

**THE ROOT CAUSES OF ECONOMIC INEQUALITY OF
SAMTSKHE-JAVAKHETI REGION AND THE REDUCTION WAYS**

**ПРИЧИНЫ ЭКОНОМИЧЕСКОГО НЕРАВЕНСТВА
НАСЕЛЕНИЯ САМЦХЕ-ДЖАВАХЕТСКОГО РЕГИОНА И ПУТИ ЕГО
СНИЖЕНИЯ**

**SAMTSHE-CAVAKHETİ BÖLGESİNDE EKONOMİK EŞİTSİZLİĞİN
NEDENLERİ VE ÖNLEME YOLLARI**

Giorgi JVARIDZE*

ABSTRACT

The introduction discusses the importance of the study problem, study subject and object, the goal and objectives, the described research methodology and findings of the research. The innovations of the research are highlights. The research was conducted in Samtskhe-Javakheti region.

At the beginning, the reasons of unequal distribution of income from the perspective of different scientists, the coefficients of the equal and unequal distributions are reported.

For presenting global economic inequity we referred the study of Monetary Fund, according to it the global inequity index is 0.55-0.70. In 2018 Gini coefficient in Georgia reached to 0,37, while it is close to the critical range (0,41-0,46).

Gini Coefficient are as follows according to the municipalities of Samtskhe-Javakheti - Akhaltsikhe - 0,41, Adigeni - 0,52, Aspindza - 0,52, Borjomi - 0,47, Akhalkalaki - 0,50, Ninotsminda - 0,56. According to the findings an average inequality index of the region is 0,49, or 0,09 higher than it is estimated by the Geostat for the region (0,40).

We conducted a public attitude survey on starting up business and immigration. 60-80% of surveyed reported that they have no business as they cannot start it. 90-100% plans to immigrate.

In order to develop an inclusive business, it is necessary to support skilled young people from the vulnerable families, include them in the business study and organizing business incubators.

The study reports an explain establishment costs per one business incubator which should be covered by the local budget.

* ORCID: [0000-0002-4552-8445](https://orcid.org/0000-0002-4552-8445), Jvaridze, G., Phd Student of Samtskhe-Javakheti State University, Akhaltsikhe, Georgia, gia.giorgi.1962@gmail.com

Another problem referred is substitution of a proportional tax by introduction of progressive tax. All the promoted countries in the world apply the progressive tax system, what means that tax payer with higher income pays more compared to those who have less income. There is untaxed income as well. We developed the scale for progressive tax for Georgia and Samtskhe-Javakheti region in particular and defined the size for the non-taxable income as well (500GEL).

Key Words: An economic inequality, Gini Coefficient, an inclusive business-incubator, proportional tax, progressive tax.

АННОТАЦИЯ

В предисловии обоснована актуальность изучаемой темы, предмет и объект изучения, цель и задачи, указаны методы используемые в поиске и результаты проведённого поиска. Чётко показаны новшества исследования. Исследования проведены в Самцхе-Джавахетском регионе. В начале обсудили причины неравномерного распределения доходов с точки зрения разных учёных. обсудили концепции равномерного и неравномерного распределения доходов.

Для представления экономического неравенства в мире использовали исследование валютной биржей, в соответствии которого глобальное мировое неравенство составляет от 0.55 до 0.70. Коэффициент Джини в Грузии по 2018 году составляла - 0.37 и этот показатель близок к критическому рубежу (0.41-0.46). Коэффициент Джини в Самцхе-Джавахетском регионе по муниципалитетам составляет: Ахалцихский – 0.41, Адигенский – 0.52, Аспиндзский – 0.52, Боржомский – 0.47, Ахалкалакский -0.52, Ниноцминдский -0.56. Средний коэффициент неравенства по региону, основываясь на результаты исследований, составил -0.49, т.е на 0.09 пункта больше, чем предполагает «Сакстат» (Национальная Служба Грузинской Статистики) по данному региону (0.40). Исследовали настроение населения региона для начала открытия бизнеса и для поездки за рубеж. 60-80% опрошенных ответили, что не имеют своего бизнеса и не могут начать его, 90-100% думают об эмиграции. Для развития инклюзивного бизнеса, посчитали нужным привлечь способную молодёжь из бедного населения в бизнес-обучение и организовать бизнес-инкубаторы.

В данном труде для примера сделаны расчёты на затраты по организации одного бизнес-инкубатора, которые будут покрыты местными муниципальными властями. Следующий вопрос касается замены пропорциональных налогов на прогрессивные налоги. Во всех цивилизованных странах мира введены прогрессивные налоги, т.е. люди с большим доходом платят больше чем люди с малым доходом. Там установлен и безналоговый доход. Разработали шкалу прогрессивного подоходного налога для Грузии и Самцхе-Джавахетского региона, а также определили величину безналогового дохода (500 лари).

Ключевые слова: Экономическое неравенство, коэффициент Джини, инклюзивный бизнес-инкубатор, пропорциональный налог, прогрессивный налог.

ÖZ

Makalenin giriş kısmında incelenen meselenin asıl konusu, nesnesi, amacı ile hedefleri idrak edilmiş ve kullanılan yöntemler ve arama sonuçları ile araştırmanın yenilikleri belirtilmiştir. Araştırmalar Samtskhe-Cavakheti bölgesinde gerçekleştirilmiştir.

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Öncelikle gelir dağılımındaki adaletsizliğin nedenleri farklı bilim adamlarının bakış açılarına dayanarak ve eşit ve adaletsiz olan gelir dağılımı kavramlarından hareketle tartışılmıştır. Dünyadaki ekonomik dengesizliği göstermek için, küresel dünya eşitsizliğinin 0,55 ile 0,70 arasında değişmesi üzerine yapılan döviz borsasının bir çalışması kullanılmıştır. 2018 yılında Gürcistan'da GINI katsayısı -0,37 idi. Günümüzde ise bu veri kritik seviyeye (0,41-0,46) yaklaşmıştır. Samtskhe-Cavakheti Mıntıkası ilçelerine göre GINI katsayısı şu şekilde sıralanmıştır: Akhaltsikhe ilçesi - 0,41, Adigeni ilçesi - 0,52, Aspindza ilçesi 0,52, Borcomi ilçesi - 0,47, Akhalkalaki ilçesi - 0,52, Ninotsminda ilçesi - 0,56. Araştırma sonuçlarına göre bölge için ortalama eşitsizlik katsayısı -0,49 olup, bu bölge için "Sakstat'ın" (Gürcistan Ulusal İstatistik Servisi) önerdiğinden (0,40) 0,09 puan daha fazladır.

Bölge halkının bir iş kurma ve yurtdışında çalışma konusundaki fikirleri başvurulduğunda, ankete katılanların %60-80 oranı kendi iş yerinin olmadığını ve kuramayacaklarını söyledi. Diğer kısmının %90-100'ü ise yurt dışına gitmeyi düşünüyor.

Kapsayıcı iş dünyasının gelişimi için yoksul ailelerden yetenekli gençlerin iş eğitimine dâhil edilmesi ile iş kuluçka merkezleri kurulmasının gerekli olduğu ortaya çıkmıştır. Çalışmada, yerel belediyeler tarafından karşılanacak iş kuluçka merkezlerinin organize edilmesi için maliyet hesaplanması yapılmıştır.

Bir sonraki konu orantılı vergilerin artan oranlı vergilerle kıyaslanmasıyla ilgilidir.

Bölgede dünyanın tüm medeni ülkelerinde artan oranlı vergiler sistemi uygulanmaktadır. Buna göre yüksek gelirli insanlar düşük gelirli insanlardan daha fazla vergi ödüyor. Ayrıca vergiden muaf bir gelir sistemi de uygulanmaktadır. Tarafımızdan Gürcistan ve Samtshe-Cavakheti bölgesi için artan oranlı gelir vergisi ölçeği de geliştirildi. Ayrıca vergiden muaf gelir miktarı (GEL 500) belirlendi.

Anahtar kelimeler: Ekonomik eşitsizlik, GINI katsayısı, kapsayıcı iş geliştirme merkezi, orantılı vergi, artan oranlı vergi.

Introduction

Inequal distribution of the income among the population is the problem of not only Georgia, but it is a global one.

Global Monetary Fund reports that Global inequality achieves about 0.55-0.70 in series of countries (Era Dabla Norris, Kalpana Kochhar, 2015:137). Though Georgia does not achieve such a high level, but it is close to the critical range and it achieves 0.41-0.46.

In order to improve the situation, the country should think on an inclusive economic growth, which will include all social strata, including poors, migrants, people with disabilities, etc.

Introduction of such measures are required for mitigation of an inequality in entire country and Samtskhe-Javakheti region, in particular.

The goal of the study was to explore unequal distribution of income of the Samtskhe-Javakheti region population and elaboration mitigation measures.

The subject of a study is an economic inequality of the population, the object was to study the unequal distribution of the income of country, as well as Samtskhe-Javakheti region population.

Many scientists work on inequality problem in Georgia and abroad (Rootman, Stiglits, Era Dabla Norris, Korak, Abesadze, Kakhniashvili, Makalattia, Molashkhia, Papava, Asatiani and others), though none of them referred

particularly to Samtskhe-Javakheti region and an economic inequality of the region.

The findings of the study conducted in Samtskhe-Javakheti region and its municipalities are as follows:

- An economic inequality index of the population is estimated and evaluated;
- The necessity of establishment of business incubators, business re-training of the capable poor population and increase of their income through this way are grounded;
- The necessity to move from the proportional tax system to progressive for the proposed region (entire country as well) is well-grounded and the recommended scale for income tax rates are given;
- It is recommended to divide population into 10 statuses (like lonely person, married couple, etc.) in Samtskhe-Javakheti, where the economic inequality is very high (0.49) and to define income tax rate for them.

Methodology

The study applies the methods of observation, comparison, economic analysis and questioning.

An observation method mainly is applied when the the concepts of different scientist about the inequality problem are referred, we observed their opinion and made our comments.

The methods of comparison and economic analysis are applied when we compared the economic inequality indexes of Samtskhe-Javakheti to entire country and other countries and assessed them.

The questioning method was applied when we conducted face-to-face questioning of the target group on the study problem.

Findings

Practicle purpose of the study is that the recommendations given will be useful for the authority of Samtskhe-Javakheti region for mitigation of existing inequality within the population. Accordingly, we developed several recommendations, such as

1. It is necessary to develop an inclusive business in the region. The administration of Samtskhe-Javakheti region municipalities should support implementation of the initiative methodologically and financially.

For this purpose, we developed the pattern and presented it on the model of 10 students from the poor families who will be served by a business incubator (calculating costs and income).

2. The study grounds the concept of introducing progressive taxation system instead of proportional one applied by the country, which will cover Samtskhe-Javakheti region as well.

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3. In addition, 10 statuses and 10 taxation rates were developed for income tax-payers (like lonely people, couples) specially for Samtskhe-Javakheti and other depressed regions.

4. Propose introduction of minimum salary rate for entire Georgia, including Samtskhe-Javakheti region and untaxable minimum of income, with recommended amount of 500 GEL.

Discussion

According to the UN survey income inequality index or Gini index is higher in Georgia rather than in neighboring countries. Satisfaction rate of Georgia's population with the healthcare service is 50%, compared to Turkey's population (82%), Azerbaijan (68%) and Iran (83%) (Доклад о развитии человека, 2014: 141-147; 176-179). Based on analysis of the theoretical materials we found that the scientists have not one opinion about income and living standard, inequal distribution of income, establishment of a minimal salary rate, etc.

There is no comprehensive legal basis in Georgia. It is clear, that there is no defined minimum salary amount, though the Internatinoal Labor Organization adopted the Convention 131 concerning Minimum Wage Fixing, with Special Reference to Developing Countries (Entry into force: 29 Apr 1972) (Tsartsidze, 2012: 273).

There is no common approach in terms of inequal distribution of income neither within scientific nor in governmental communities. The authorities mainly are set up by the wealthy people, they wil never support to introducing wealthiness income and substitution of proportional taxation system with progressive one.

Inequality problem of wealthiness is studied by the international financial organizations. The survey of the Monetary Fund reports about negative impace of the inequal distribution of the income on the growth of the country economy, causing crisis, conflicts, global disbalance and others.

It reads that inequality in developed and developing countries (ENDC) and showed that global inequality varies 0.55-0,70. (Era-Dabla-Norris, Kalpana Kachhar, Nujn Suphaphiphat, Frantisek Evridiki Tsaunta, 2015:225).

According to the study almost half of the global wealth is owned by only 1% of the world population. The wealth equals to 110 trillion dollars, what is 65 times higher than total property of another half of the population, the poor global population (Era-Dabla-Norris, Kalpana Kachhar, Nujn Suphaphiphat, Frantisek Evridiki Tsaunta, 2015:248).

In developing countries, the reason for the growth is considered polarization of the wealthiness in urban and rural regions (China) and classes and castes (India) (Zhang, Vakulabharanam, 2010:124).

An economic inequality is expressed in access to healthcare and high-quality education.

It is reflected on the estimated life-span. It is noticeable especially in the USA, where the income defines the life length more now than one generation before (Murray, Lopez, Alvarado, 2013:118).

It refers to the education because high-quality education is not accessible for the population with low income (Castello-Climent, Domenech, 2014:86).

The State Department of Statistics of Georgia does not disaggregate data according to the population strata, like wealthy, average level and poor. The data are published only per capita, which are average indicator and it is impossible to find the share of wealthy, poor or medium strata.

Based on gross domestic product, Georgia is much behind its neighboring countries. It is 10,788 USD in Turkey, 8748 USD in Russia and 4958 USD in Iran.

Referring the income data of the region population we have calculated Gini index of 2018 based on gross income comprising 0.40, it means that it is much higher than in Georgia and actually it is on the critical range.

To check the situation in all six municipalities of Samtskhe-Javakheti we set up target groups and conducted survey. The respondents involved in the study were people of different nationalities, age and profession.

We have conducted two tests: 1. Unemployment, poverty and economic inequality test and 2. Public attitude test on migration.

It was found that only 26% of the questioned population in Akhaltsikhe municipality, 1% from Aspindza, 24% from Borjomi, 12% from Ninotsminda, etc. Income is not sufficient for the acquiring essentials for 67% of Akhaltsikhe population, while 45% of Akhalkalaki, 80% of Aspindza population, etc. 75% of surveyed in Ninotsminda considers themselves as poor, while 55% thinks similarly in Akhaltsikhe, 45% in Borjomi, etc. 300 GEL comprises an average monthly income of 57% of Akhaltsikhe residents, 80% of Adigeni, 92% of Aspindza, 18% of Borjomi, 20% of Akhalkalaki and 78% of Ninotsminda residents.

The information about income of the respondents enabled us to calculate income inequality or Gini index according to the municipalities of Samtskhe-Javakheti region. According applied Gini index formula ($K = \sum P_i + q_{i+1} - \sum P_{i+1}q$), it was found that Gini index of Akhaltsikhe population is 0.41, Adigeni population is 0,52, Aspindza population is 0,52, Borjomi population is 0,47, Akhalkalaki population is 0,50 and Ninotsminda one is 0,56, to calculate an average for the region it is 0.49. It means that it is much higher than Gini index for Georgia. Considering the situation, the government is obliged to think about improvement of the condition immediately.

The willingness of the region population to immigrate is very high, as 77% of Akhaltsikhe respondents, 90-100% of Adigeni and Aspindza, 32% of Borjomi respondents, 10-12% of Akhalkalaki and Ninotsminda ones are ready to leave country immediately.

The answer on the question what size of salary should be that they can stay in Georgia and not to leave 90% of the interviewed was two-three thousand GEL. Such salaries are paid only in the public sector (of high-rank officials). Probably such salaries will not be available for a long time, accordingly, Akhaltsikhe and entire region will be left by the population till that time.

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In the research part of the paper, we found that there is very high level of readiness of Samtskhe-Javakheti region for immigrating. They are not able to start business as they lack entrepreneurial knowledge and can not afford cost of study.

In order to improve situation, we propose to the Samtskhe-Javakheti regional government to share experience of the Eastern European countries, such as Czech, Hungary and Poland. We give reason the benefit of two actions 1. Develop inclusive business with support of business incubators and 2. Transfer from the proportional taxation system to the progressive one.

It is aknowledge in the world that overcoming of poverty and reduction of dramatic inequality in income distribution should take place through full employment of the population. The sector of economics which is able to provide large-scale employment to the populationis small business. In Samtskhe-Javakheti only 10.3% of a work-capable population are engaged in small business. The key reason for that is poverty and limited access to the financial resources and probably the most crucial one is low entrepreneurial education (so called business-education).

An inclusive business considers engagement of poors and other “marginal groups”, like migrants, people with disabilities, etc. in doing business. This is how an inclusive growth is reached in the country. Therefore, as poor and the poorest population of Samtskhe-Javakheti region do not have relevant business knowledge, they are not able to start business independently. It is recommended to open the business incubators for them by the regional government and organize free trainings for them for 6 months (or for a year) and provide them with support in setting up small enterprises.

After completion of study, they have possibility to establish the enterprise of any profile in the incubator by means of the skills and knowledge acquired.

For this purpose, the management of the incubator provides them with

- The space for enterprise and office;
- Practicle support in business planning and investment proposal writing and reasoning;
- Staff development (capacity building, as well as seeking and provision with professionals);
- Support in organizing conferences, seminars, exhibitions and business meetings;
- Support to newly established companies in organizing working space, supplying with natural air, water and power;
- Support in getting credit (act as a warrant).

It is quite a big, labor-consuming and responsible work. The **main** difficulty is in establishment of task force in all six municipalities of the region to make the census of poor households in all the villages of the municipalities and select young people willing to study in the business incubator out of the families. **Another** challenge is that the cost of establishment and launching of the business incubator should be covered by the municipality budget, therefore it should be estimated in advance. The third

challenge is that not all the municipalities may have qualified academic personnel (professors and trainers) on place in Samtskhe-Javakheti and they have to contract external staff, for instance, the staff of Samtskhe-Javakheti State University. It will increase the cost of course. Though there is certain type of readiness to provide facilities (classrooms, laboratories, etc.) and support of academic personnel from the side of university administration at an accessible price. Though estimation does not consider the mentioned support.

Though the proposal can be relevant not only for Samtskhe-Javakheti region, but for other regions of Georgia. The action should be taken because Samtskhe-Javakheti because high rate of immigration and people who leave the country are the poor population.

As development of inclusive business incubators is rather new for Georgia, we tried to develop the pattern, which can be applied by the Samtskhe-Javakheti region municipalities, as well as other regions of Georgia. The pattern gives the estimate for study cost of a student for 6 months and launching of an enterprise with support of business incubator (we called them a client enterprises). Both expenses are funded from the budget of a respective municipality. The first phase will be funded for six months and another phase for a year. After it the start-upers will leave the incubators and operate independently. They are substituted by the new students.

Estimation is made for 10 students. It includes two phases, the first one is study and another one is launching of enterprises established by them. We calculated the cost of organizing business incubators, it will require to rent relevant space, staffing, purchase of furniture and equipment, etc. the cost of organizing business incubator includes 1. Cost of renting space for organizing business incubator, 2. Cost of salaries of the business incubator's staff; 3. Cost of the required equipment and office furniture for business incubator; 4. Other costs (utilities and contingencies).

According to our calculations establishment of one inclusive business incubator and its maintenance for one year will cost 100, 230 USD in Samtskhe-Javakheti region, Next stage we estimated the cost of study for 10 selected young persons or potential students from the poor families of the region for 6 months. It included the space rent and study equipment, inventory and book stock costs, the cost of professors and total cost achieved 11,420 USD.

10 young graduates establish the companies within the incubator space with financial and technical support of an incubator. It means that they organize pilot enterprise. The enterprises will work for a year here and all the costs will be covered by the local budget for this period.

The profiles of the enterprises will not be limited. It can be selected by the incubator management or a founder itself, who will be the mentioned young people. 5 out of 10 established companies will be service providers, while another 5 will be producers. Both require space, facilities, office equipment and staff.

A client enterprise required 900 square meters for operation, 600 square meters are needed for producer companies, 300 square meters are required for service providers. Estimate annual rent cost will be 10,800 USD, cost of equipment and furniture will be 40, 000 USD, while gross annual salary of client enterprise staff will

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be 117,120 USD (service provider enterprises will have 15 staff members, while producer companies will have 25 people).

Annual operational costs of business incubators will be 167, 920 USD.

One business incubator will be organized in one of the municipalities of Samtskhe-Javakheti region, where 10 selected young people from poor families will study during 6 months, while they will establish and operate a small-scaled enterprise for a year with financial support of a business incubator. It will cost to a business incubator $100230 + 11420 + 167920 = 279570$ USD. The cost of one enterprise is $279, 570:10 = 27,957$ USD. Operational cost of one small enterprise is not very high. By means of allocation funds from the municipal budget 10 small-scaled enterprise will start operation at the end of the first year, another 10 will start operating at the end of another year, etc.

Returned funds in the form of income tax gradually paid by such incubators is an added value to those social benefits brought by the business incubator to Samtskhe-Javakheti region, opening of one at least one business incubators in each municipality of Samtskhe-Javakheti region is recommended.

For reduction of economic inequality of Samtskhe-Javakheti region substitution of a **proportional taxation system by a progressive taxation system**, what means that wealthy and rich people will be pay higher tax, than those with lower income. Foreign countries apply mentioned taxation system, while in Georgia tax rate is the same for everybody (income tax rate is 20%, profit tax is 15%).

As income and profit taxes are national ones and not the local taxes, Samtskhe-Javakhet regional government has no authority to change them by their initiative, though it has the right to propose the issue to the government of Georgia. We have developed a differentiated scale pattern of income tax in order to propose it the region administration as a recommendation. (see, Table 1).

Table 1: Recommended Scale of Progressive Income Tax

Monthly income, GEL	Income tax rate (%)	Payable amount, GEL
500 GEL	Untaxed income	-
500-1000 GEL	10%	50
1001-1500 GEL	Up to 1000- 10%, above 1000 -12%	160
1501-2000 GEL	1500 GEL 12%, above 1500- 14%	250
2001-3000 GEL	2000 GEL 14%, above 2000- 16%	440
3001-5000 GEL	3000 GEL 16%, above 3000- 18%	840
5001-7000 GEL	5000 GEL 18%, above 5000- 20%	1300
7001-10 000 GEL	7000 GEL 20%, above 75000- 25%	2150
10 0001-15 000 GEL	10 000 GEL 25%, above 10 000-30%	4000
15 000 GEL and higher	15 000 GEL 30%, above 15 000-40%	4500 and higher

In addition, as inequality of the population is dramatically high (0.49) in the municipalities of Samtskhe-Javakheti region, we considered to divide the region population according to 10 statuses and each status assign the relevant tax rate, which will be calculated based on income size per person (household).

According to our point of view, the status and the tax rate shall be the following for the residents of the region (Table 2).

Table 2: Recommended Statuses of Tax-payers and Tax Rates for Samtskhe-Javakheti Population

Status #	A Status Title	Tax rate
1	A single person with no dependent	1,0
2	A single person with one dependent child	1,5
3	Married couple with no dependent	2,0
4	Married couple with one dependent	2,5
5	A single person with three dependents	3,0
6	Married person with three dependents	3,5
7	A single person with four dependents	4,0
8	Married couple with four dependents	4,5
9	A single person with five dependents	5,0
10	Married couple with five dependents	5,5

The conducted surveys had the following findings:

The scientists have different opinion regarding unequal distribution of the income of the population, they list different reasons like different skills and opportunities, ownership, professional taste, different education, etc.

1. Inequal distribution of income causes poverty of the population, there is a linkage. The poverty is the reason for unequal access to education and healthcare services. Poor population has no access to high quality education and health care services.

2. Inequality is a global problem. According to the survey of the Monetary Fund inequality varies from 0.55-0.70 in the world.

3. Georgia is a poor country. According to 2018 data 20.5% of the population has below 60% an average consumption 60(270.3GEL) (it means 764 500 people), while 7.6% is below 40% (i.e.) 283440). They spend 162,2 GEL (i.e. 5,4 GEL per day) in the first semester, while during the second one they spend 108,1 GEL (i.e. 3.6 GEL per day).Both groups are below poverty leve l(2 USD per day).

4. Inequality in income of the population (Gini index) was 0.39 in 2018, which is very close to the critical range (0,41-0,46).

5. Out of entire population of the region (155,6 thousand) only 14, 006 e.i. 9% is engaged in entrepreneurship for 2019 (in Georgia it is on average 19%). The reason is less developed business in the region.

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6. Based on the findings of the study, economic inequality in income is deeper in the municipalities, for instance, Gini coefficient in Akhaltsikhe municipality is 0.41, in Adigeni it is 0.52, in Ninotsminda it achieved 0.52, etc.

7. We explored readiness of Samtskhe-Javakheti population is very high for immigration. On average 80% of questioned reports that due to unemployment and poverty, they say that they are ready to go for a work abroad.

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