Reducing unequal distribution of income and wealth

UNDP

Empowering Future Generations: Cultivating Global Literacy and Enlightenment

Forum: United Nation Development Programme (UNDP)
Issue: Reducing unequal distribution of income and wealth
Student Officer: Evgenia Chotou
Position: President

Introduction

Wealth inequality is the unequal distribution of wealth minus liabilities among individuals across a country. It tends to increase when ultra-wealthy individuals and companies exert their influence over government policies. They advocate for tax breaks for the ultra-rich and corporations, as well as less regulation on businesses. Policies that result in low wages for workers, and low taxes for corporations and ultra-wealthy people, drive economic inequality.

Income inequality is one way of measuring economic inequality. This shows how income is unequally distributed within a country or across the world. Economic policies that increase minimum wages, tax the wealthiest people, and use these public funds to invest in education can reduce income inequality. Economic policies that result in low wages for workers, and low taxes for corporations and ultra-wealthy people, increase inequality.

Definition of Key Terms

Sustainable Development Goals (SDGs)

The Sustainable Development Goals (SDGs) are a universal call to action to end poverty, protect the planet and improve the lives and prospects of everyone, everywhere. The Goals were adopted by all United Nations Member States in September 2015 as part of the 2030 Agenda for Sustainable Development which sets out a 15-year plan to achieve the Goals and their related targets. Never before had world leaders pledged common action across such a broad and universal policy agenda. The 17 Goals are interconnected, apply to all countries, and need to be carried out by all stakeholders – governments, the private sector, civil society, the United Nations system and others – in a collaborative partnership.

Gini Index

The Gini coefficient (Gini index or Gini ratio) is a statistical measure of economic inequality in a population. The index measures the dispersion of income or distribution of wealth among the members of a population. Itis one of the most frequently used measures of economic inequality. The coefficient can take any values between 0 to 1 (or 0% to 100%). A coefficient of zero indicates a perfectly equal distribution of income or wealth within a population. A coefficient of one represents a perfect inequality when one person in a population receives all the income, while other people earn nothing.

UNGA

The UN General Assembly (UNGA) is the main policy-making organ of the Organization. Comprising all Member States, it provides a unique forum for multilateral discussion of the full spectrum of international issues covered by the Charter of the United Nations. Each of the 193 Member States of the United Nations has an equal vote.

UBI Experiments

Universal basic income pilots are smaller-scale preliminary experiments which are carried out on selected members of the relevant population to assess the feasibility, costs and effects of the full-scale implementation of universal basic income (UBI), or the related concept of negative income tax (NIT), including partial universal basic income and similar programs

General Overview

Income Inequality

Reducing inequality of income is a major policy area. Income is at the source of many inequalities of outcomes and opportunities, as it often determines a household's access to food, health, education, housing, and a lot of what makes life feasible and enjoyable. Economists consider three levels at which personal or household income can be studied:

Primary Income
The distribution of income earned from economic activity,before taxes,subsidies and social benefits are applied.

Secondary Income

The distribution of income after applying taxes, subsidies and social benefits.

Tertiary income

The distribution of income when public expenditures in services such as education, health or infrastructure are factored in.

It is neither possible nor possible to achieve complete income equality for all. Variations in compensation can be reasonable and serve as beneficial incentives. Nonetheless, considering the magnitude of income disparity in the modern world, achieving a shift in distribution toward more income equality would significantly enhance the quality of life for billions of people and increase the sustainability of our communities.

Primary Causes of Income inequality

A range of global and domestic factors — which may reinforce each other — have been proposed in the theory and empirical literature to account for the income inequality trends. The key forces include the following:

Global Factors

Factors such as technological progress, globalization, and commodity price cycles, play an important role. For example, because those who have Higher Education have a competitive advantage when it comes to employing new technology, technical growth has helped to create the skill premium. In Western Europe and the United States, technological progress has also translated into a hollowing out of middle-class jobs, a phenomenon known as job polarization.

Country-specific factors

Factors that differ in each country, such as those related to economic developments and economic stability as well as to domestic policies — including financial integration, redistributive fiscal policies, and liberalization and deregulation of labor and product markets — also play an important role in explaining inequality trends within countries.

Consequences of Income Inequality

Escalating income inequality has been linked with numerous negative outcomes:

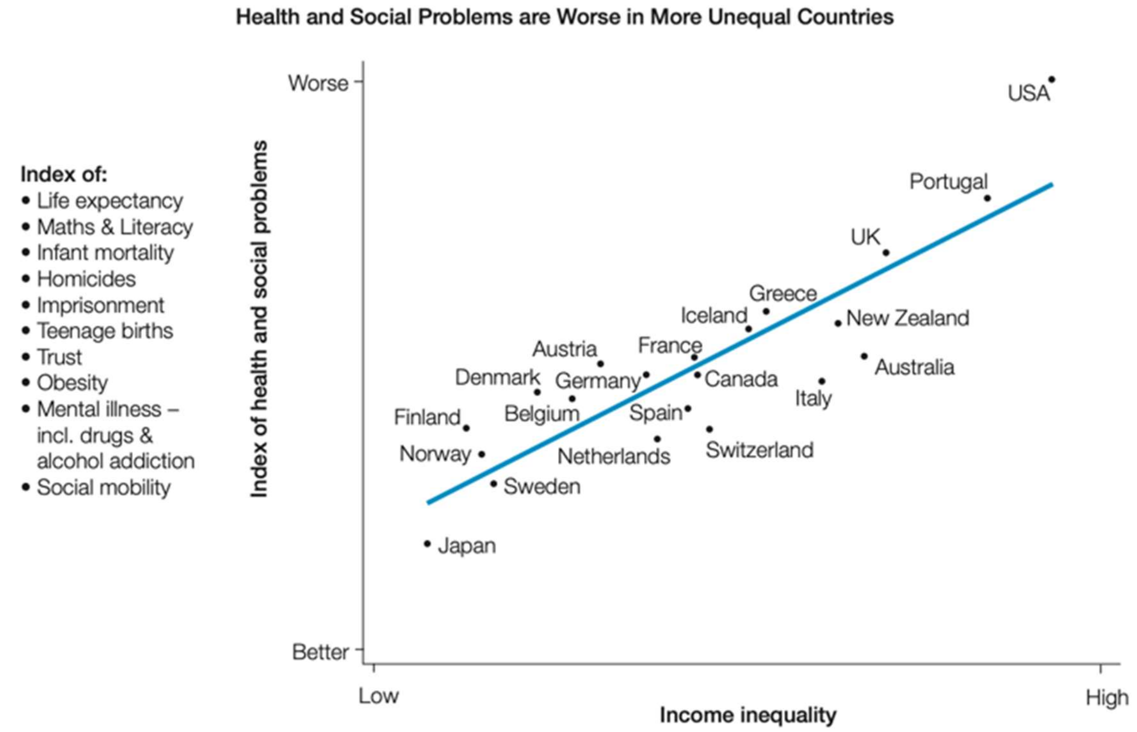
Economy

Consumer spending is good for economic growth but rising income inequality shifts more money to the top of the income distribution, where higher income individuals have a much smaller propensity to consume than lower-income individuals, therefore reducing growth, innovation, and investment. What's more, greater inequality reduces demand in an economy and is a major contributor to the 'secular stagnation' that the largest Western economies have been experiencing since the financial crisis. Inequality also increases the level of debt, as lower-income individuals borrow more to maintain their standard of living, especially in a climate of low interest rates.

Health

Research has shown that income inequality hosts different health and social problems (measuring life expectancy, infant mortality, obesity, trust, imprisonment, homicide, drug abuse, mental health, social mobility, childhood education, and teenage pregnancy) as being positively correlated with the level of income inequality across rich nations. Health steadily improves with rank and the correlation is little affected by lifestyle controls such as tobacco and alcohol usage. The leading factor that seems to make the most difference in ill-health is job stress and a person's sense of control over their work, including the variety of work and the use and development of skills. Furthermore, income inequality also impacts happiness and wellbeing, as the happiest nations are routinely the ones with low inequality, such as

Denmark and Norway. Happiness has been proven to be affected by the law of diminishing returns in economics.



Source: Wilkinson and Pickett, 2009a

Social

Rates of violent crime are lower in more equal countries. This is largely because more equal countries have less poverty, which leads to less people being desperate about their situation, as lower-income individuals have been shown to commit more crime. At the opposite end of the income spectrum, the wealthy in more equal countries are also less likely to exploit others and commit fraud or exhibit other anti-social behaviour, partly because they feel less of a need to cut corners to get ahead, or to make money. Homicides also tend to rise with inequality.

Major Parties Involved

South Africa

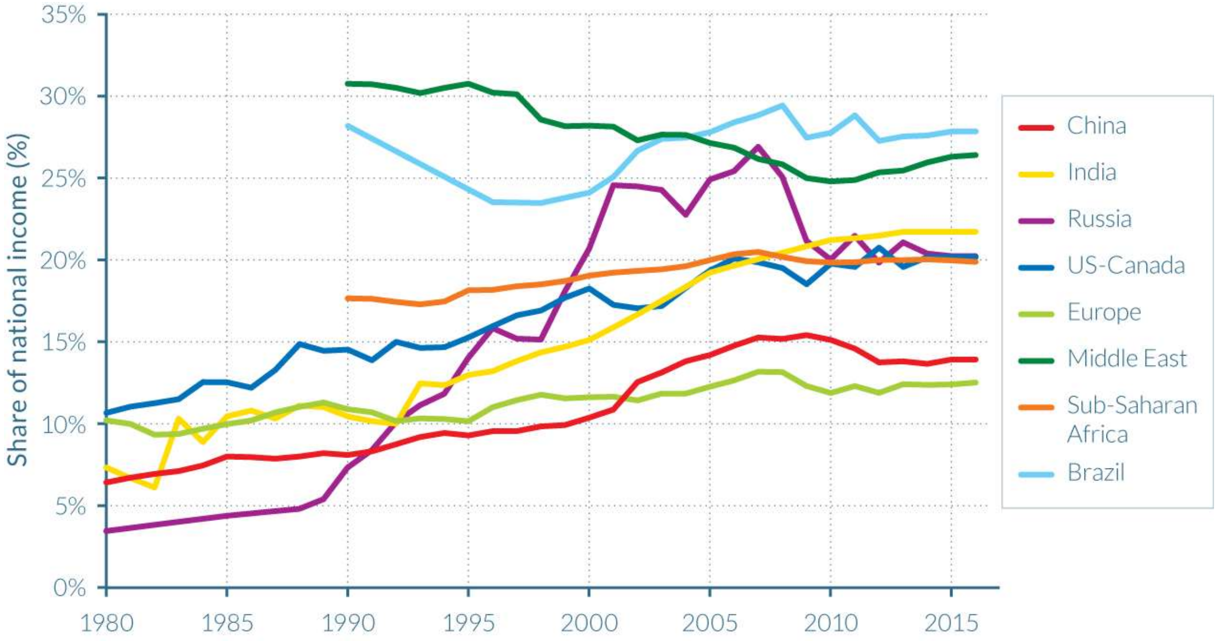
Based on the Gini index, South Africa has the world's highest income inequality. High unemployment is a significant driver of inequality, especially for young people. Gender, race, and land ownership are three other main causes. In South Africa, women earn 38% less than men even when they have similar education levels. When race gets added to inequality analyses, it contributes 41% to income inequality. In addition, the incomes at the top end of the income distribution are very high. It's more difficult to provide reliable statistics on this, because incomes for rich households tend to come from a variety of sources. One way to get a sense of this is to look at household expenditure – a good proxy for incomes. Unfortunately, South Africa's income and expenditure survey is now quite dated. But what's available shows that the richest 10% of South African households are responsible for some 52% of all expenditure. The poorest 10% of households contribute only 0.8% of all expenditure.

Brazil

Economic inequality in Brazil has reached extreme levels, despite being one of largest economies in the world. The last decades have seen incredible progress across Brazil. The country has been able to reduce inequality, taking millions of people out of poverty and thereby raising the base of the social pyramid. But despite this evolution, the pace has been very slow and the Latin American giant is still listed as one of the most unequal countries on the planet. The main reason why so many Brazilian families are living in poverty is not a general lack of resources, but rather their distribution. In contemporary democracies, inequalities and poverty result from tensions between the ethical requirements related to ‘rights’ and the imperative of economic efficacy; between the legal order that promises equality and the reality of exclusion brought about by the exercise of power. Low schooling levels are another consequence of this perverse development model. Ensuring universal access to quality education to sustain development was never given priority.

United States of America (U.S.A.)

Wealth inequality is higher in the United States than in almost any other developed country and has risen for much of the past 60 years. In the past 60 years, America witnessed a massive transfer of wealth from the middle class to the wealthiest families, increasing wealth inequality. In 1963, the wealthiest families had 36 times the wealth of families in the middle of the wealth distribution. By 2022, they had 71 times the wealth of families in the middle. In addition, over the past four decades, the difference in wealth held by white, Black, and Hispanic families has grown. In 1983, the average wealth of white families was about $320,000 higher than the average wealth of Black families and Hispanic families. The differences in wealth accumulation by race are the result of structural racism. Structural racism refers to the historic and current policies, programs, and institutional practices that facilitate wealth accumulation by white families while creating barriers to wealth building for or stripping wealth from families of color.



Source: WID.world (2017). See wir2018.wid.world/methodology.html for data series and notes.
In 2016, 14% of national income was received by the Top 1% in China.

Timeline of Events

1776	Adam Smith publishes *"The Wealth of Nations"*. Although advocating free markets, Smith emphasizes the moral and societal need to prevent extreme inequalities.
1848	Publication of "The Communist Manifesto" by Karl Marx and Friedrich Engel, which calls for the abolition of private property and the redistribution of wealth.
1913	Introduction of Income Tax in the U.S. The 16th Amendment allows a federal income tax, providing a tool for wealth redistribution.
1930s	President Franklin D. Roosevelt introduces Social Security, unemployment benefits, and progressive taxation to reduce economic disparities.
1942-1945	During World War II, the U.S. and other nations implement high top marginal tax rates to fund the war, contributing to wealth redistribution.
1945-1973	Many developed countries experience reduced income inequality due to strong labor unions, progressive taxation, and expansive welfare states.
1964	U.S. President Lyndon B. Johnson launches programs like Medicare, Medicaid, and food stamps to alleviate poverty.
1970s	Policies promoting deregulation, privatization, and tax cuts begin to emerge, particularly under leaders like Margaret Thatcher in the UK and Ronald Reagan in the U.S., leading to increased inequality.

1990	The UNDP introduces the Human Development Index (HDI) to measure inequality in broader terms, including education and health.
2000	The United Nations sets goals to reduce poverty and improve global living standards.
2015	The UN sets Goal 10 of Sustainable Development Goals (SDGs) to reduce inequality within and among countries.
2017	The Oxfam Inequality Report draws global attention to the growing concentration of wealth among the world's richest individuals.
2020-2021	The COVID-19 pandemic, exacerbates income and wealth inequalities, leading to debates about universal basic income, wealth taxes, and expanded social protections

Previous attempts to solve the issue

Land reforms

In recent years eliminating poverty has become the most important development objective (UNGA, 2000). As inequality in the distribution of production inputs, especially agricultural lands, seems to be the main cause of rural poverty and income disparity, combating rural poverty by providing greater access to land for poor households in developing countries is becoming increasingly common. Many countries have made land and property reforms in order to reduce income and wealth inequality, such as Taiwan's land reform from the Republic of China in 1949, South Korea's land reform after the Second World War, Japan's two land reforms in 1868 and the 1940s, India's land reform in 1961, Iran's land reform in 1962, the land reform of Yugoslavia in 1919, Mexico's land reform in the 1930s etc.

UBI Experiments

Several UBI Experiments have been conducted all over the United States, Asia, Africa and Europe. These experiments aimed at evaluating the viability, expenses, and consequences of implementing universal basic income on a large scale. There have been at least 160 UBI tests globally, according to the Stanford Basic Income Lab.About two-thirds of those tests have occurred in the U.S., but the largest and longest test is underway in Kenya. Since 2017, a charity is giving monthly payments of about 75 cents per day to over 20,000 Kenyans across about 200 rural villages until 2029.

Possible solutions

Progressive Tax reforms

Progressive tax laws seek to reduce income and wealth inequality by guaranteeing that people and organizations with greater incomes or wealth contribute a larger share of their earnings to public revenue. Taxing higher-income individuals and corporations at higher rates while reducing taxes for lower-income groups will help balance the difference between high, middle and lower classes. Moreover, revenue collected from higher-income individuals can be used to fund public services, welfare programs, and infrastructure, benefiting lower-income groups.

Strengthening Labor Rights and Unions

One of the most important ways to reduce income disparity, improve working conditions, and guarantee equal wages for all employees is to strengthen labor rights and unions. Labor unions with solid labor rights can promote a more fair distribution of income and help maintain economic stability by giving employees the freedom to jointly engage with employers. Workers should have the ability to negotiate wages, benefits, and working conditions as a group, giving them more leverage than they would have individually. Furthermore, labor rights ensuring the worker's safety in their working environments, protection from discrimination, and the ability to seek redress for grievances, should be established.

Affordable Housing Initiatives

The primary objective of affordable housing programs is to guarantee that people and families, particularly those with low to moderate incomes, have access to stable, affordable, and safe housing. Since housing expenses sometimes take up a disproportionate amount of lower-income households' income, these programs are crucial to lowering income and wealth inequality. Housing costs, including rent or mortgage, utilities, and taxes, should not exceed 30% of a household's income and housing should be available to all, including marginalized and vulnerable populations.

Useful documents

Addressing Income Inequality through Development Cooperation

Description: This document addresses income equality while also suggesting ways to combat it.

https://international-partnerships.ec.europa.eu/system/files/2022-09/income-inequalities-executive-summary_en.pdf

Land Reform: Sector Policy Paper

Description: This document analyzes land reform and its benefits, while also providing details about the land reform of many countries.

https://documents1.worldbank.org/curated/en/911161468153545471/pdf/PUB4400PUB0Lan00Box365739B00PUBLIC0.pdf

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