about distribution of income along the history of economic thought this is that there is no agreement among economists about which are the determinants of income distribution. The main reason is that the distribution of income is the final result of the entire economic process [7], and it is well known that there is a lack of unanimity of views even on general economic issues of that process, which makes it logical to expect no agreement on a topic that has been the source of ideological wars and political revolutions [47]. A theory of income distribution needs a theory which explains prices of factor of production and factor shares that would explain the factorial distribution of income. "Most theories conceive the central problem of income distribution as the determination of the level of employment and remuneration of the factors of production, usually grouped into capital and labour. But a theory of size income distribution wants to explain also the distribution of the ownership of factors among households. Some theories fail in going further than the functional distribution of incomes.

According to classical the personal distribution of income depends on the prices and quantities of factors of production sold by individuals. Labor is the only factor of production owned by most households; so a household's income generally depends upon the wage rate and the number of hours worked. The amount of property income received by those households that do own property depends on the quantity of capital and land held by the household and the prices of these factors [2].

The classical period was characterized by focusing only on the functional distribution. Adam Smith devoted his work to the causes of wealth and discussed the division of what was produced between wages, rent, and profit, but he did not develop a theory about the determinants of such distribution. David Ricardo was the one who placed the distribution of income at the center of his thought. According to Ricardo, the Political Economy was aimed at determining the laws that rule the distribution of income [7]. "He was the first economist to derive a meaningful income distribution theory" [7]. The productive factors are land, capital and labour, and total income is distributed according to rent, profits and wages. The basic idea in Ricardian thought is that a differential rent is produced only when less fertile lands are exploited requiring more capital and/or labour leading to a rise in the price of agricultural products. As a consequence, the owners of the more fertile lands receive an increased rent. This is why Ricardo insisted that the increase in rent is not a cause but a consequence of wealth [7]. In the Ricardian system, distribution is prior to exchange, thus income distribution does not depend on demand for final products [7]. The distribution of total income works as follows: the surplus over the production costs (output value) constitutes the rent and the rest is distributed between profits and wages. "The Ricardian system accepts a Malthusian unlimited supply of labour at the subsistence wage in the long run; it assigns to 'profits' the residual between marginal product of labour at a point in time and the subsistence (or institutional) wage, and attributes to landlord rent the remaining residual in total output value. Since land is not unlimited and not equally fertile, in the long run, according to this theory, the share of profits tend to fall while rent and wage shares tend to rise (more labour is required), although the real wage is kept at subsistence level.

"… in different stages of society, the proportions of the whole produce of the earth which will be allotted to each of these classes, under the names of rent, profit and wages, will be essentially different; depending mainly on the actual fertility of the soil, on the accumulation of capital and population, and on the skill, ingenuity, and instruments employed in agriculture." [37] As the quote by Ricardo shows, functional income distribution was variable for Classical economists. In fact, both Ricardo and Marx believed in the falling rate of profit, which was a major concern, since it determines the rate of accumulation and growth Ricardo distinguishes between three social classes upon which the national product is divided: landlords receive rent, capitalists receive profit and workers receive wages. Kaldor split Ricardo's theory into two broad principles [37]. The first one,

which Kaldor referred to as the “marginal principle” relates to the share of rent, while the second one, the “surplus principle”, explains the division of the residual between wages and profits. According to Ricardo, rents as a share of national income have a tendency to increase in the long run, due to the “law of diminishing returns” to land cultivation. Profits are not determined independently; they are defined as a residual. The rate of wages is determined by the supply price of labour measured in corn. The “natural rate of wages” is a subsistence wage. Ricardo relied on Malthus theory of population, which states that a wage rate above the “natural rate of wages”, i.e. above the subsistence wage, will raise the birth rate and the supply of labour increases. In the long-run, the wage fund and population grow simultaneously, which leads to rising prices of corn and rents. Because profits are only the residual, the increase in rent comes at the expense of profits [37]. According to Ricardo the source of income inequality is the stage of society and population growth.

For Marx, the distribution between capital and labour and thereby between capitalists and workers played a decisive role: it is the basis of the capitalist system of production. For both Ricardo and Marx, sources of income flows relate exactly to their social classes; i.e. landlords receive rent, capitalists receive profits and workers receive wages. According to Marx, the value of each commodity is determined by the labour contained in it, measured in time [41]. Since labour power is also regarded as a commodity, its value is determined by the time necessary for its reproduction and therefore rests on a subsistence level that enables the worker to maintain his work. Workers only possess their labour power and the capitalists own the means of production. Marx’s conclude that the source of income inequality is capitalist system.

In contrast to Marx, where the exploitation of workers played a decisive role for Capitalism to survive, neoclassical theory rules out any form of exploitation: each agent receives the amount of income corresponding to his contribution to total output. This inherent fairness is provided by the marginal productivity theory. The profit-maximizing firm hires more workers only if the marginal product of labour exceeds the real wage, and only employs more capital if the marginal product of capital exceeds the rate of interest. Hence, in equilibrium, the marginal product of labour is equal to the real wage rate and the marginal product of capital is equal to the rate of interest.

The neoclassical theory of distribution rests on the microeconomic foundations that can be traced back to Leon Walras, which stated that there is an equilibrium price on all goods and factor markets. Based on given initial endowments, given preferences of households and given conditions of production by firms, firms maximize their profits and households maximize their utilities. Under perfect competition, there is a symmetric treatment of equilibrium prices and quantities on all goods and factor markets. Hence, the supply and demand process ensures that prices adjust to demand and that all factors are employed. Therefore, the payment depends on the relative scarcity of factors and its productivity.

In summary, neoclassical theory of distribution rests on three main pillars: preferences, production functions and factor endowments. The concept can be explained with a simple production function. Even if Keynes never dealt explicitly with the topic of income distribution there are still some theories that can be classified as Keynesian since they are based on Keynesian postulates.

For Kaldor, the ratio of investment to output determines the share of profits in income, given the wage earners' and capitalists' propensities to save [37]. He assumed there is a positive propensity to save out of profit income and minor savings out of wage income. Given the Keynesian axiom that investment determines savings, the relative size of profits in income depends on the investment decision of the capitalists. This logic is reminiscent of Keynes "widow's cruse": “However much of profits entrepreneurs spend on consumption, the increment of wealth belonging to the entrepreneurs remains the same as before. Thus, profits, as a source of capital increment for entrepreneurs, are a widow's cruse which remains undepleted, however much be devoted to riotous living.” [38]

And Kaldor’s summary of Kalecki’s notion "capitalists earn what they spend and workers spend what they earn". In the special case when the saving rate of workers is exactly zero, the model can be considered as the exact opposite to classical economists:

“… Here wages (not profits) are a residue, profits being governed by the propensity to invest and capitalists’ propensity to consume....” [37]

Kalecki’s theory of income distribution relates distribution to the pricing behaviour of firms in the industrial sector. The underlying assumptions put the economy in a state of underemployment and imperfect competition. In contrast to the primary sector of an economy, where price changes are determined by demand, prices in the industrial sector are determined by costs. Kalecki assumed that firms operate below full capacity, and unit variable costs (i.e. the costs of material and wages used per unit of output) are constant over the relevant range of output. 6 Firms then impose a mark-up on unit variable costs, depending on their degree of monopoly. By aggregating the formula for the industrial sector as a whole, functional income distribution is determined by the average mark-up (i.e. the degree of monopoly) and the ratio of raw material prices to unit labour costs. However, the resulting profit share still has to cover overhead costs for example, salaries and cost of depreciation.

Both Keynes and Kalecki shared the perception that in the simplest model (a one sector model without foreign competition), an increase in (nominal) wages will be passed on to prices and therefore does not change functional income distribution. presented a more complex view, showing that under certain circumstances wage increases will not be passed on to prices, but rather reduce profits. In an open economy, this is reasonable because, due to international competition, firms’ ability to pass on higher costs is curtailed by the fear of losing competitiveness through an increase in prices [37].

3. Theoretical Literature on Income Inequality Decomposition

Inequality decomposition literature can be traced back to be found in Shorrocks. In these articles Shorrocks examined decomposition of inequality by income sources (such as earnings, investment income and transfer payments), by population subgroups (such as single persons, married couples, and families with children) and or by sub aggregates of observations which share common characteristics like age, household size, region, occupation, or some other attributes. He shows that a broad class of inequality measures can be decomposed into components reflecting the size, mean and inequality value of each population sub-group or income source [48]. Generally inequality decomposition is a standard procedure used to examine the contribution to inequality of particular characteristics. It can help to shed light on both the structure and dynamics of inequality [13]. The other pioneer in this field are (13:16:18). Recent literature has gone beyond this and has used Shorrock's original decomposition concept, and applied to regression analysis in order to decompose inequality by explanatory variables.

Determinants of inequality at micro level using household survey data have also been conducted. These types of studies normally use decomposition techniques discussed earlier. Regression based estimates in inequality analysis are relatively new and dates back to Oaxaca. Regression-based approaches to inequality decomposition are appealing because they overcome many of the limitations of standard decomposition by groups and it's built on techniques used by inequality factor decomposition. Using Regression based analysis allows the use of continuous variables and it is possible to control for endogeneity [44]. Potential influences on inequality that might require separate modeling, as in the case of decomposition by groups or by income components, can be easily and uniformly incorporated within the same econometric model by appropriate specification of the explanatory variables [18].

Morduch & Sicular noted that earlier work on regression-based methods of inequality has been piece-meal, with each proposed approach having different properties and using different inequality indices [44]. They use a regression-based income inequality decomposition approach on rural data on china over a period of four years in order examine how different decomposition rules affect the decomposition results. Findings from Morduch and Sicular's work vary enormously with the different inequality decomposition indices giving different results. The Theil-T decomposition shows that human capital and demographic variables have been strongly inequality reducing. On the other hand, the Gini decomposition indicates that these variables contribute positively, although modestly, to inequality. The authors concluded that the Theil-T decomposition provides a better indicator.

There has been a reasonable shift in research previously focused on economic growth and its determinants to the analysis of income distribution, its development over time and the identification of factors determining it. Heshmati attributes this shift to the awareness of the growing disparities and the emerging importance of redistribution and poverty reduction. Since, Kuznets researchers have studied the theoretical causes of income inequality in various ways. Bourguignon and Morrison examine the effects of dualism, especially as it relates to Decomposition by population group has been the oldest approach for quantifying how various factors affects overall inequality [13]. The approach begins by dividing a sample into discrete categories (e.g., rural and urban residents, individuals with primary school vs. secondary or higher education) and then calculates the level of inequality within each subsample and between the means of the sub-samples. This technique is mainly conducted in unpublished articles and a few published articles such as S (48:16:18).

A second type of inequality decomposition commonly used in literature focuses on the decomposition by factor components. Shorrocks uses data on the distribution of net family incomes in the United States between 1968 and 1977 in order to establish what proportion of total income inequality is attributable to various income sources using a variety of different decomposition rules [48].

4. Empirical Review and Discussion

There has been a reasonable shift in research previously focused on economic growth and its determinants to the analysis of income distribution the world, its development over time and the identification of factors determining it. Heshmati attributes this shift to the awareness of the growing disparities and the emerging importance of redistribution and poverty reduction [3]. Since, Kuznets (1955) researchers have studied the theoretical causes of income inequality in various ways. Kuznets starts off by indicating that there an inverted U shape explaining the relationship between economic development and income inequality. This hypothesis was supported by De Gregorio & Lee and Nielsen & Alderson [33] and has been challenged by Ram and Ravallion. A number of empirical studies have tried to explain income distribution or inequality from a macro standpoint. Most studies are based on regression analysis on time series data and are often preoccupied with determining the effects of selected macroeconomic variables. In these studies normally the Gini coefficient or other inequality indices are regressed against various determinants. Studies by Mocan and Blejer and Guererro include variables like inflation and unemployment level [44], while some other studies like Auten and Carroll (1999) and Feenberg and Poterba (1993) examine the impact of fiscal policy, especially tax rate, on inequality (18). Others studies examine the effects of some specific institutional and economic factors on income distribution. For instance, Li examines the effect of corruption [33], Tannin tests for the effect of government expenditure, while Bourguignon and Morrison examine the effects of dualism, especially as it relates to Decomposition by population group has been the oldest approach for quantifying how various factors affects overall inequality [13]. The approach begins by dividing a

sample into discrete categories (eg, rural and urban residents, individuals with primary school vs. secondary or higher education) and then calculates the level of inequality within each subsample and between the means of the sub-samples. This technique is mainly conducted in unpublished articles and a few published articles such as Silber (48:18:16).

Shorrocks uses data on the distribution of net family incomes in the United States between 1968 and 1977 in order to establish what proportion of total income inequality is attributable to various income sources using a variety of different decomposition rules [48]. Decomposition was carried for the following income sources; wage earnings, capital income, transfer income, and taxes. The findings from this study showed that labour income had the largest amount of inequality contribution followed capital earnings. Tax payments and transfers income generate negative contributions in all years. Results from these types of studies can sometimes have conflicting results depending on the region. For instance income from non-farming activities was found to have an equalizing effect in the following studies by El-Osta et al. (1995) for the United States [37], Zhu and Luo for China, Adams for Egypt [3] and Leones and Feldman (1998) for the Philippines. On the other hand, Elbers and Lanjouw found that income from nonfarming contributed positively to inequality for Ecuador [24].

Field presents a methodology to account for income inequality levels in a given country and differences in income inequality between one time period and another [28]. This technique is then applied to the US using survey for two time periods, 1979 and 1999, to analyze labour earnings inequality. The technique starts off by estimating a semi-logarithmic income generating, using OLS, which included the following variables, gender, industry, occupation, education, race, region and experience. Field further demonstrates the relative factor inequality weights and the corresponding percentage contributions would be virtually the same for any inequality measure used. The study finds that schooling is the variable that contributes most to high levels of inequality followed by occupation, experience, and gender. In explaining the increase in inequality between the two time periods (1979 and 1999), schooling was again the single most important variable followed by occupation. Gender worked in the equalizing direction. Cowell and Fioro uses some features of Field's (2003) model and extends it by including the analysis the decomposition by subgroups [18]. This technique is applied to survey data for Finland and the United States for 1986 and 2004, respectively. The regression based results for the United States indicated that Master/PhD qualification and age provided the highest contributions to inequality, while high school education provided an equalizing effect. On the other hand, in Finland a college degree and the number of earners in the household were more important. High school education in Finland also provided an equalizing effect for Finland.

Wan and Zhou combine the regression-based decomposition technique and the Shapley value framework developed Shorrocks (1999) in analysing income inequality in rural China between 1996 and 2002 [16]. The decomposition of income inequality is provided by the Theil –L and the Gini coefficient. The study finds that geographical conditions are the most significant contributor followed by capital input. The only equalizing variable is land input but its impact is minimal. Bourgguignon adopt a simultaneous-equation extension of the Blinder-Oaxaca decomposition technique. The model estimates an earnings equation (linking individual characteristics to their remuneration, also known as the occupation effect), a labour supply equation (explaining the decision of entering the labour force depending on individual and other household's members decisions, also known as the participation effect) and a household income equation (aggregating the individual's contributions to household income formational so, known as the population effect). Micro simulation techniques are then used to combine these equations and decompose inequality by each effect [13]. This study finds that between 1979 and 1994, inequality in Taiwan can mainly be explained by the drastic transformation in the economy and the socio demographic structure of the population. With the main contribution being changes in the wage structure which could have been a result a dramatic growth of the educated workers in the economy. Bourguigion also use this technique to isolate the occupational effect, the participation effect and population effect for USA and Brazil in 1999. Results of this study show that most of Brazil's inequality (of 13 Gini points) is accounted for by underlying inequalities in the distributions of education and of non-labor income, notably pensions. Differences in occupational structure, in racial earnings and demographic composition are much less important. While the US the latter are of more importance [13].

Canagarajah found that in Ghana and Uganda, non-farm self-employment income was much more disequalizing than non-farm wages. agriculture [14]. Due to limited time series observations for a single country, especially developing countries, most empirical studies have been based on multi-country data sets were the range of potential determinants of income distribution being tested is wider.

Baye by using regression based inequality decomposition in Cameron to explore this result The fraction of active household members (the ratio of active household members to the household size) contributes positively to household income through the reasoning that an increase in the number of individuals in a given household undertaking income generating activities entails greater income generation with positive effects on household economic welfare. The relationship between household size and household income was confirmed to be negative by the correlation matrix. This indicates that a higher number of "dependents" or individual residing in a particular household will tended to exert a lot of pressure on the meager household income and consequently an overall deterioration in well-being. The estimated sources for age, gender and the predicted residual for education and health inputs contributed in reducing inequality [11].

Okidi understanding of the determinants of income inequality in Uganda between 1992 and 2002/03. Clearly, within- rather than between-group inequality accounts for the

majority of total inequality. Decompositions by subgroups revealed that household characteristics are influential components of overall inequality, a finding also supported by the results based on the regression analysis. Using consumption expenditure per adult equivalent as a measure of welfare, the relative mean measure of inequality identified: deepening of the rural-urban development dichotomy over time; the crop-farm sector systematically lagging behind national average welfare levels; the richest 20% becoming relatively richer over time – currently eight times better off than the poorest 20%; education as an important factor for explaining inter-household welfare disparities; the gender of the household head not contributing significantly to overall inequality in Uganda; and family size of five and above moving a household to a welfare level that is below the national average able to reduce income inequality [3].

Odedokun worked on determinants of income inequality and its effects on economic growth, evidence from African countries. The paper empirically investigates, in the context of African countries, the determinants of income distribution and inequality, the effect of inequality on economic growth and the channels through which inequality affects growth [11].

Alyande decomposed income inequality and poverty in Nigeria with the regression based approach developed by Morduch and Sicular using the 1996 data collected by the federal of statistics (FOS). The result showed that primary and post-secondary educational attainment is important in reducing income inequality in Nigeria. Education is generally considered an important factor in explaining part of the dispersion in incomes [3].

Bigsten and Shimeles, attempted to decompose the determinants of income inequality in Ethiopia using a regression model of consumption expenditure at the household level by using panal data collected by Addis Ababa university. The result indicated that in rural areas a large part of the variation in income inequality could be captured by differences in village level characteristics and other unobserved factors. For urban areas, significant factor that played a role in determining the Gini coefficient were household characteristics such as occupation of the head of the household, educational level of the head of the household and other unobserved characteristics [7].

Leite, on the studies by the title of evaluation of urban inequality in Ethiopia by employing the bourguignan Ferreira lasting (1998) methodology to the decomposition of consumption (rather than income, as is standard practice in this literature) we explored the role played by changes in household characteristics, and particularly human capital endowments, and changes in returns to those characteristics. According to these finding changes in return to household characteristics especially return to education is one of the driving factor income inequality in urban Ethiopia. In addition to this the studies result as well prove rural urban migration is source of urban inequality, it is worth noting that the new profile of urban households, and in particular the greater likelihood of being households with younger heads, well educated, living alone or in couples with no children also contributed to increased inequality, as these types of households experienced higher growth rates in consumption per capita. even if some study says that after the amendation of the family law by the government of Ethiopia in 2000 leads to significant advance in women's economic empowerment and their ability to self-advocate, work for fair wages and own property registered under their name, but some researchers like Kedira argues that the gender inequality can be seen unfair intra-household resource allocation boys and most of the women's are illiterate/uneducated, Gender inequality has far reaching consequences for any society because it hurts not only women but also society at large based on this and related argument gender have expected to have influence on income inequality [7].

Nega et al explores the level of diversification and income inequality at a micro level using data from 385 rural households in Northern Ethiopia. They found out that diversification intensifies income inequality. Income sources outside crop production have an inequality increasing effect. A rise in income from non-farm income and livestock increases income inequality.

5. Conclusion

Income inequality is a situation in which there are differences in income and wealth within the country, region, small group of society and individuals. The determinant or source of income inequality is different in the view of the scholar for instance for classical economists like Smith and Ricardo as well as for Marx, wages correspond to a subsistence level. Marx further assumes that distribution is determined by the relative bargaining power. For neoclassical economists, the distribution of national income is determined by factor prices, and factor prices are determined by supply and demand. Each factor of production is paid its marginal product. For (monetary) Keynesians, the profit rate is provided by the interest rate. According to Kalecki, distribution depends on the pricing behaviour of firms in monopolistic markets.

There has been a reasonable shift in research previously focused on economic growth and its determinants to the analysis of income distribution, its development over time and the identification of factors determining it. Heshmati (2004) attributes this shift to the awareness of the growing disparities and the emerging importance of redistribution and poverty reduction. Since, Kuznets (1955) researchers have studied the theoretical causes of income inequality in various ways. Bourguignon and Morrison (1998) examine the effects of dualism, especially as it relates to Decomposition by population group has been the oldest approach for quantifying how various factors affects overall inequality. The approach begins by dividing a sample into discrete categories (e.g., rural and urban residents, individuals with primary school vs. secondary or higher education) and then calculates the level of inequality within each subsample and between the means of the sub-samples. This technique is mainly conducted in unpublished articles and a few published articles such as

Silber (1989) Jenkins (1995), Cowell and Jenkins (1995) and Shorrocks (1983).

A second type of inequality decomposition commonly used in literature focuses on the decomposition by factor components. Shorrocks (1983) uses data on the distribution of net family incomes in the United States between 1968 and 1977 in order to establish what proportion of total income inequality is attributable to various income sources using a variety of different decomposition rules.

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