Research Report

Economic and Social Council

Mitigating the growing income gap and its resulting effects on the standard of living

MUNISH '14

Forum	ECOSOC
Issue:	Mitigating the growing income gap and its resulting effects on the standard of living
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Introduction

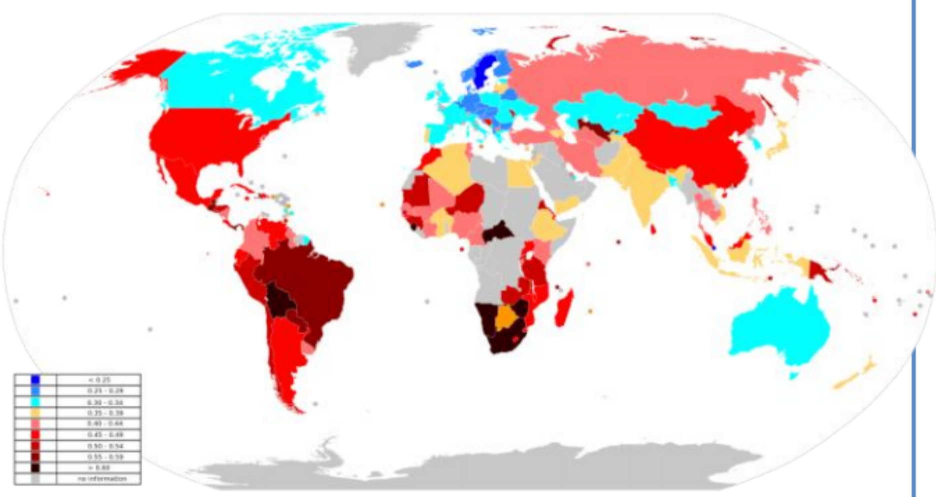
"Income inequality, a perennial problem for capitalist economies, has now become a global issue." *- Journal of Data Science 12 (2014), 197-215,* "Does Globalization Mitigate Income Inequality?" Gordon G. Bechtel

The wealth gap, also know as the inequality gap, is the unequal distribution of wealth, assets, and money amongst people in a given country's society. Instead of improving, this inequality has been increasing even in the most developed countries. For example, in the United States of America, the richest 10% earn 9 to 10 times as much as the poorest 10%. In fact, in 2009, the three richest men in the world (Bill Gates, Warren Buffet and Carlos Slim) were worth more than the combined wealth of 48 of the poorest countries.

The approach of different countries to economic equality is varied and usually reflects political, social and economic ideologies:

- Communist/ Marxist countries do not allow significant differences in income, solely by virtue of their ideology, which promotes equal but limited ownership for all.
- Societies like the United States that are based on capitalist ideology and a belief of *laissez-faire* economics have no constraints when it comes to the accumulation of wealth.
- Many European nations have more liberal or social democratic systems, which allow for regulated capitalism that has built-in mechanisms to ensure that large income gaps do not exist or are corrected (e.g. redistribution of wealth through taxation into social programs, health care, education etc.)

Income inequality, especially its influence on purchasing power, has a direct impact on quality of life and standard of living in all countries around the world. This affects the ability of the individual to access education, health care and other basic human needs.



The income/wealth gap worldwide, going from the lowest (dark blue) to the highest (black). *OXFORD INTERNATIONAL MODEL UNITED NATIONS 11th Annual Conference*, "Mitigating the growing wealth gap and the resulting effects on economic growth and long-term stability", 1st - 3rd November 2013.

Definition of Key Terms

Income inequality (wealth gap)

The wealth gap, also know as the inequality gap, is the unequal distribution of wealth, assets, and money amongst people in a given country's society

GINI

The GINI Project studies the economic and educational drivers and the social, cultural and political impacts of increasing inequality with novel contributions on the measurement of income, wealth and education inequality.

OECD

Organization of Economic Cooperation and Development. An international economic organization of 34 countries founded in 1961 to stimulate economic progress and world trade.

Globalization

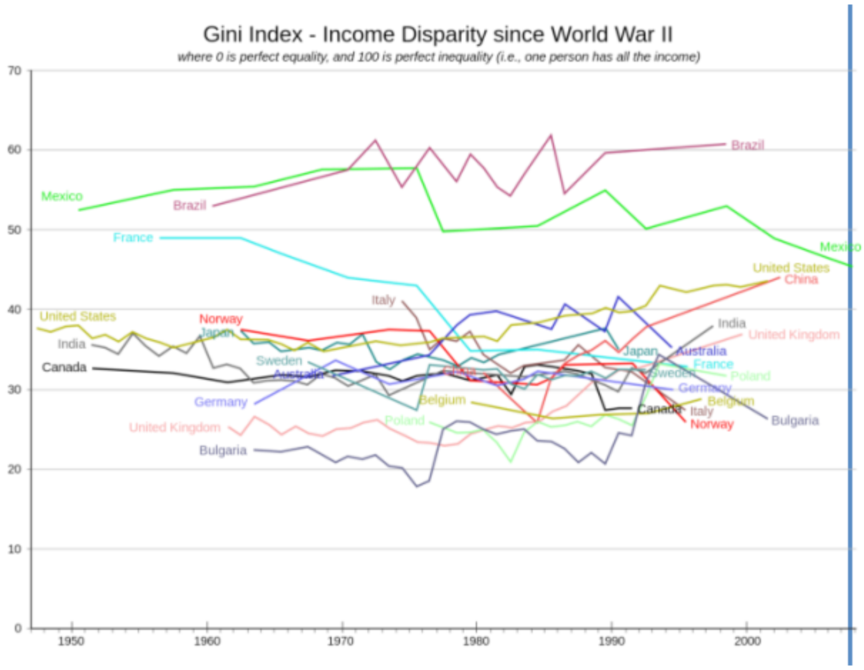
The opening up of economies to international competition, allowing goods, ideas, capital and some people to move more freely between countries.

LEDC

Less economically developed countries

General Overview

Income inequality has both social and economic implications. As more than 1 billion people still live in extreme poverty and income inequality both within and between countries is rising, all these factors lead to social and political unrest well as potential conflict within and between countries. The 2011 Arab Spring in North Africa and the Middle East and the 2011 "Occupy Wall Street" followed by the 2012 "99% Spring" both in the United States are examples of social unrest directly linked to income inequality. Income inequality in America, Asia and Europe is causing public protests, financial uncertainty and social and educational inequities. A new term coined, "economic anxiety" describes how the loss of purchasing power and income adversely affects trust in the political system, social satisfaction, quality of life, consumer confidence and voter turnout. Furthermore, the recent global economic/financial crises have shown the potential for unchecked greed and disparity in wealth to lead to near economic collapse in the goals of the UN for sustainable development and the Millennium Development Goals.



Gini Index

OXFORD INTERNATIONAL MODEL UNITED NATIONS 11th Annual Conference, “Mitigating the growing wealth gap and the resulting effects on economic growth and long-term stability”, 1st - 3rd November 2013.

Causes of the increased income inequality

Using the United States of America, as an example, some causes of income inequality are due to:

- Declining demand for low skilled workers as a result of technological advances such as the use of computers and automation
- Globalization of the economy increasing competition from both low-paid immigrants and low-paid workers living in other parts of the world who produce goods that compete with local products.
- Institutional changes in the labor markets, declining membership in labor unions and declining real value of minimum wages (as a result of inflation)
- Lower paid workers lack the political voice to raise the issue and force change

The efforts of developing countries to actively compete on a global market place have invariably led to an erosion of laws and regulations and standards put in place to protect their workers. In particular, issues such as minimum wage, union laws, job security and workers benefits, have suffered. This is an undesirable outcome of the efforts of developing countries to try and balance income inequality by providing more jobs for their labor force on the international market place. It is also clear that accelerated economic development in LEDCs has resulted in an increase in the gap between the rich who benefit from such development and the subsistence level poorer elements of society. By contrast, continuing poor economic performance in certain countries (such as poorer nations in Africa) has resulted in declining average living standards not only in comparison to rich countries, but also on an overall absolute level.

Why should we care?

The reasons for addressing such inequality are many. Some key points include the following:

- Fairness: in a just society, the more fortunate should contribute to the overall well-being of the less fortunate in order to provide them a fair chance to compete and succeed.
- Democratic solidarity: too much social stratification will lead to a loss of democratic equality (as evidenced by the relationship between wealth and political influence)
- Self-interest: ultimately, a large disparity in wealth will lead to social and political instability, hurt economic performance and lead to social unrest and even uprisings.
- Minimum standard of living: if the less fortunate elements of society feel that they are not given access to at least a bare minimum set of standards of living (this will change in the perceptions from one country to another), a sense of dissatisfaction and anxiety will lead to distrust and adversity.

Major Parties Involved and Their Views

This is an issue that impacts each country differently yet can be considered a global issue. Therefore it is advisable that each delegate take care to research into their own country’s taxation procedure in order to become aware of the severity of the income gap in their own country in order to be able to come up with solutions that are tailored not only to benefit their own country, but to benefit every country.

UN involvement, Relevant Resolutions, Treaties and Events

- September 2000 – *United Nations Millennium Declaration and Basis for the pursuit of the Millennium Development Goals* (the goal that is relevant to this particular MUN is around the agreement amongst countries to try and reduce poverty and to improve the standard of living of people around the world).

- Until the 1990s, the United Nations did not have financial equality as an issue in its efforts to improve human development, choosing rather to focus on poverty than on unequal income distribution. The United Nations Development Program (UNDP) was one of the first to address this issue, which was followed in 2006 by a UN report containing a resolution aimed at reducing income inequality.

- 20 to 22 June 2012 - *The United Nations Conference on Sustainable Development*, held in Rio de Janeiro, Brazil (this conference focused on income inequality and it's impact on sustainable development).

- **General Assembly Resolution 65/1 -** Resolution adopted during the meeting of the General Assembly on the topic of the Millenium Development Goals.

- **A/66/126 –** Report by Secretary-General Ban Ki-moon on the acceleration in the achievement of the MDGs. The SG stated in his report that "*inequality was identified to be central to the Millennium Declaration and an inclusive development agenda to reduce it was stressed to be key in any post-2015 agenda".*

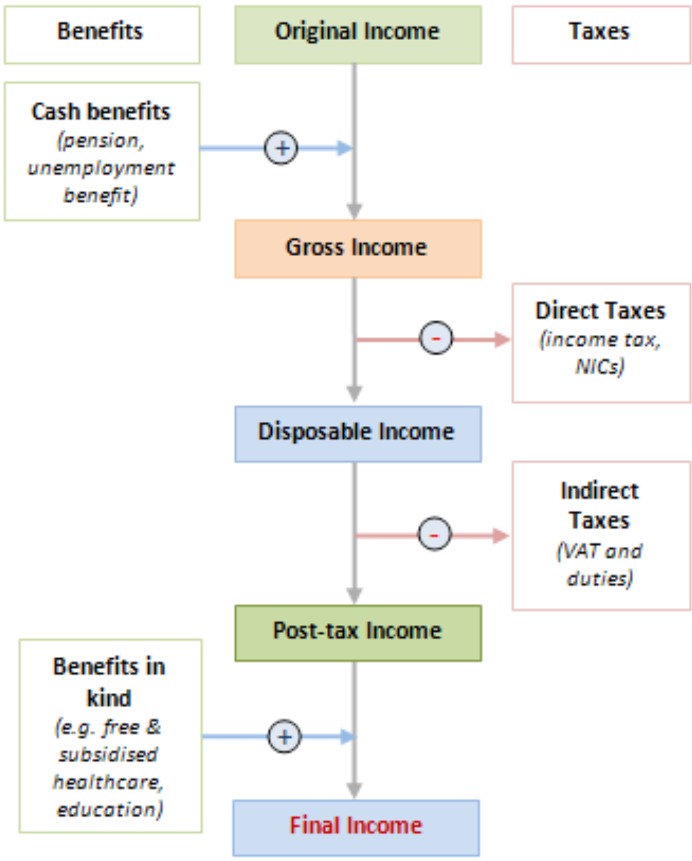
- **United Nations Crisis response initiative 2009 –** The so-called Social Protection Floor set up an initiative to combat poverty and inequality. Once again, amongst many other topics that contribute to poverty and inequality, was the recognition that employment and living standards were key parts where Less Economically Developed Countries (LEDCs) were lagging behind.

Evaluation of Previous Attempts to Resolve the Issue

As mentioned previously, there have been no significant international cooperative efforts to address solving the problem of global income inequality and it's impact on standard of living. This issue has been implicitly brought up as part of the Millennium Development Goals but it is obvious that any serious efforts to find solutions will likely follow the post 2015 MDG deadline.

On a local or country level, there have been attempts to reduce inequality and poverty. For example, in the United Kingdom the taxation system has been designed to ensure equity for layers of society with equal gross income, as well as addressing higher income levels. The UK refers to these as “horizontal and vertical equity” and uses this to define their tax policy. Horizontal equity means that people that have the same economic income are given the opportunity to pay similar taxes. Vertical equity means that those with significantly higher income are taxed at a higher rate than others.

This system is not simply aimed at wages and salaries but also a whole complex consideration of benefits entitlements and other factors that add up to an individual’s total wealth. The figure below illustrates how this system is supposed to work.



Source: ONS, Economic and Labour Market Review; Vol 3; No 1, Jan 2009

The United-States also employs a similar philosophy entitled “progressive taxation”. This means that the higher the income of an individual is, the higher the taxes they pay. However, it is a graded system whereby (for example) the first $20,000 is taxed at say 5%, the next $20,000 at 10%, the next $20,000 at 15%, and so on. Although this is meant to be an effective and fair way of income redistribution (using the income from the taxation of higher income earners to fund social welfare programs etc.), it is also argued that it discriminates against the wealthy.

Possible Solutions

There is still currently a lack of globally accepted recognition by the international community of income inequality, nor any short or long-term efforts to improve the situation. Therefore, the first steps have to include a post-2015 MDGs follow up in order ensure that there is recognition and commitment to address and improve the issue of income inequality.

Should we be concerned about income inequality? The OECD has noted that simply shifting large amounts of money from high-income earners to low-income earners through the tax and transfer system is 'neither an effective or sustainable way in which to lower income inequality over the long term'. (OECD 2011). Their conclusion was that *"ensuring equal access for all of the population to high quality public services such as education, health and family care will help to reduce inequality and provide equal opportunities of personal and professional development for all citizens."*

["Raising Minimum Wage Reduces Inequality, Stimulates Economy." *Adam Bandt*. N.p., n.d. Web. 28 Aug. 2014.]

Ultimately, reduction of income inequality comes down to the power of a government to regulate tax, redistribute and transfer wealth. The role of international cooperation to address these should be in the form of promoting more equitable and ethical political and social systems globally, reduction of corruption, and helping to improve the basic standards of living to allow for a healthier and happier lowermost tiers of society.

Mitigation can also be in the form of promoting programs to improve the skill level and education of lower paid workers, allowing them to compete, increase their earning potential and allow them to raise themselves out from below the poverty line to a better standard of living.

Global inequality rose rapidly throughout modern economic history since the industrial revolution and colonialism. The huge gap between the leading industrial countries and the rest of the world has been reduced significantly in the past few decades as a result of the rapid and successful advancement of the economies such as in Asian countries. In many ways, one could argue that globalization has had a significantly positive effect on reducing the inequality and improving the standard of living of populous Asian countries by the transfer of the manufacturing base from industrialized nations to them. Ironically, while this has reduced the gap between some countries, it has increased the income inequality within these same ones. For example, low-paid workers in the United States have suffered as a consequence of this change, with jobs going to Asia. At the same time, the economic success in Asia has benefited only certain parts of those societies and consequently increased the income gap there as well. Therefore, the impact of globalization in mitigating the income gap and hence the standard of living is very subtle and difficult to gauge.

Is globalization the solution to income inequalities?

Recent research shows that while globalization generates wealth, its distribution among and within countries seems unequal. The conclusions are

- Global Market opening is necessary, but is probably not sufficient to reduce inequalities between countries.
- Global Market opening has the effect of redistributing wealth s within both developing and industrialized nations.

However, it is also clear that the benefit to the recipient developing country in open global markets is not guaranteed unless it is well regulated and planned.

Inequalities within developing countries

Globalization is potentially a benefit for developing countries to catch up, and reduce ‘within-country’ inequalities. However, it is still unclear whether trade opening improves (or even reduces) the living standard of the poor. Theoretically it reduces inequalities in developing countries, which have with low-paid workers, because it prompts demand in areas that require comparatively more of them.

Although it seems that the increase in wealth brought about by globalization delivers benefits to the overall income distribution, and thus improves the income and standard of living of the poorest, it does not take into account the more negative aspects, e.g. effects stemming from global shocks (such as AIDS, financial crises, collapses of commodity prices), which affect poor populations more severely.

Inequalities within industrialized countries

There is a global consensus that unskilled workers are those who ‘lose’ from globalization in the industrialized countries, because it reduces the demand for their skills.

In summary, the trends of globalization are an effective solution to income disparity and standard of living gaps both between and within countries IF there are clear arrangements and agreements BETWEEN countries, and policies WITHIN countries to ensure these. There must be clear efforts to fight against unfair practices, solid redistribution of wealth and equitable agreements that benefit all countries and elements of society.

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Appendix or Appendices

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