Forum: *Economic and Social Council*

Issue: *Mitigating the growth of wealth inequality*

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Introduction

Without money, an individual will find surviving in the modern world a challenge. While programs exist to aid those that are unfortunate enough to find themselves in such circumstance, the vast majority of the world has access to either income through employment or through other means. To those that are employed, one simple figure acts as a major determinant of the quality of their life: their income.

In an ideal world governed by laws of morality and compassion, one would expect, to an extent, the individuals possessing the ability to give to those in need. A society where the rich help the poor would evidently result in ensuring that all members of the society get by. Yet, for the great majority of the world, wealth inequality continues to spur a phenomenon where the rich increase their wealth and the poor make even less. At least 80% of humanity lives on less than $10USD a day as of now. 40% of the world's population make up 5% of the world's income, while the richest 20% account for over 75% of the world's income. The gap continues to grow, as 80% of the world's population live in a nation where income differentials are increasing.

Poverty affects people in many ways. According to the United Nations Children's Fund (UNICEF), roughly 22,000 children die daily due to poverty "in some of the poorest villages on earth, far removed from the scrutiny and the conscience of the world." Around 27-28% of all children in developing countries are estimated to be underweight or suffer from malnutrition. South Asia and sub-Saharan Africa account for the majority of these cases.

The United Nations Millennium Development Goals (MDGs) include the target of halving the proportion of underweight children. At current rates, without compensation for further wealth inequality, the goal will be missed by over 30 million children mainly due to slow progress in Southern Asia and sub-Saharan Africa. With over 72 million children unable to receive primary education as of 2005, wealth inequality continues to remain a problem for both developing nations and developed nations alike. For the United States alone, as of 2007, the richest 1% of the American population owned 35% of the

country's total wealth, and the next 19% owned 51%. In total, the top 20% of Americans owned 86% of the country's wealth and the bottom 80% of the population owned 14%.

As the divide grows due to fiscal policies aimed at cutting taxes on the rich and further taxing the poor, the ever growing wealth gap poses not only a threat economically, but a threat to people's ability to survive in the world alone.

Definition of Key Terms

Progressive tax

A tax in which the tax rate increases as the taxable amount increases, typically as income increases. An example of a progressive tax would be income tax.

Labor market

The supply and demand for labor. The labor market is comprised of workers capable of filling different occupations, which creates the wealth gap.

Gini index

A measure of statistical dispersion intended to represent the income or wealth distribution of a nation's residents, and is the most commonly used measure of inequality, initially established by Italian statistician and sociologist Corrado Gini. The Gini index is used by the world bank to determine income inequality in nations.

Wealth gap

The unequal distribution of assets among residents of a society. Wealth includes the values of homes, automobiles, personal valuables, businesses, savings, and investments.

Poverty Line

The estimated minimum level of income needed to secure the necessities of life. As of this year, the global poverty line is $1.90USD a day, largely due to adjustments for inflation. Every nation has their own standards of determining their own poverty line based off of the nation's socioeconomic status.

Lorenz Curve

Originally developed in 1905 by American economist Max O. Lorenz to demonstrate wealth inequality, the Lorenz Curve is a graph on which the cumulative percentage of total national income (or

some other variable) is plotted against the cumulative percentage of the corresponding population (ranked in increasing size of share).

Background Information

General causes

While a wide variety of factors contribute towards wealth inequality, there are some major causes that provide noticeable effects on the global economy. Wealth inequality can not be attributed to one single cause, but, at the same time, can be described as a purely natural phenomenon brought on through the nature of free market capitalism where the rate of return is greater than the rate of growth of the economy. Recent growth in overall wealth inequality have mostly been driven by increasing inequality in wages and salaries, but there are also other factors such as but not limited to governmental policy reforms, regressive taxation, automization of labor, ethnic discrimination, and gender discrimination.

Economical standpoints

The labor market

In many modern market economies, wages are determined by the market. Due to imperfect competition, uneven distribution of information, different educational levels and skills, unequal market failure results and, in turn, establishes the gap between basic wages. Because these conditions exist in nearly every economy in the world, there is little presumption that markets are efficient in general. This, in turn, defaults on the government to assist and correct such market failures.

In a pure capitalism, wages are not determined by employers, but rather by the market through equilibrium established through the economic concepts of supply and demand. Wages, in essence, work the same as the price of a good, and thus can be considered a function of market price of skill. Inequality is, therefore, determined by this price. Supply and demand dictate that the price of skill is determined by the demand for the skilled worker and the supply of the skilled worker. Input side economics explains inequality through simple concepts of supply and demand as well. For example, the median salary of a surgeon in the United States is $512,000 USD, whereas the median salary of a garbage collector in the United States is $33,800. The supply of garbage collectors, due to the amount of training needed for the occupation, vastly outstrips that of surgeons. With basic economic concepts, in the event that supply is greater than demand (surplus), market price generally falls, whereas in the instance of surgeons (shortage), market

price increases. Industries generally do not operate at complete allocative efficiency, and so the difference in skill level, as well as demand, acts as a factor dictating the initial wage gap between different skill levels of workers. In conclusion, in an industry where few able or willing workers are supplied, due to skill level or other circumstances, where there are a large amount of open positions, wages will generally be higher due to competition between employers for employees.

Taxes

Income tax is also a major determinant of wealth inequality. In a typical progressive tax system, the level of the top tax rate will directly impact the level of inequality within the society. Additionally, steeper progressive taxes applied to social spending can result in a more equal distribution of income, as is evident by the Gini index when applied to a society before and after the effects of such taxation.

Politicians and economists often dispute over the role of tax policy in affecting wealth inequality. Economists such as Paul Krugan or Peter Orszag have argued that post World War II tax policies have increased income inequality by enabling the wealthiest Americans to more opportunities than lower-income ones. Politicians, particularly conservatives, believe that personal income belongs to the person themselves, and that the government should not reserve the right to take any part of it, and thus, oppose progressive income taxes. In the International Monetary Fund's (IMF) report in October of 2017, the organization argued that increasing taxes on the top 1% of earners would reduce economic inequality without hindering economic growth. Legislation on the matter, however, has yet to be passed.

Education

As aforementioned, a large contributor to inequality is the variation in individuals' access and availability to education. Education, especially where there is high demand for workers, creates high wages for those able to access education. As a result, those who are unable to afford an education or choose not to generally receive lower wages and further contributes to the uneven distribution of wealth. Lack of education is directly related to lower incomes, meaning lower aggregate savings and investment. Conversely, education raises incomes and stimulates growth because it helps to unleash the productive potential of the poor.

In the United States, economists from the Standard & Poor's rating agency concluded that the growing gap between the US's wealthiest citizens and the rest of the nation substantially slowed down the recovery from the 2008-09 economic recession and made the economy more prone to boom-and-bust cycles. It is estimated that if the average worker in the United States had

completed one more year of school, the economy as a would grow an additional USD $105 billion.

Gender

In many countries, a gender pay gap exists in favor of males. Many factors outside of discrimination contribute to the gap, and, on according to the Organization for Economic Co-operation and Development (OECD), women are more likely than men to consider factors other than pay when looking for work on average.

In the United States, under the Civil Rights act of 1964, discrimination based off of sex is illegal. However, women still consistently make less than men with similar education backgrounds in the same occupation. The income gap across the world ranges from 53% in Botswana to -40% in Bahrain. Gender inequality is argued to expedite poverty and vulnerability in society as a whole.

Economic development

Needless to say, the more a country is developed, the more wealth inequality that exists. According to economist Simon Kuzents, less economically developed countries have relatively equal distributions of wealth, but, as a country develops, it develops more capital and leads to the owners of the capital perpetuating the beginnings of the wealth gap. Eventually, through redistribution methods, more developed countries may move back to lower levels of wealth inequality.

Furthermore, as a country develops, opportunities within the nation begin to develop, and, eventually, input-side economics begins to emerge. With development comes the demand for more highly skilled workers, resulting in the early stages of wealth inequality. Given enough time, a developing nation will face wealth inequality situations such as the ones faced by MEDCs around the world.

Wealth concentration

Many economists and businessmen share a similar sentiment when approaching wealth: the easiest way to become wealthy is to be born wealthy. Wealth concentration is the process by which newly created wealth congregates in the possession of already-wealthy individuals, such as in the form of investments. Over time, wealth condensation can significantly contribute to the aggravation of the wealth gap. Wealth concentration over long periods of time results in the “top 1%” of rich individuals.

Key Issues

Health

In countries with higher inequality, health risks are substantially more prevalent. According to researchers Richard G. Wilkinson and Kate Pickett, starvation and lack of access to basic resources were not the only symptoms in nations with large wealth inequalities. Obesity, mental illness, homicides, teenage births, incarceration, child conflict, and drug use were observed issues in largely unequal nations, while social goods, such as life expectancy, educational performance, trust among strangers, women's status, and social mobility were all found at lower rates when compared to more wealthily equal nations.

Higher material living standards, such as the access to food, clean water, and warmth from fuel, indicated longer lives and better health. The same remains true for the life expectancy of individuals with higher incomes among poorer countries, where life expectancy increases rapidly as per capita income increases. At the top thirty countries or so, the rule does not necessarily apply. The average American has a life expectancy of 77 years, whereas a Greek or a New Zealander have a life expectancy of 78 years. Although the USA has a higher GDP per capita, due to technological advancements as well as a variety of other factors such as diet, life expectancy can fluctuate. For countries such as Sweden, where the life expectancy is 78 years old, or Japan, where the life expectancy is 82 years of age, one thing is still for certain: nations with income more equally distributed tended to have longer life expectancies.

As the world progresses through the 21st century, wealth inequality has been the greatest indicator of overall health in countries. In studies of even states within the United States, Wilkinson and Pickett found that health and social problems were "more common [in areas] of bigger income inequalities." The UNICEF index of "child-well being in rich countries", which studies over 40 indicators per country, confirms the relationship between wealth inequality and overall health.

Social factors

Research has indicated an inverse relationship between wealth inequality and social cohesion, meaning that in more equal societies, people are substantially more likely to trust each other. Measures of social capital, such as goodwill, friendship, and mutual sympathy, suggest greater community involvement, along with lower homicide rates were all found to be greater in more wealthily equal societies.

In addition, the crime rate has shown to be strongly correlated with inequality in a society. Studies into this matter have mostly looked at homicides, since homicides are almost universally identified across

the world. A study in 2001 found that there was a tenfold decrease in homicide rates related to inequality comparing Canadian Provinces to U.S. States. The study also found that half of all variation in homicide rates can be accounted for by differences in the amount of wealth disparity in the sampled province or state. A study conducted the following year would confirm the phenomenon on a global scale. Among comments in academic literature on the relationship between homicides and inequality, two of the most prevalent citations quote:

- The most consistent finding in cross-national research on homicides has been that of a positive association between income inequality and homicides.
- Economic inequality is positively and significantly related to rates of homicide despite an extensive list of conceptually relevant controls. The fact that this relationship is found with the most recent data and using a different measure of economic inequality from previous research, suggests that the finding is very robust.

Using the utilitarian principle of seeking the greatest good for the greatest number, wealth inequality demonstrates distributive inefficiency within society. A house used as a summer cabin for a multi-billionaire would provide significantly less units of utility when compared to the same house given to a homeless family, Decreasing marginal utility of wealth and therefore the total sum of personal utility demonstrate the effects of wealth inequality in terms of utility based on scale of spending. Hypothetically, if a homeless family spent $20 on basic necessities such as food, water, and fuel, while a much more wealthy individual spent the same amount on luxury items, the wealthy individual would therefore experience less utility, and therefore the marginal utility of wealth per person decreases as wealth increases. With that being said, we can therefore conclude that a more equal society will have a higher aggregate utility when compared to a severely unequal society. Diminishing marginal utility can further be compared to the quality of goods over a certain point. For example, in the instance of owning a house for a family of three, a 2,600 sq ft house (the American average for 2017), would fulfill the same basic purpose of a home of 2,600,000 sq ft home. Differentiated utility would therefore become miniscule when comparing marginal utility for the initial unit of product consumed. While features may add on utility, so as long as the basic purpose of the product is fulfilled, any further costs contribute to the diminishing marginal utility of unequal distribution.

Economic circumstances

While countries strive to meet the MDGs, poverty reduction in an age of growing income disparity has become very difficult. In a nation with low equality with a growth rate of 2% for example, with 40% of its population living under the poverty line, poverty can be halved in 10 years. For a country with large amounts of wealth inequality, it would take nearly 60 years to reduce by the same amount (assuming that the country's wealth gap does not increase in the period of time). In the words of former UN

Secretary General Ban Ki-Moon: “While economic growth is necessary, it is not sufficient for progress on reducing poverty.” Governmental fiscal policies are key to closing the wealth gap, but nations such as the United States have difficulty passing such legislation due to private sector lobbying.

Income equality can have many benefits towards the overall well-being and contribution capabilities of a society. With that being said, however, the private sector plays a pivotal role in widening wealth inequality. Traditional laissez-faire economics establishes that the wealth gap is a natural phenomenon, and that markets, in the long run, due to many circumstances, will eventually establish an ever growing wealth gap.

Challenges against wealth equality

The largest challenging belief against wealth equality is the argument of fairness versus equality. According to over 60 studies conducted on inequality, children under six years of age seemed to prefer fairness over equality. The challenging idea present is the idea that the money one makes is only because the individual has worked for it, and is thus “fair.” Although there is no universal definition of fairness, fairness for this particular concept is more or less defined as what an individual deserves for their unit of output towards the economic market. Traditional conservatives tend to believe that the money one makes is the money that one keeps. Using phenomena established in previous sections, it is evident that a wealth gap would occur, yet the money made by the wealthy is declared fair because the individual has some aspect that sets them aside from other workers.

When people were asked to outline the wealth of each quintile in an ideal society, participants gave the wealthy a 50 times larger sum of wealth than the poorest quintile. The preference for inequality has been shown to increase throughout the development of a person, with capabilities to favor fortune, effort, and ability in the distribution.

Preference for unequal distribution may be due to the potential for better cooperation and allows for individuals to work with more productive capabilities to form a win-win situation for both parties involved. Inequality also mitigates the potential for non-conformists and individuals displaying social deviance from abusing the system.

In many societies with attempted forced wealth equality, such as the Soviet Union, distribution of wealth led to anger due to the absence of fairness; in societies that are more unregulated, such as the United States, undistributed wealth led to many feeling that the system was not equal. In both situations, researchers have concluded that the contributing factor is that the system is unfair to the people in some way.

Major Parties Involved and Their Views

South Africa

With a World Bank Gini index of 63.4% inequality, South Africa is labelled as the most unequal nation in terms of wealth. Post-apartheid South Africa has a population of roughly 80% of the population classified as black, 9% white, 9% colored, and 2% Indian/Asian. Under apartheid, whites held almost all political power in South Africa. Post apartheid, however, although all races are technically equal under the law, wealth and political power concentrated during apartheid times still continue to remain in white hands.

47% of South Africans are considered impoverished, living under the national poverty line of $43 USD a month. As of 2006, the number of people living on less than $1 USD has increased to 4 million. While 60% of the population earns less than R42,000 per year (roughly $7,000 USD), 2.2% of the country alone makes more than R360,000 (roughly $50,000 USD). Blacks disproportionately dominate the poor population, taking up 90% of the entire poor population while constituting 80% of the population. The African National Congress (ANC) has taken many actions to try and close the wealth gap in the past, but all attempts have been futile in the long run.

The United States of America

The United States political party eras have had a tendency to be cyclical, swinging between egalitarianism and elitism. Between this, however, a great majority of US citizens substantially underestimate the current US wealth inequality. The richest 1% owns more additional income than the bottom 90%, with the average employee needing to work an entire month to earn what the chief executive officer earns in an hour. Since 2009, 95% of economic gains went to the net worth of the top 1%. Six Americans own as much combined wealth as half the human race.

A variety of factors contribute to the US' wealth gap. For example, the recently passed tax bill under the Donald J. Trump administration contributes to wealth inequality by directly slashing taxes off of corporations and individuals making over seven figures. Eliminating taxes such as the estate tax, which applies to estates worth over $12 million USD, continues to ensure that the rich stay rich in the United States of America.

Iceland

With one of the lowest Gini indexes in the world, Iceland still faces its own challenges when it comes to income inequality. 20% of Icelanders compose of half of the disposable income in Iceland, with the richest 10% owning two-thirds of all assets within the nation. Iceland is a prime example in

demonstrating the economic effects of wealth inequality affecting even nations with strict tax regulations on major corporations and the rich.

The World Bank Group

With a goal of eradicating poverty, the World Bank Group contributes to the issue of wealth inequality in multiple ways. For example, the World Bank is frequently cited for conducting research on multiple economical aspects within nations and for producing statistics. Although criticized on multiple occasions for allegations of corruption, the World Bank Group continues to finance all 193 member states of the UN General Assembly.

The Democratic People's Republic of Korea

In a country where the per capita income is roughly $583 USD a year, the Democratic People's Republic of Korea (DPRK/North Korea) suffers from exorbitant income inequality. In contrast, the GDP of Pyongyang alone, the capital of DPRK, is $2,700 USD; this is attributed to many industries being privatized and held within the capital. A 2016 census found that 88% of North Koreans between the ages of 20 and 59 were unemployed, and that 97% of men between the ages of 30 and 59 were unemployed.

Venezuela

With one of the most severe economic implosions this century, Venezuelan Bolivars, the national currency of Venezuela, still retains a 1 USD to 1 VEF conversion ratio. However, locals and travellers alike risk imprisonment to trade currency on the black market, where 1 USD yields 12,197 VEF; in contrast, the fictional currency of World of Warcraft trades around 1 USD to 6,000 gold on the black market. Due to severe inflation caused by large businesses flooding the market and pressuring the government, Venezuela has since entered a severe recession, with many unable to obtain basic food supplies. In contrast, the wealthy individuals in the nation have either left or continue to lobby the government in their attempt to monopolize the Venezuelan market. As the country nears stagflation, large corporations take in revenue from around the nation; with no short term solution achieved, Venezuela continues to participate in an "economic war."

Timeline of Relevant Resolutions, Treaties and Events

Date	Description of event

	Lorenz Curve Established
1905	American economist Max O. Lorenz published a formula for calculating wealth distribution. Designed to show x% of a total population holding y% of the total income within the country, the Lorenz Curve was used throughout the 20th century to monitor wealth inequality.
	Gini Index Established
1912	The Gini index (or Gini coefficient, Gini ratio), a measure of statistical dispersion representing income or wealth distribution of a nation's residents is published by Italian statistician and sociologist Corrado Gini in a paper named Variabilità e mutabilità.
	Wall Street Crash of 1929
October 29th, 1929	The Wall Street Crash of 1929, otherwise known as Black Tuesday, followed The London Stock Exchange Crash of 1929 and acted as one of the largest signals of the Great Depression. Affecting all Western industrialized countries, the wealth gap noticeably increased during this time period.
	The Civil Rights Act of 1964
July 2nd, 1964	The Civil Rights Act of 1964 is passed in the United States of America. The law outlawed discrimination based on race, color, religion, sex, or national origin. While intended as part of incorporation under the Fourteenth Amendment for the Fifteenth Amendment to the United States Constitution, the Act was signed into law by President Lyndon B. Johnson. In the landmark act, Congress exercised its power to regulate interstate commerce under Article One, section 8 to enforce such actions and policies, indirectly affecting the US Government's control to articulate the economy in each state.
	The Republican National Committee Tax Bill Passes
March 3, 2018	Reducing corporate tax to 21% from 35% the Republican National Committee passes their trademark tax cut bill. With all Senate Republicans voting for and all Senate Democrats voting against, the bill is passed through simple majority. The bill is commonly criticized as a step towards widening the wealth gap.

Relevant UN Treaties and Events

- Inequality Matters, Report of the World Social Situation 2013

- Economic Inequality (EU Parliament)
- Tax Cuts and Jobs Act

Evaluation of Previous Attempts to Resolve the Issue

Wealth inequality dates as far back as the start of mankind. Ranging from ancient Mesopotamia to modern society, the phenomenon known as the socioeconomic pyramid has existed due to wealth disparity. With different skills available for different eras of employment, the upper class, middle class, and lower class have always existed. In the modern age, the gap is ever-widening; the international community has taken action in the past. The effectiveness of the actions is to be debated, however.

The two biggest problems concerning actions against taking actions against wealth inequality aren't so much economic problems as they are moral and ethical problems. Firstly, as mentioned before, the concept of fairness versus equality makes judging how much an individual can or should make a difficult task. Many pieces of legislation limiting how much an individual can make have been brought up in governments around the world. However, the moral question of whether or not it is socially acceptable to limit how much an individual can make for what they contribute to the world remains a question that has no answer. Without the profit motive, firms within an industry will stop at a point where there is no money to be made. Furthermore, by redistributing wealth, the world may see a recurrence of the Soviet Union and other "communist" models, or instances where the general population sees socioeconomic standing as "too even."

The second largest problem concerning mitigating wealth disparity comes from how the government operates on a global scale. As long as a nation allows for the wealth gap to continually grow, the wealthy can and will migrate to that nation and continue to increase their wealth, effectively mitigating any attempts at closing the gap. The largest factor preventing wealth equality is lobbying. With rich corporations able to convince governments to pass legislation aimed at benefiting already-rich individuals and entities, the wealth gap continues to grow. At the end of the day, monetary donations can still, to a noticeable extent, influence legislative policy around the world.

Every society known to man has had its own existence of wealth inequality, and every society has tried to solve it in their own fashion. The fact that the wealth gap has grown to the modern extent proves the effectiveness of past policies.

Possible Solutions

The de facto method of alleviating poverty and inequality in the long run is to **increase the minimum wage**. Increasing the minimum wage can life 4.6 million people out of poverty in the United States alone, the population of the state of Louisiana. Increasing the minimum wage, contrary to belief, does not hurt employment or damage economic growth; it has a projected extra $2 billion USD worth of economic growth for the United States alone. The de jure effect of Increasing the minimum wage would mean higher short run average total costs, and would therefore increase the price of commodities on the market, but, if seen in the long run, would provide an excellent solution to poverty. There are, however, many restrictions on raising the minimum wage. Ad hoc solutions alone in the short run can not compensate for the entire economy.

Expanding the earned income tax would also assist in closing the wealth gap to an extent. The income tax is progressive, and, if done correctly, could assist 4.7 million children to rising above the poverty line on an annual basis in the United States alone (more than the population of Louisiana on a yearly basis). This would require substantial legislative reforms, both to individuals in the top 10% of the wealth pyramid and to corporations as well. Because corporations are seen as entities, double taxation has substantial effects if used in the correct fashion.

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