

Forum: GA2

Issue: Encouraging structural reform to reduce income inequality

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INTRODUCTION

It is generally accepted by economists and sociologists alike that during the last decades global economy has managed, as a result of a series of economic and financial policies, to significantly reduce the effects of extreme poverty around the world, with only a few Least Economically Developed Countries (LEDCs) still struggling to overcome the UN threshold for abject poverty. In the last four decades, however, human welfare has undoubtedly increased rapidly. More specifically, since 1981 the world's population living in extreme poverty, defined by the UN as living on \$1.90 or less a day, has shrunk from 42 to 10%.¹ It seems, however, that the world economy's overreliance on free market forces and the insistence on minimizing state intervention have caused, as a side effect of the gradual eradication of extreme poverty, significant income inequalities between people. The issue of income inequality has come to the fore by politicians and political activists alike in the past decade. Its importance has also been recognized by the United Nations, as shown by its 17 Sustainable Development Goals (SDGs).

At this point, it is crucial to define income inequality and explain why it is so important to deal with it. Most notably, the term is used to describe the unequal distribution of income or wealth at both national and international level. To get a better understanding of the issue, it is important to conceptualize a country's economy as a hierarchical system, in which the upper social strata have substantially more money, wealth, and purchasing power than the lower ones. The term is used to describe both the severe inequality between the Least Economically Developed Countries (LEDC's) and the More Economically Developed ones (MEDC's), as well as the unequal distribution of wealth within nations.

The specific problem addressed in this study guide is of paramount importance for a plethora of reasons. First of all, further analysis of the aforementioned hierarchical system has clearly and distinctly indicated that prejudice and unequal treatment of minorities and women alike has contributed to the immense income disparities within nations. From this observation can be quite easily deduced that these income disparities pose a threat to the social cohesion and stability of countries. In addition to that, it is not unreasonable to assume that they reduce each country's chances for further economic development and complete eradication of poverty. Extreme differences in income have also been statistically linked to higher crime rates, easier spreading of infectious diseases, and destruction of the environment. Last but certainly not least, we have to take into account the effects of transnational inequities. Multinational corporations, political interests, and the developed countries' expansionary economic policies have reduced the chances of developing countries for economic growth.

¹ "Welcome To The United Nations." *Un.Org*, 2020, <https://www.un.org/>.

DEFINITION OF KEY TERMS

Income inequality

This term usually refers to extreme or even mild income disparities between distinct societal strata. These inevitable differences become a serious social problem once a huge proportion of a society's wealth is concentrated in the hands of a small minority. Economic analyses² have also quite clearly indicated that income inequality tends to favor the non-minority population, like whites and males.

LEDCs

Least Economically Developed Countries (LDCs) are low-income countries confronting severe structural impediments to sustainable development. They are highly vulnerable to economic and environmental shocks and have low human resources development. There are currently 47 countries in the list of LDCs which is reviewed every three years by the Committee for Development (CDP).

MEDCs

An abbreviation for the More Economically Developed Countries and otherwise referred to as developed or rich nations. As in the case of the LEDCs, this term refers to a specific legislative framework which is also ratified by the UN.

BACKGROUND INFORMATION

Inequality in developed nations

As previously stated, income inequality is an issue that refers to the existing inequalities both between nations and within MEDCs. Fundamentally, the issue of income inequality is one that revolves around the concentration of a country's wealth into the hands of a minority. As a direct result, most people struggle to survive.

These disparities in developed nations are the immediate consequence of the free market economy and the capitalist system that have largely been established worldwide for many decades. In those countries, inequalities have surged tremendously due to the increase of rewards for the upper strata of society, while the lower strata were left with the crumbs off their masters' tables. Economic analyses have also shown that this trend adversely affects the less educated and at the same time rewards the lucky few that receive high education. To be more specific, statistics of the US Census Bureau have shown us that a college degree is synonymous with an annual US\$30,000 dollar additional income compared to that of those who have not acquired such a diploma.

One could summarize the effects of income inequities and inequalities within developed nations in one simple but crucial sentence: it is simply harder for most people to get ahead and to persevere with the current socio-economic circumstances. At this point, it is worth wondering what the reasons for those ever-growing disparities are.

Before we analyze them, it is important to familiarize ourselves at least with the term Gini coefficient or Gini index, which is a number aimed at measuring the degree of inequality in a distribution. It is most often used in economics to measure how far a country's wealth or income distribution deviates from a totally equal distribution. This method is applied by the World Bank to classify nations according to the level of

² Ortiz-Ospina, Esteban, and Max Roser. "Economic Inequality By Gender". *Our World In Data*, 2020, <https://ourworldindata.org/economic-inequality-by-gender>.

equality.



"GINI Index (World Bank Estimate) | Data". *Data.Worldbank.Org*, 2020, <https://data.worldbank.org/indicator/SI.POV.GINI?view=map>.

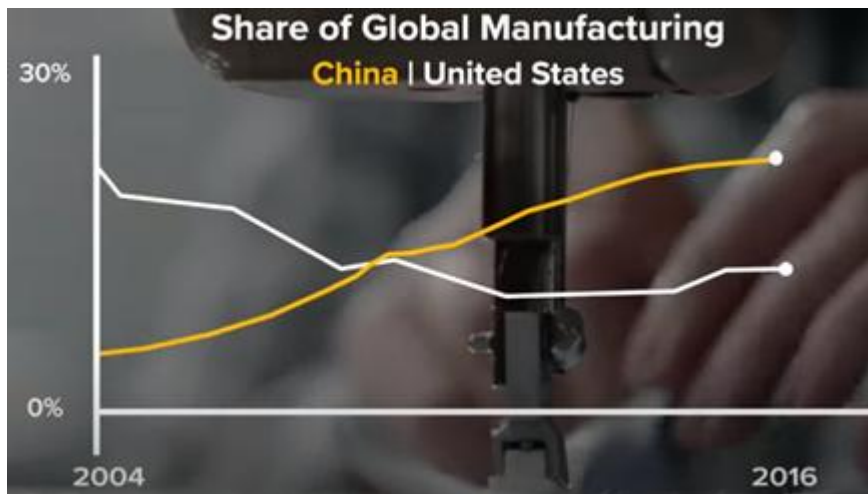
Technological Revolution

Firstly, while it is undoubtedly true that the technological advancements of the last decade have created enormous opportunities for skilled workers, they have also left a lot of people unable to keep up with the ever-changing and ever-evolving economic landscape.

To be more specific, the technological revolution has for better or for worse almost eliminated what is known by economists as middle-skill jobs. The introduction of Artificial Intelligence (AI), computer software, and industrial machinery has largely contributed to the replacement of humans in large areas of the economy, such as production and manufacturing. As a result, middle-skill jobs, which largely include repetitive motions and do not require advanced skills or specialization, such as clerking, have been replaced by computer software engineering and more high-skill occupations. It is often said that technological advancements and the introduction of artificial intelligence into the global economy as a general rule do not decrease employment since they simultaneously contribute to the creation of more highly skilled labor force. In any case, however, it does not mean that the technological revolution has not increased inequalities because most job opportunities are related to high-income earners and not to the general population. It only reinforces the notion that the powerful and the rich are getting richer while the disadvantaged and the less educated are living out an unfavorable reality.

Globalization

One of the most important stories of the modern technological era in today's globalized economy has been the rise of China to a dominant force in the world economy. As a result, it has been argued that competition from emerging economies, like that of China, in combination with reduced trade barriers, has also played a significant role in reducing employment opportunities for low skilled workers. As a consequence, China's increased market shares in sectors, like furniture, textiles and leather products, have had devastating effects on low skilled workers all over Europe and North America. However, at the same time, high skilled workers are benefiting from the expansion of the world economy and the globalized markets. It is also for that reason that the income disparities between rich and poor have been steadily increasing.



Source: U.N. National Accounts Aggregates Databases

Impacts of strong multinational corporations

Another reason for income inequalities has been the rise of strong corporations which have effectively created monopolies in the global market. To be more specific, those companies, by effectively controlling a certain sector of the economy, can quite easily ensure profit for themselves and their employees not allowing others to compete with them. This problem has become even more apparent in the age of globalization. Those companies have the ability to extend their economic outreach to the point that they can influence many countries' economies.

Prejudice

One last but still equally important factor that has played a significant role in the unequal distribution of wealth within developed nations is the existing prejudice against both women and minorities. For example, multiple statistical analyses have clearly highlighted the fact that in the United States women on average get paid 77 cents for every dollar a man makes. Although that number may seem extreme, it does not even come close to the huge income disparity between black or Latino women and white men. Black women working full time get paid just 62 cents for every dollar a white man makes. This issue has also come to be known as "wage gap" causing a lot of problems and political upheaval since it has widened the racial divide.

Income inequality among nations

Up to this point, we have analyzed the issue of income inequity and inequality within nations. However, as stated in the introduction, one of the most important examples of income inequality worldwide is that among nations.

The total amount of global **wealth**³ today is estimated to be around US\$260 trillion. No special knowledge of economics is needed to make one understand that this wealth is not distributed fairly. North America and Europe, although they have less than 20% of the global population, have 67% of the global wealth, while India and Africa having together about 30% of the world population only hold a measly 2% of global wealth.

Essentially, this difference can be traced back to the industrial revolution and the massive opportunities for economic progress that came with it. To be more specific, the richer countries before the industrial revolution, like Great Britain, were only about three times as rich as the economically weakest, like India and many African nations. However, inequalities instead of decreasing through technological and political progress have widened further over time. Nowadays, this income ratio between the LEDCs and the MEDCs has risen sharply and in some cases has reached 100:1.

While certain countries took advantage of the tools the industrial age had to offer, some others were not able to capitalize on them and therefore remained stagnant. Either for reasons of political instability or because they were under authoritarian and autocratic regimes, some countries, like Greece under Ottoman rule, just were unable to move up the abovementioned hierarchical system of the global economy.

In the age of globalized world trade and markets, the problem has only gotten worse, with the rich countries of Western world being able to maximize their profits and accelerate their economic progress. In other words, the world economy today seems to operate in accordance with the so-called **Matthew Principle**⁴, under which “the rich get richer and the poor get poorer”.

In addition to that, one would be remiss not to mention economic imperialism. For years now, it has been argued that developed nations and multinational corporations have been exploiting developing nations’ natural resources to develop their economies and increase their exports. As a result, developing nations have been unable under colonialism to improve their economic situation. A typical example of a developing nation being unable to free itself from the shackles of French imperialism is the Central African Republic (CAR), a hunger-stricken country with one of the lowest standards of living that in addition in the last decade found itself in the clutches of a civil war.

MAJOR COUNTRIES AND ORGANIZATIONS INVOLVED

United Nations

³ As a term, wealth differs from income. Wealth depicts the number of accumulative assets minus liabilities, while income is money received by an entity, usually in exchange for providing a good or service or through investing capital.

⁴ The Matthew principle, or otherwise referred to as the Pareto distribution, is a power-law probability distribution that has been used to describe the distribution of wealth in a society. Operating under the 80-20 rule, it states that 80% of a society's wealth will inevitably be owned by 20% of the population

As in other important issues, the United Nations have played a crucial role in tackling inequalities, especially among nations. As previously stated, UN's [Sustainable Goal no.10](#)⁵ relating to the reduction of inequalities highlights the UN's attempt to reduce the wage gap between different social groups. In addition to that, UN [Sustainable Goal no. 5](#)⁶ aims at reducing inequities deriving from gender discrimination.

China

China's share of the global textile and leather goods market has been increasing over the years. As explained in the background information, this trend is affecting employment opportunities for middle class labor force in almost all Western nations. While this trend is not to be outright condemned, since employment opportunities for China's middle class have risen exponentially, it still partially explains the rising income disparities in Western nations.

United States of America

The United States have been the leader of the world economy for the last 4 decades and has ultimately played a major role in the large inequalities which have arisen as a consequence of the global free market.

In an attempt to reduce the apparent injustice, a lot of movements have been created in the US. The Occupy Wall Street movement and the rise of prominent socialist politicians, like Bernie Sanders, are characteristic manifestations of this trend.

France

France' inclusion in the list is mainly due to its actions during the 20th century. Its economy is neither an avatar of equal distribution of wealth nor a highlight of huge income disparities being on average at the same level as the other developed European countries. Its inclusion in this list has to do with its expansionist policies especially in the 20th century. To be more specific, France, along with other European superpowers of the time, like the United Kingdom and Germany, has been strenuously criticized for its imperialist and colonial policies. The attempts of the great European powers to colonize Africa are to this day affecting the struggling countries of the region which up to this point have not been able to recover from the time of colonization.

TIMELINE OF EVENTS

DATE	DESCRIPTION OF EVENT
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⁵ "Reduce Inequality Within And Among Countries." United Nations Sustainable Development, 2020, <https://www.un.org/sustainabledevelopment/inequality/>

⁶ "Goal 5: Sustainable Development Knowledge Platform". Sustainabledevelopment.Un.Org, 2020, <https://sustainabledevelopment.un.org/sdg5>

<p>Industrial Revolution 1760-1840</p>	<p>Mechanization of production and mass production of goods begin. As a result, the already developed countries have the opportunity to maximize their exports and profits imposing internationally a regime of economic inequalities.</p>
<p>Introduction of China into the World Trade Organization (11 December 2001)</p>	<p>Managing to get rid of the backward economic socio-political framework of the communist revolution, China has gradually become a global powerhouse in areas, such as technology and manufacturing. As a result, it has influenced the global economy beyond comprehension. A collateral loss of this process is the gradual disappearance of middle-skill jobs in developed counties.</p>
<p>Technological revolution (1975-today)</p>	<p>Since the introduction of the first computers in the workplace in 1975, the economic landscape is constantly changing and evolving. Nowadays, computer software and AI are playing a huge role in the global economy contributing to the replacement of many manufacturing and middle-skill jobs.</p>

RELEVANT UN RESOLUTIONS, TREATIES AND EVENTS

Convention on the Elimination of All Forms of Discrimination against Women, CEDAW (1979)

Having been adopted by the UN General Assembly in 1979, is often described as an international bill of rights for women. It defines discrimination against women and sets up an agenda for national action to end it. As previously stated, discrimination against women, as far as equal pay is concerned, is an important issue that has only briefly been tackled. One of the first and most important attempts to address this issue is the aforementioned treaty.

PREVIOUS ATTEMPTS TO RESOLVE THE ISSUE

In its essence, income inequality, just like most socio-economic issues, is an abstract and therefore a difficult problem to deal with. However, previous attempts by the United Nations and other entities to reduce income disparities have proven fruitful.

Firstly, much progress has been made on the availability, accuracy and reliability of data. By using the Gini index, one can quite easily discern whether a country is following the right path to equality or not.

In addition to that, the United Nations have allocated a lot of resources to eliminate tariffs on products exported by the LEDCs. More specifically, in 2016 just about over 64.4% of products exported by such countries received no tariffs at the market. Thus, the LEDCs were able to increase their exports in the last few years without any further restrictions by other nations.

At this point, it is also important to mention that certain developed nations, like Denmark and Sweden, have been successful to a certain extent in narrowing the gap between the rich and the poor people. Their efforts can be substantially summarized as a constant and continuous reinforcement of social democratic principles. Free education for all, generalized unemployment benefits, affordable healthcare, fairer distribution of wealth and generally ensuring the socio-economic development of people form the core of their project.

POSSIBLE SOLUTIONS

Affordable education

It has previously been argued that the dominant system of socio-economic inequalities favors the well-educated and harms those who cannot pursue higher education. Encouraging young people to pursue higher education in all developed countries is an absolute necessity for bridging the gap between the rich and the poor. It is important to point out that in order to narrow the gap we must not make the rich less rich but increase the incomes of the poorest by creating a more skilled work force. As mentioned in the introduction, in the US, a college degree may in the future yield to its holder a US\$ 30, 000 additional salary reward. In addition to that, while middle skill jobs are disappearing, the majority of the population would now be able to keep up with an ever-changing economic environment.

Steps have been taken in countries, like the Nordic ones, to create a more affordable educational system. However, in other countries, like the US, the unequal access to higher education persists to this day. As a result, students are forced to pay immense non-bankruptable student loans, to which they become indebted.

Implementation of fair redistributive tax policies⁷

One more efficient way to tackle this most pressing issue, as it has been highlighted by social democracies around the developed world, is the establishment of a redistributive tax system, according to which the rich and the powerful pay more taxes as their income grows. This money can be used to build a social safety net that covers the basic needs of the low-paid and the unemployed. In this way, the less fortunate are going to

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have the opportunity to live a better life without the unnecessary burden imposed on them by the current economic system. This is mainly showcased by the social democracies of northern Europe, which have gone further than any other to ensure income stability and safety for the less economically powerful. That is why the Gini index in those countries is very low.

Strong implementation of anti-discrimination policies

We like to believe that in our societies we have managed to eliminate discriminatory policies and behaviors. However, as the statistics show us, this is far from true. While policies with outright racist intent are not the norm, the wage disparities within majority-white nations to the detriment of African Americans and Latinos persist. For this reason it is necessary to eliminate not only any discriminatory legislative framework but also any racist practice so that every person has the right and the opportunity to live in a fair and just society.

Equal representation of the LEDCs in the global landscape

At this point, it is also important to mention that in order to bring an end to the immense wealth disparities among nations, one must first strive to ensure an equal platform for all countries. In other words, it is necessary that representation of developing countries in global economic forums is just as impactful and important as that of developed nations. Thus, the equal plain footing is likely to increase a country's chances to have an economic upturn.

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Easy way to be introduced to the topic:

<https://www.youtube.com/watch?v=41y4c1Oi5Uo>

<https://www.youtube.com/watch?v=0xMCWr0O3Hs&t=350s>

https://www.youtube.com/watch?v=iVX_NjKmlcg