Forum: The Economic and Social Council

Issue: Discussing Strategies to Reduce Income Inequality, Promote Inclusive Economic Growth, and Ensure Equitable Distribution of Wealth and Resources

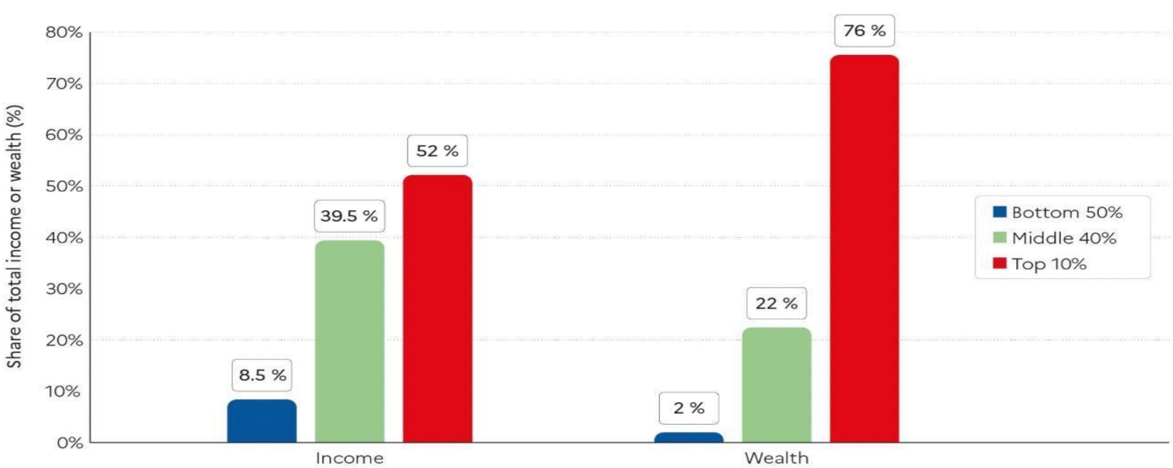
Student Officer: Tonya Liu

Position: President

Introduction

Income inequality remains one of the most pressing challenges of our time, significantly impeding economic growth and overall human development. The disparity in income and wealth distribution not only exacerbates poverty, but also limits innovation in economic and social advancement. Recent global events, particularly the COVID-19 pandemic, have only intensified these disparities, disproportionately affecting lower-income individuals and highlighting the urgent need for action. According to the World Inequality Report 2022, the top 10% of the global population owns 76% of all wealth, as well as claiming 52% of all income. Leaving the bottom half of the global population with only 2% of all wealth, income inequality is a significant issue that requires urgent action from delegations across the world.

Figure 1. Global Income and Wealth Inequality, 2021.



Interpretation: *The global bottom 50% captures 8.5% of total income measured at Purchasing Power Parity (PPP). The global bottom 50% owns 2% of wealth (at Purchasing Power Parity). The global top 10% owns 76% of total Household wealth and captures 52% of total income in 2021. Note that top wealth holders are not necessarily top income holders. Incomes are measured after the operation of pension and unemployment systems and before taxes and transfers.* ***Sources and series:*** *wir2022.wid.world/methodology.*

This report aims to provide a comprehensive overview of the current state of income inequality, along with its historical context. It will explore the roles of key organizations and countries involved in addressing income inequality and the previous (and possible) strategies to reduce income inequality, promote inclusive economic growth, and ensure the equitable distribution of wealth and resources.

Key Terminology

Income Inequality

The unequal distribution of household or individual income across various participants in an economy.

Progressive Taxation

A tax system in which the tax rate increases as the taxable amount increases, placing a higher burden on those who can afford to pay more.

Fiscal Policy

The use of government spending and taxation to influence a country's economy, aiming to achieve economic objective such as controlling inflation, reducing unemployment, and promoting economic growth.

Gini Coefficient

A measure of income inequality within a population, ranging from 0 to 1, where 0 represent perfect equality and 1 represents perfect inequality.

Wealth Distribution

The comparative analysis of the distribution of wealth across individuals in society.

Capital

Wealth in the form of money or other assets owned by a person or organization or available or contributed for a particular purpose such as starting a company or investing.

Urbanization

The process by which an increasing proportion of a population lives in cities and urban areas, often leading to the expansion and development of these areas.

Privatization

The transfer of ownership, management or control of a business service, or property from the public sector (government) to private individuals or companies.

Social Spending

Government expenditure on programs and services that provide financial assistance, healthcare, education, and social protection to individuals, particularly those in need, to improve their well-being and reduce poverty.

Tax Reforms

Changes made to a country's tax system to improve its efficiency, fairness, and ability to generate revenue. These reforms can include adjustments to tax rates, the introduction or removal of specific taxes, and efforts to broaden the tax base or reduce tax evasion

Background

History

The Industrial Revolution, starting in 1760, was a time of numerous economic and social changes. The rapid industrialization and urbanization led to vast wealth for industrialists, while many workers faced low wages and poor working conditions. This period marked the beginning of an unmistakable income gap between the rich and working class.

Over time, economic policies, technological advancements, and globalization have further contributed to widening income gaps. For example, the rise of neoliberal economic policies in the 1980s — distinguished by deregulation, privatization, and lower taxes for the wealthy, led to increased income inequality in many countries, including the United States, United Kingdom, Australia, and New Zealand. Technological advancements have also played a role, benefiting higher-skilled workers and those with access to capital while leaving lower-skilled workers behind. Globalization has facilitated the free movement of goods, services, and capital across borders, leading to increased economic growth and development in large parts of the world. However, it has also led to job losses in certain industries and regions, contributing to greater income disparities. For example, manufacturing has moved from developed countries to developing countries where labor is relatively low-priced, meaning the workers in developed countries have less job opportunities with reduced wages.

Major Points to Consider

Major points to consider include how global income and wealth inequalities compound from overlapping inequalities in education, healthcare, and labor market opportunities. Individuals with higher levels of education are more likely to secure well-paying jobs, while those with limited access to education remain trapped in low-paying jobs. Similarly, access to healthcare impacts individuals' ability to work and earn higher incomes. Poor health can lead to job loss, exacerbating income inequality. Discrimination based on race, gender, and other factors in labor markets lead to unequal pay and employment opportunities. For example, women in certain countries and areas often face barriers that inhibit employment opportunities and career advancement.

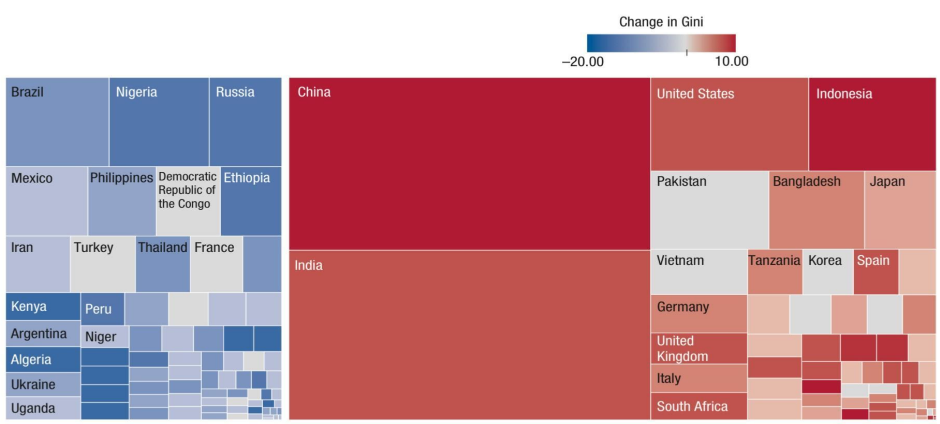
Economically, income inequality can limit the purchasing power of lower-income groups and inhibits economic growth. Socially, income inequality negatively affects health outcomes, educational attainment, and overall quality of life. People may not have access to quality healthcare, which impacts their education and job attainment. Lesser quality healthcare and education tends to cause an overall lower quality of life.

Present-Day

Over the past three decades, income inequality has only increased in most advanced economies and large emerging market economies, such as China, India, and the USA (see Figure 2). Conversely, income inequality has declined in many low-income developing countries and emerging market economies, although from high levels. The incomes of the poorest 40 percent of the population have been growing faster than the national average in most countries, but evidence suggests that COVID-19 has not only reversed the positive trend of falling within-country inequality, but also caused the largest rise in between-country inequality in three decades.

Figure 2. Change in Inequality (Gini Index), 1990 - 2019

Income inequality has increased in many advanced economies and large emerging market economies in the past three decades.



Sources: IMF Income Gini database; and World Economic Outlook database.
Note: The size of the rectangle corresponds to the relative size of the population of the country. The colors correspond to the difference in the Gini index between the value in the most recent available year and the 1990s. Red (blue) denotes worsening (improvement) in Gini, and gray points to little change.

Major Parties Involved

International Monetary Fund (IMF)

Established in 1944, the IMF aims to develop global monetary cooperation, secure financial stability, and promote high employment and sustainable economic growth. The IMF recognizes that income inequality can inhibit economic growth and stability. The IMF promotes fiscal policies to help reduce inequality, such as social spending and tax reforms. Their policy guidance contributes to national global fiscal strategies, promoting policies that aim to reduce income disparities while maintains economic stability.

World Bank

The World Bank, founded in 1944, provides financial and technical assistance to developing countries for projects that can reduce poverty. The World Bank focuses on reducing income inequality by investing in education, healthcare, and social protection programs in developing countries. The World Bank's investments help countries build the infrastructure necessary for inclusive growth to reduce income inequality in the long term.

World Economic Forum (WEF)

The WEF is a Swiss-based non-governmental organization known for its annual meetings in Davos, where global leaders discuss economic issues. It was founded in 1971 and highlights income inequality as a critical global risk, advocating for public-private partnerships to address the challenge. The WEF's platform brings together leaders from government, business, and civil society to collaborate on solutions to reduce inequality.

United Nations Development Programme (UNDP)

UNDP works to eradicate poverty and reduce inequalities through sustainable development. Established in 1965, the UNDP is the UN's global development network, operating in nearly 170 countries. The UNDP has significant influence in the realm of reducing income and wealth inequalities, in which they have taken responsibility with their Strategic Plan 2022-2025. The Plan is centered around six core development areas, one of which is poverty and inequality. This area is one of their “Moonshots,” ambitious goals that they help advance by working closely with Member States, UN agencies, international financial institutions, and NGOs. Through UNDP’s collective efforts with their partners, they are working to reduce poverty and gender inequality on all fronts.

Organization for Economic Co-Operation and Development (OECD)

Founded in 1961, the OECD promotes policies that improve the economic and social well-being of people around the world. It conducts research on income inequality and provides policy recommendations to member countries. The OECD has passed previous resolutions advocating for progressive taxation and social welfare programs to reduce disparities in member countries.

World Economic Forum (WEF)

The WEF is a Swiss-based non-governmental organization known for its annual meetings in Davos, where global leaders discuss economic issues. It was founded in 1971 and highlights income inequality as a critical global risk, advocating for public-private partnerships to address the challenge. The WEF’s platform brings together leaders from government, business, and civil society to collaborate on solutions to reduce inequality.

Brazil

In 2003 during the presidency of Luiz Inácio Lula da Silva, the Bolsa Família program was established, aiming to reduce poverty and inequality by providing financial aid to low-income families in exchange for meeting specific health and education conditions. Bolsa Família has been largely successful in reducing extreme poverty and income inequality in Brazil. The program has reduced the poverty rate by 15% and contributed to the decrease of income inequality in Brazil, where the Gini coefficient dropped from 0.59 in 2001 to 0.53 in 2014.

Finland

From January 2017 to December 2018, Finland ran a Universal Basic Income experiment where 2,000 unemployed individuals were randomly selected to receive a basic income of €560 per month, tax-free, regardless of whether they found work during the experiment. Although the experiment showed that there was no increase in employment rates, higher levels of well-being, reduced stress, and better mental health were reported. There was a slight increase in participants' involvement in social activities and volunteering, so UBI could have positive effects on community engagement and social inclusion. Finland's UBI was fairly successful at improving personal well-being, but did not have much economic impact to reduce income inequality.

Timeline of Events

Date	Description/Note
1760 - 1840	The Industrial Revolution: The "beginning of income inequality," because it created vast wealth of industrialists while condemning workers to low wages and poor living conditions due to rapid economic and social changes.
1930s	The Great Depression: Unemployment rose dramatically and wages plummeted, leading to huge increase in income inequality
1948	The Universal Declaration of Human Rights (UDHR), adapted by the United Nations General Assembly, sets out fundamental human rights that include the right to social security, fair wages, and an adequate standard of living, indirectly addressing income inequality.
1950s - 1960s	The Post-World War II era, referred to as the "Golden Age of Capitalism," experienced a significant reduction in income inequality in many Western countries. This period saw robust economic growth, increased unionization, and the implementation of progressive taxation.
1966	The United Nations adopted the International Covenant on Economic, Social, and Cultural Rights (ICESCR) treaty, committing signatory

	countries to work toward granting economic, social, and cultural rights to individuals, including the right for fair wages and social protection.
1980s	Rise of neoliberal economic policies where government intervention is limited, ownership of state-owned enterprises transfer to private hands, and tax cuts for the wealthy increased income inequality once again.
2008	Global Financial Crisis, which led to significant job losses, reduced incomes, and strict measures that disproportionately affected lower-income individuals, with financial bailouts often benefiting the wealthy.
January 15, 2015	The World Economic Forum identifies rising income inequality as a critical global risk.
September, 2015	The United Nations adopted the Sustainable Development Goals (SDGs), which include Goal 10: Reduced Inequalities. The goal specifically aims to reduce inequality within and among countries, focusing on improving the incomes of the bottom 40% of the population.
March 11, 2020	The World Health Organization (WHO) declares COVID-19 a pandemic, leading to an increase of 95 million more people living in extreme poverty
2022	UNDP established their Strategic Plan 2022-2025, placing significant emphasis on reducing poverty and income inequality as part of a broader sustainable development goals. It outlines specific strategies to support vulnerable groups and promotes inclusive economic growth.

Previous Attempts/Solutions

In the past, direct tax and transfer policies have reduced income inequality by more than one-third in advanced economies. Other redistribution and pre-distribution efforts such as UNDP's signature solution for reducing poverty and inequality focuses on creating jobs, supporting Micro-Small and Medium Enterprises (MSMEs), providing better social protection coverage, improving access to social services, and expanding financial inclusion. UNDP and its partners aim to reach low-income, vulnerable groups, youth, women, informal workers, and has provided direct support to 130 countries. However, it is not nearly enough to successfully address income inequality.

In addition to UNDP, income inequality falls under Goal 10: Reduced Inequalities of the Sustainable Development Goals (SDGs). The goal aims to reduce inequality by improving the incomes of the bottom 40% of the population. Its ongoing efforts include policy recommendations for inclusive growth and support for measures to promote equal access to resources and opportunities. The SDGs emphasize a multi-stakeholder approach, involving governments, the private sector, and civil society. The SDGs has been successful in raising awareness and many countries in Asian and Latin America incorporated SDG 10 into their national development plans. Despite some progress, income inequality remains high globally, and the gap between the richest and poorest countries is still growing. The success of SDG 10 has been uneven among different countries.

Several countries have also experimented with Universal Basic Income (UBI), a policy proposal where all citizens receive a regular, unconditional sum of money from the government, regardless of income. Key trials include a two-year UBI experiment in Finland, an ongoing experiment in Kenya, and various local trails in the United States. In Finland, well-being improved among the participating 2,000 unemployed individuals but employment effects were modest. The charity GiveDirectly is currently running one of the largest UBI experiments in Kenya, where early findings suggest improvements in economic stability, health, and educational outcomes. In several US cities, preliminary results showed increased financial stability. Despite relatively positive findings in UBI, it still faces significant challenges, including the need for substantial funding, potential inflationary effects, and political resistance. Scaling up UBI to national or even global levels remains complex, requiring efficient administrative mechanisms to ensure the long-term sustainability of UBI. Overall, UBI has shown to be successful in improving well-being, but not much in decreasing income inequality.

Potential Solutions

To address the pressing issue of income inequality, strategies should not only target economic dimensions, such as taxes, SMEs, fiscal and other policies, but more importantly the roots of the problem. Ensuring universal access to quality education, healthcare, and basic services is vital, as well as tackling discrimination on all fronts.

Countries could increase investment in public, early childhood education, improve teacher quality and training, and provide scholarships and financial support for higher education. Quality education will provide individuals with the skills and knowledge to secure jobs and contributes to overall economic growth and the reduction of income inequality in the long term.

As for healthcare, it is crucial for maintaining a healthy workforce. Policies aimed at universal healthcare coverage and affordable medical services can reduce the financial burden of health-related costs and improve the overall well-being of lower-income populations. When individuals have reliable access to healthcare, they are better able to work and pursue education, thereby contributing to income equality.

Basic services, such as clean water, sanitation, housing, and energy, are the fundamental elements of economic stability and life nowadays. To ensure that all individuals have access to these basic services, infrastructure development particularly targeting low-income communities is essential for reducing income inequality. Access to basic services improves health outcomes, education, and economic participation, contributing to income equality.

Discrimination in hiring, pay, promotion, and access to education and healthcare create inequalities that prevent groups from reaching their economic potential. Anti-discrimination laws and policies, as well as promoting diversity and inclusion can help tackle discrimination. However, do keep in mind that in some countries, such as Saudi Arabia and Nigeria, have deeply ingrained cultural attitudes and societal norms that can hinder efforts to tackle discrimination.

Bibliography

Dabla-Norris, Era, et al. "Causes and Consequences of Income Inequality: A Global Perspective." IMF, 15 June 2015, www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2016/12/31/Causes-and-Consequences-of-Income-Inequality-A-Global-Perspective-42986.

The World #inequalityreport 2022 Presents the Most Up-to-Date & Complete Data on Inequality Worldwide:" World Inequality Report 2022, 14 Apr. 2022, wir2022.wid.world/executive-summary/.

"Chapter 2. A Fair Shot. IMF Fiscal Monitor, April 2021." International Monetary Fund, Apr. 2021, www.imf.org/-/media/Files/Publications/fiscal-monitor/2021/April/English/ch2.ashx.

Stanley, Andrew. "Global Inequalities." International Monetary Fund, 1 Mar. 2022, www.imf.org/en/Publications/fandd/issues/2022/03/Global-inequalities-Stanley#:~:text=The%20richest%2010%20percent%20today,at%20ecological%20and%20gender%20inequality.

"Our Offer: Annual Report 2023." UNDP, annualreport.undp.org/our-offer.html.

Roser, Max. "The History of Global Economic Inequality." Our World in Data, 28 Dec. 2023, ourworldindata.org/the-history-of-global-economic-inequality.

Anderson, Sara. “Global Income Inequality.” Inequality.org, https://inequality.org/facts/global-inequality/#global-income-inequality

Samuel, Sigal. “Everywhere Basic Income Has Been Tried, in One Map.” Vox, 19 Feb. 2020, www.vox.com/future-perfect/2020/2/19/21112570/universal-basic-income-ubi-map.

“Inequality and Share Prosperity .” World Bank, 14 Dec. 2023, www.worldbank.org/en/topic/isp/overview.

Parker, Ceri, et al. “Agenda in Focus: Fixing Inequality.” World Economic Forum, www.weforum.org/focus/fixing-inequality/.

Soares, Sergei. “Bolsa Família: A Summary of its Impacts.” Research Gate, Jan. 2012, https://www.researchgate.net/publication/241760475_Bolsa_Familia_A_Summary_of_Its_Impacts