Forum: Economics and Social Council

Issue: Combatting rising social inequality: social inclusion as an aspect of sustainability

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Introduction

From the Declaration of the *Rights of Man and Citizen* in 1989 wherein the first article promulgates that 'Men are born free and remain free and equal in rights', to the Sustainable Development Goals wherein goal 10 aims to achieve 'reduced inequality', the international consensus seems to rest firmly on the notion of equality.

Why, then, do various societies seem like they are 'of the 1%, by the 1%, for the 1%'?

There is a pastiche of reasons why inequality has become so severe in numerous localities: economic policies, market distortions, rent seeking, globalization, and some dynamic of capitalism all play a role in furthering inequality. All the mentioned factors contribute to diverging wealth distribution. However, wealth is not where inequality ends.

Inequality also takes the form of opportunity inequality. Though inequality in opportunity could stem from underlying financial conditions, factors such as discrimination also attribute to unequal opportunity.

Though some degree of inequality is inevitable in a functioning economy, inequality at such extreme measures points to some degree of unscrupulous means that are not for the 'general good'. Moreover, and most importantly, inequality at the magnitude seen in many countries is not sustainable. Though perhaps capitalism will not collapse due to 'infinite accumulation' as Marx predicted, levels of discontent will simmer high enough to put a state's stability in jeopardy. Especially since extreme inequality leaves a moderate portion of the population bordering poverty, forces of divergence contributing to the growing inequality need to be addressed.

In essence, alleviating inequality is considering and aiding the wellbeing of the least well off. In doing so, not only can society function in a more equal manner, but the economy as a whole can also benefit.

As a disclaimer, please keep in mind that the economic ideas in this report can be subject to controversy, as most economic ideas or models are. Considering the nuances to every claim or analysis and by doing a quick search on the Internet could yield insight into opposing views; examining evidence from multiple ends would be optimal.

Definition of Key Terms

Inequality

Inequality can be defined as 'the state of not being equal, especially in status, rights, and opportunities'. In this context, inequality would be more pertinent to the unequal opportunities and rewards in a society. However, essentially inequality is connected with the wellbeing of an individual. Wellbeing can be separated into three dimensions: the material which puts emphasis on standards of living; the relational that puts emphasis on personal and social relations; and the subjective that has to do with values and perception. Inequality is an amalgam of unequal opportunities of the above three.

Capital

Capital can be defined as 'sum total of nonhuman assets that can be owned and exchanged on the market'. Though typically human capital is considered part of capital, humans cannot be exchanged on the market and thus, do not fall into capital. Capital can also be thought of as wealth (though strictly they are not exactly synonymous); of course, wealth net of liabilities (debt), that is.

Neoliberalism

The neoliberal agenda comprises of mainly two elements: To increase competition through deregulation and opening of all domestic markets; downsizing the role of the state through privatization and limiting government spending. Since the 1980s, neoliberal policies have been pervasively adopted.

Sustainable Development Goal 10

The purpose of the tenth Sustainable Development Goal is to 'Reduce inequality within and among countries'. This would include (but is not necessarily limited to): Achieving and sustaining the income growth of the bottom 40% at a rate higher than the national average; Promoting social, economic, and political inclusion for all; Ensuring equal opportunity and reducing inequalities of outcome by eliminating discriminatory laws and practices; Adopting policies– fiscal and wage– that progressively achieve greater equality; Improving the regulation and monitoring of the global financial markets.

Background Information

The illusion of equality

In March of 1955, Simon Kuznets published a paper on *The American Economics Review* titled 'Economic Growth and Income Inequality'. In it he concluded that during the growth of a nation, inequality will follow an inverted U-curve; inequality will rise then fall. His conclusion rested upon two assumptions: a significant income gap is present between rural agriculture and urban industry, and that there is greater inequality in urban industry than in rural agriculture. The logic is as follows: As the labour force goes from labour-surplus agriculture to labour-needing industry, the weight of industry (with greater inequality) increased while the gap between the two sectors widened. This shift caused greater inequality first since the industrial sector was more unequal and more labour was directed towards it. However, inequality 'eventually diminished because of the rising economic and political bargaining power of the lower-income groups after the initial dislocation of the Industrial Revolution and after they had become more established urban resident and more organized […] and it was this social transformation that was the basis for a trend break in the income distribution of a country'. For Kuznets, inequality was just a phase of growth in an economy. As in the aphorism, growth is 'a rising tide that lifts all boats'.

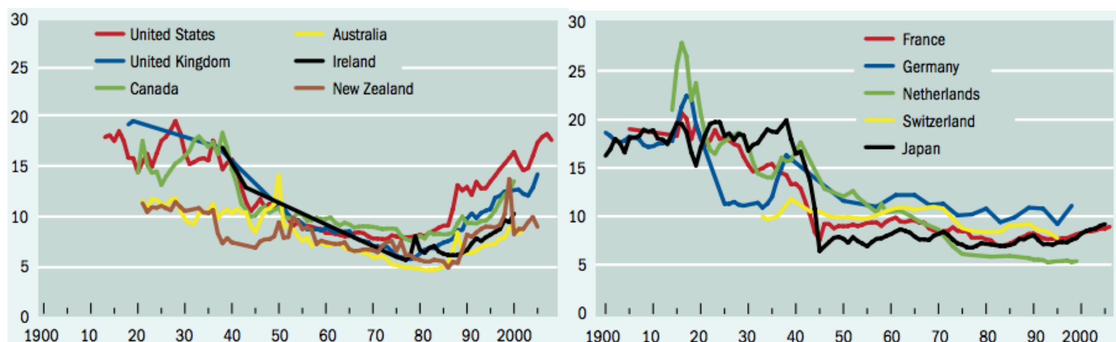
However, when considering the implications of Kuznets hypothesis– inequality as a product of growth– a trade-off between equality and growth occurs. But is there actually an inevitable trade-off between growth and equality? Studies– done by Anand and Kanbur, 1993; Deininger and Squire, 1996; Ravallion and Chen, 1997; Easterly, 1999; Dollar and Kraay, 2002– published in different countries indicate that growth had neither a positive nor a negative effect on inequality. Results of all combinations were noted: Higher growth with higher equality, higher growth with lower equality, lower growth with higher equality, and lower growth with lower equality. There was little to no correlation between growth and inequality.

It turns out that Kuznets noted a decrease in equality between 1913 and 1948– during which two world wars and the Great Depression occurred. The shocks on the capital stocks were most definitely the prevailing cause of decreased inequality. However, policy turned towards maximizing growth, disregarding the distributional effects. Progressivity of taxes was reduced, financial markets were liberalized, and macroeconomic policy turned towards keeping inflation low.

1980s

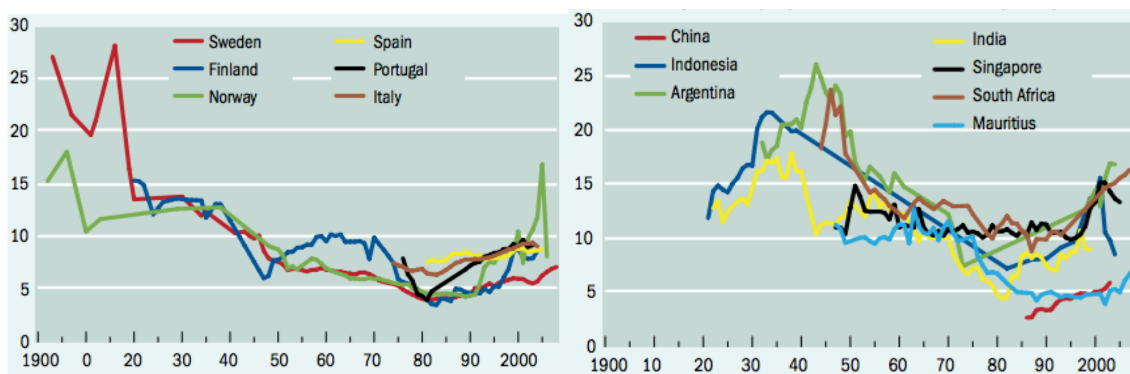
It was in the 1980s– when supply-side and trickle-down economics gained prominence– when inequality started to grow at a much faster rate, especially in the United States and the United Kingdom (Reaganism and Thatcherism). Such a shift in the political and economic climate brought about tax cuts, reduced government spending, and more liberalization of the markets. In essence, it was the rise of neoliberalism. Currently, inequality is rising back up to levels prior to World War I.

Prior to World War I, inequality in Europe was perpetuated by inheritance (amongst other factors). Even after inheritance taxes and laws were established, the magnitudes of such taxes were much too small to really affect the structure of inequality. Contemporaneously, inequality was much less severe in the (northern) USA due to its tender age; it was only a couple centuries after the USA was declared free thus the USA had a far smaller stock of capital. However, after the World Wars, which rocked and shocked the global capital stock, inequality fell drastically. But in the recent decades, inequality has been creeping back up. Below are graphs depicting the share of the top 1% of the income distribution.



Caption #1: English Speaking Countries (IMF)

Caption #2: Europe and Japan (IMF)



Caption #3: Nordic and South Europe (IMF)

Caption #4: Developing countries and Singapore (IMF)

In most of the graphs, the share of the top 1% plummeted after the World Wars. But in all graphs, the share of the top 1% is once again rising. Quite notably, the United States seems to be leading in levels of inequality out of the MEDCs. Developing countries– often due to political instability– often experienced heightened levels of inequality. Scandinavian countries seem to be doing quite well in terms of maintaining equality. Though the degree of inequality differs from place to place, the trend of rising inequality is ubiquitous.

Key Issues

Income inequality

Income is the rate at which wealth is *earned.* Income inequality is typically lower than wealth inequality; however, income inequality still plays a dominant role in social inequality as a whole. To a certain extent, life quality is highly contingent on income. The quality of food, housing, education, and other commodities and services all depend on how much a person can or is will to spend.

Labor/ wage inequality

Wages are quite important since almost two-thirds of household income is compensation for labor (in the form of wages). However, a polarization of wages has been occurring; there are fewer and fewer middle-wage jobs. Due to technology, jobs are being replaced by machinery: highly skilled people who cannot be replaced by machines enjoy more lofty wages as lower skilled employees are forced to compete with technology. This polarization can be attributed to both market and political forces.

Education v. Technology

A commonly accepted theory of the labor markets is that: The supply is controlled by the level of and access to education while the demand is controlled by the state of technology. Though this economic model waters down a rather convoluted subject, it nonetheless highlights important factors. The theory makes two assumptions: that a worker’s wage is equal to his/her marginal productivity, and a worker’s productivity depends on his skill and the supply and demand for that skill in a society. The important takeaway is that the supply and demand of skill is more or less the determinant of wages. For instance, an engineer in a society where engineers are scarce or demand for engineers is high, the engineer will be well compensated for his/her skills. However, polarization of the markets due to advancements of technology has caused the supply for not as highly skilled labor to rise and for highly skilled labor to fall. As mentioned before, technology is replacing or competing with the not as highly skilled employees; as a result, more highly skilled employees are needed to manage or program the machinery/technology. This causes the wages for the not as highly skilled to fall and the wages for the skilled to rise, furthering wage inequality. Factors that cause this polarization include globalization, weakening of unions, market monopsony, and various other forces.

Globalization

Outsourcing

Globalization has caused the wages of less skilled labor to decrease because of outsourcing. With fluid capital, the bargaining power of the supply of labor attenuated; capital can be moved abroad to places with lower prices for labor and/or lower taxes.

Tax competition

Tax competition is a corollary to the liberalization of the capital markets. The free flow of capital allows investors to move their capital abroad to reap higher gains. Due to tax competition, governments have not been able to keep taxes on capital or capital gains at a reasonably high rate. In the Greek crisis for instance, the Greek government was not able to make the needed fiscal changes to compensate for the budget deficit; if taxes on capital or capital gains were to be raised a significant amount, investors would move the capital abroad to a country with lower tax rates (hence the Greek government resorted to austerity and cutbacks on government spending, a rather dubious 'solution' a nation could enact in the face of debt and a moribund economy). On a global scale, when capital is fluid and labor is not, labor will compete for capital, thus cutting costs (wages).

Rent seeking

Rent seeking can be defined as the ways by which a political system helps the rich at the expense of the rest of society and economic efficiency. Rampant inequality is a self-reinforcing phenomenon: Rent seeking accrues wealth and political influence for the wealthy; the political influence is used to form legislation in favor of the wealthy which to some extent allows rent seeking; the rent seekers accrue even more wealth. Though it is commonly thought that direct government intervention is the only force that distorts markets, markets, left unattended to can also be distorted in more subtle ways. Hidden subsidies, lack of competition and lax enforcement of competition laws, and government giveaways can all distort the market.

Hidden subsidies and government giveaways

Hidden subsidies can be summarized as the amount that a corporation does not pay for a negative externality. For instance, the lack of a carbon tax in many places act as a subsidy since the corporation polluting the environment, causing a negative cost to the rest of society, should make up for such a negative externality. However, there could be a debate on whom the right to the environment is reserved for; is it the right of the corporation to pollute? Or is it the right of the rest of society to have access to clean air? A utilitarian perspective generally favors the latter.

Government giveaways happen when a public good is privatized for free or at below market prices. Given government budget constraints, such giveaways take away from investments in more productive sectors; due to a more constrained budget, governments may not invest as much as they could have into sectors that would boost long-term productivity such as education or healthcare. For instance, right after the Great Recession, the Federal Reserve cut interest rates (nominal interest rates; real interest rates could be lower) to near zero to lend to banks; banks then invested in treasury bonds or foreign governments at a much higher interest

rate than they had borrowed. The difference between the interest rates could be seen as a government giveaway.

In essence, these hidden subsidies or giveaways decrease the total tax revenue, thus restricting the degree to which governments can invest in sectors which have positive externalities (and thus should be subsidized).

Competition

Monopolies are generally anathema to the public, and with good reason. Since monopolies charge above the optimal price, a deadweight loss is resulted in and thus economic efficiency is impeded. However, another aspect in which monopolies affect the rest and inequality is since they charge at above optimal prices, the relative purchasing power of consumers is decreased. This is especially problematic to the people at the bottom of the income bracket and wealth hierarchy since their purchasing power relative to the rest of society is already very low.

Inequality of opportunity

The dichotomy between inequality of opportunity and inequality of outcome is a false one; does one get a higher income because one has access to better education? Or does one get a better education from a higher income? Opportunity and outcome are inextricable, and reinforcing. In many cases, inequality of opportunity can be linked to financial disadvantages. However, discrimination also plays a role, enacting ‘self-fulfilling prophecies’.

Education

As mentioned before, education is the supply side to the labour markets. Since education provides the skills for labor, access to education is essential to opportunity in income mobility. However, when a government fails to provide the subsidies to grant equal opportunity to education, the people in the lower hierarchies of the income bracket usually lose out on such opportunities. In fact, the high prices of attending university coupled with stagnant wages, an increasing number of people find themselves precluded to a high quality education and thus opportunity. Moreover, faced with predatory lending from the government, more and more students with student loans find themselves facing bleak prospects; an overcrowded labor market coupled with loans that cannot be relieved (there is no chapter 11 for student loans in the bankruptcy code, at least not in the United States).

Labor market discrimination

The labor market discrimination hypothesis is a simple one. Suppose that an employer, with underlying preconceptions, predict that certain social groups are less qualified or lack certain qualities or human capital for the job. Given the phenomenon of asymmetric information,

employers face making decisions that are based on imperfect signals, such as the results of a test or an interview, et cetera. Since the employer expects that certain groups are less likely to have the required abilities or capabilities for the job than other groups, discriminated groups have the bar set higher for them: only exceptionally good applicants are accepted. Since the probability of being hired for a job is lower, members from the discriminated group will be less likely to make the necessary investments in human capital such as education. Only those highly confident in their abilities will undertake long– and expensive– courses of study, et cetera. In essence, the employer's expectations will alter the behavior of a certain social group, often in a perverse way. This can also be viewed in supply and demand: If demand for a social group's labor falls, the supply will adjust commensurately. This self-fulfilling prophecy is highly inefficient since economic efficiency requires that 'groups with identical capabilities make identical investments in human capital.'

Policy

Inflation has always been looked down upon. Though inflation to extreme degrees is not exactly beneficial, the monetary *zeitgeist* of battling inflation has become rather harmful in terms of addressing inequality. Furthermore, budget deficit and debt that governments have been given undue preponderance and have been addressed in an adverse manner. Usually, faced with staggering deficits, governments turn towards austerity, cutting back in government spending; this is not only effective, but also impedes the long-term growth of an economy. Lastly, after the two great wars of the twentieth century, the political climate shifted towards adopting the progressive tax system; in doing so, inequality of income had been reduced. However, after the 1980s, after Reaganism and Thatcherism had been adopted, tax cuts and less progressive taxes lead to increased inequality.

Inflation

Inflation targeting has been a strategy adopted by central banks. In fact, the Federal Reserve of the United States is mandated to ensure maximum employment, moderate interest rates, and *stable prices (*low rate of inflation). The European Central Bank's mandate is– with overriding importance– to ensure price stability, or: a low rate of inflation. Though a low and predictable rate of inflation has its benefits (there are implicit costs to inflation), financial stability is– in light of past financial crises and their aftermaths– much preferable. Though inflation affects the less wealthy the most (as wealthier people have their wealth in real assets while less wealthy people usually just hold cash which loses its value due to inflation) unemployment affects the less wealthy at a more severe scale. Plus, keeping inflation low and interest rates high does not benefit the less wealthy the most; it is the bondholders and creditors who reap the benefits of low inflation.

Austerity

Due to growing budget deficits, austerity could be a reasonable way of dealing with them. However, when an economy is in a slump, austerity could possibly make the situation worse; yet, since austerity packages typically call for cuts in public spending, wouldn't this raise tax revenue? This depends on where the cuts happen. If the budget cuts end up taking investments out of sectors such as education or healthcare, long-term economic growth (and even short-term in the case of healthcare) can and will probably be impeded. Furthermore, recession usually happens when the aggregate demand is too low. Cutting government spending will only make the situation worse. Though pulling back on spending may alleviate the 'overcrowding' phenomenon, the former outweighs the latter. Moreover, cuts in public spending– if on sectors such as social security, healthcare, education, unemployment benefits, and social safety nets in general– disproportionately harm the people at the bottom of the income hierarchy. Since these transfers are decreased, social inequality as a whole increases.

Taxes

Progressive taxes adopted after World War II had quite an impact in curbing inequality. However, since around 1980, taxes have not been as progressive as they could and should be (at least in the USA). The result was a return of staggering inequality. However, asides from losing progressivity, taxes have also failed to take capital gains into account. Since the higher into the wealth hierarchy people make more from capital gains and less from labor, the people at the top of the wealth hierarchy are actually paying less (in percentage) taxes (keeping in the mind the distinction between income from capital and income from labor). And thus, in view of the *wealth* hierarchy, taxes have actually become slightly regressive (at least in the USA). This can be attributed to the continuous cuts in taxes on capital gains. As mentioned above, due to globalization, capital can be moved abroad if taxes are too high. Thus, taxes have been competed down.

Capital inequality

The capital to income ratio

The capital to income ratio, B, is the ratio of the 'sum total of nonhuman assets that can be owned and exchanged on the market' to national income (annually). For instance if B= 3 or 300%, it means that the stock of capital is 3 times the amount a nations earns a year. In hindsight, the capital to income ratio had been rising up to the world wars where it plummeted due to capital losses. However, since then, the capital/ income ratio has been rising continuously.

Brief history of capital

Capital, since the 18th century, has always been very concentrated, much more concentrated than income. Typically, the top decile of the wealth hierarchy own more than 50% and

occasionally as much as 90% of the capital stock, even in the more egalitarian parts of the world. However, since the world wars, inequality has not returned to its astronomical levels then. Moreover, in the case of Britain, many foreign assets were lost.

Inheritance

After the great wars, it seemed like the age of inheritance was over, which was true for a while. Since during the wars, capital and wealth took major hits, the wealthy during those times were not able to pass on as much as they would have. Thus, for the first time in history, the top inheritor's living standards fell below the top laborer's, meaning that labor's share was bigger than inheritance's share of the economy. Estimates of annual inheritance and gifts (as a percentage of household disposable income) fell from about 24% prior to WWI, to around 10% after WWI; a little while later, during around 1939 of almost 12% to a record low of 6% after WWII. However, since then, annual value of inheritance has started climbing back up, growing to the levels of what it was prior to the First World War.

There are, when simplified down, around three forces that affect inheritance. The accountable flow of inheritances and gifts is expressed as a proportion of national income and is denoted by b_y. The three forces are: the ratio of average wealth at time of death to average wealth of living individuals, the mortality rate, and the capital/income ratio, denoted by μ, *m,* and Β respectively. Hence: $b_y = \mu \times m \times \beta$. Mortality rate has decreased due to the increase in life expectancy. However, this does not mean that inheritance has lost its importance. The decrease in mortality rate has actually been more or less compensated by the increase in μ, which can be thought of as how rich a person who just died is compared to how rich the *average* living person is. Thus, the product of $\mu \times m$– which by definition is the annual rate of transmissions by inheritance– has and is still more or less 1 in more developed societies. This just leaves the variable Β. As mentioned before, the total stock of capital has been steadily increasing, thus as a whole, inheritance has also been increasing in importance.

r > g

The inequality above represents a central force of wealth divergence. The rate of return of capital (rent, dividends, bonds, stocks, et cetera) is denoted by r; the growth rate of the economy as a whole is denoted by g. The logic is rather intuitive here. For instance, if the growth rate of the economy is 2%, and the average return on capital is 6%, one only has to reinvest a third of the return to match the growth rate of the economy. However, wealth may not accumulate infinitely. Diminishing returns on capital may cause wealth accumulation to slowly plateau out. Though the spiral of inequality may not be indefinite, it seems to be heading towards a degree in which sustainability is compromised.

Size of capital stock

If the above were true, that wealth creates itself, wouldn't *all* magnitudes of wealth grow at the same rate? Unfortunately, no– if it were the case, inequality would not exist. There are many factors that can and does affect the rate of return on capital. However, most of those factors are correlated with the initial size of wealth; the bigger the size, the better the return. From the billionaires on *Forbes* magazine to the rather prodigious endowments granted to universities, the trend that a larger initial endowment of capital yields a higher rate of return holds constant. This is rather intuitive. One with a very large fortune only has to live off a small of the return it yields, while reinvesting the rest– cumulative compounding works its magic. For data collected from 1980 to 2010 of returns on university endowments, the trend still evinces itself. The average return on capital was 8.2%. The triumvirate of Harvard, Yale, and Princeton, with endowments of over 30 billion, 20 billion, and 15 billion respectively had an average return of 10.2%, 2% higher than average (a remarkable amount considering the magnitude). Universities with endowments smaller than 1 billion 'only' had returns of 7.8%. Lastly, universities given less than 100 million had the lowest returns of 6.2%. The main reason for this difference in return is that universities with greater initial capital were able to hire better teams of financial advisors, which in turn lead to greater returns. Harvard spends 100 million to manage its endowment, just 0.3% of it's total. But to the universities given less than 100 million, well, spending 100 million on managing less than 100 million would make no sense. A study on the returns of sovereign wealth funds also yields similar results. While perhaps not infallible, wealth, if invested well and with consideration, gives rise to itself with ascending degrees of magnitude.

Disconcerting implications

What all this implies is that those with wealth that can be invested will get richer; however, those with a lot of wealth will get even richer *at a faster rate.* And making markets 'freer' or more 'perfect' will not change this. Since an efficient capital market finds the best returns possible on each investment, a more perfect capital market will only exacerbate the situation with inequality (not that efficient markets are bad).

Major Parties Involved and Their Views

The International Monetary Fund (IMF)

The IMF was created at an international conference held in Bretton Woods in July 1944. The goal of the convention was to construct a framework for economic cooperation and development to form a more stable and prosperous economy.

The IMF's mandate is 'to promote international monetary cooperation and provide policy advice and technical assistance to help countries build and maintain strong economies.' The fund provides loans to countries in need of balancing their sheets and also policy advice. IMF loans include short and medium term loans that are funded by a pool of quota contributions provided by IMF members. The IMF focuses on macroeconomic issues.

Back in the 1980s, with the rise of neoliberalism, the IMF was one of the zealous proponents of austerity and capital liberalization. In fact, the IMF would go as far as to threaten countries with usurious interest rates to implement neoliberal economic policies. However, recently in an IMF report published in June 2016, researches in the IMF have concluded that: neoliberal policies, taking various countries into account, may not have stimulated increased growth; the had caused an increase in inequality; inequality hurt the level and sustainability of growth.

The IMF is now coming to realize that perhaps austerity and unfettered capital markets are not the ideal ways to stimulate real growth. Since the IMF is a source of funding which allows indebted countries some reprieve, all the while a influential force in normative macroeconomic policy, it will play a pivotal role in addressing inequality as a whole.

The World Bank

The World Bank was also founded at Bretton Woods in 1944; it was conceived as a complement to the IMF. While the IMF focuses on macroeconomic policy, the World Bank pays more attention to long-term economic development and poverty reduction. The mandate of the World Bank is 'to provide technical and financial support to help reform particular sectors of implement specific projects– such as, building schools and health centers, providing water and electricity, fighting disease, and protecting the environment.' In this respect, the World Bank plays an important role in reducing inequality as dissemination of know-how and technical knowledge is a force of wealth convergence.

The United States of America

The United States has been doing a very disappointing job in controlling inequality. Despite the successes in social security, Medicare, and other welfare provisions in alleviating poverty, the United States has a very concentrated amount of wealth.

Inequality was at a steady rate prior to 1980; however after Reagan took office and enacting massive tax cuts and government spending, inequality started to increase at a much faster rate. Additionally, a change in social climate allowed a 'rise in the super-managers'. The pay gap increased at an unprecedented level. This is something the 'marginal productivity theory' does not account for. A more plausible explanation is that such managers gained 'bargaining power' for their salaries; lax board members allowed managers almost *carte blanche* over their pay. This regime of super-managers is a strong force of wage divergence.

Furthermore, monetary policies and an under-regulated financial system have caused major financial and economical crises. The over-leveraging of banks, designed-to-fail derivatives, sub-prime mortgages, predatory lending, et cetera has set the economy in vertiginous positions.

The United States still has the largest economy in the world. Its economic clout can still influence other nations and thus the USA could and should act as a leader in combating inequality. Sadly, recent trends in inequality and past financial farragoes have made the USA policies rather undesirable.

The European Central Bank (ECB)

The European Central Bank was conceived on June 1, 1998, in the adoption of the euro. It also controls the monetary policies of all the nations that adopted the euro. The mandate of the ECB is ‘to maintain price stability’. As mentioned before, the overemphasis on inflation has been at the expense of employment, growth, and stability. For instance in 2011, the ECB increased interest rates to slow growth and lower inflation, even when growth was already slow. Furthermore, the ECB has been adamant on stimulating growth in localities with high unemployment. Unfortunately, even today the ECB is mandated to keep inflation low.

Timeline of Relevant Resolutions, Treaties and Events

Date	Description of event
March, 1955	**‘Economic Growth and Income Inequality’ published** Simon Kuznets published his paper ‘Economic Growth and Income Inequality’ to show that inequality was actually decreasing and following an inverted U-curve. This new ‘insight’ shaped much of the later policies. Since equality will be achieved by growth, economic policies mainly focused on growth and disregarded distribution, even though Kuznets was later proved wrong.
July, 1944	**Conception of the IMF and The World Bank** Arguably the two most macro economically influential agencies are the IMF and the World Bank.
September 25, 2015	**Adoption of the Sustainable Development Goals (SDGs)** The adoption of the SDGs marked a shift in political and economic *zeitgeist* from mere growth to equality. While most goals implicitly address social inequality, the tenth goal was conceived explicitly for ‘reduced inequality’. These goals

provide a roadmap for both governments and NGOs to strive for and thus are quite important in the shifting social climate.

Relevant UN Treaties and Events

- Articles of Agreement of the International Monetary Fund, 22 July 1944
- Transforming our world: the 2030 Agenda for Sustainable Development, 21 October 2015 **(A/RES/70/1)**
- Inequality Matters: Report of the World Social Situation 2013 **(ST/ESA/345)**

Evaluation of Previous Attempts to Resolve the Issue

As mentioned before, inequality is no stranger to society. Throughout the course of history, increasing inequality has always plagued society. However, it was the great wars and a great depression that reset the accumulation of capital. This lead people to believe that the age of rampant capitalism was over; however, there was a rather serendipitous policy that was picked up after the world wars– that of the progressive income tax. Initially, such a tax was not conceived to reduce inequality and curb its inimical effects. However, historical data shows that since the adoption of progressive income taxes, inequality shrank, or at least grew at a slower rate. The estate tax to limit inheritance was also pervasively adopted. The social climate was of meritocracy and equal opportunity.

However, these policies, though still adopted near ecumenically, have not done much in keeping inequality in check. Due to a mix of neoliberal policies and globalization (perhaps a corollary of the former) income taxes have perhaps become regressive and inheritance tax codes are riddled with loopholes. Tax competition inhibits a single nation to tax capital gains at a progressive rate.

Moreover, attempts at fueling growth to combat absolute inequality with letting the tide 'lift all boats' did more to increase inequality than to keep it down. Supply-side and trickle-down economics have massive failures in addressing inequality. Furthermore, the cut in government spending on essential public investments such as education and healthcare exacerbated opportunity inequality.

Possible Solutions

Since unfettered markets are not exactly 'free' markets, addressing the market distortions and externalities would help to keep inequality down.

Wage inequality is a more precarious subject as changing the wage *can* and will probably distort the markets to some extent. Increasing wages is known as a direct redistribution where the firm plays a direct part in allocating capital to the rest of society. Depending on the elasticity of substitution between capital and labor, raising wages may alleviate or exacerbate inequality. If elasticity is high, meaning that labor is easily substituted by machines (capital), then raising wages is not a very good ideas as the volume effect outweighs the wage effect causing the net income of labor to shrink. Fiscal redistribution would be a better idea; taxing the *profits* and/or capital of the firms would not cause market distortion. Firms are not going to raise prices as a result of taxing profits since it would cause total profits to drop. Taxing profits for social transfers (social security, healthcare, education, unemployment benefits, et cetera) is a more effective way of redistribution in a market where labor can be easily substituted. However, the opposite is true when labor is *not* easily substituted. For instance, in the service sector, where human capital is hard to be replaced, direct redistribution would have the advantage of transparency and simplicity.

A global progressive tax on capital will ensure that the inequality $r > g$ does not spiral out of hand. Note that this tax is not just on income; as mentioned before, income from labor does not represent one's actual position in the wealth hierarchy. Most individuals at the top of the wealth hierarchy earn from capital returns. Thus, taxing capital as a whole progressively will ensure that an equitable redistribution take place. However, such as tax has to be *global.* With the fluidity of capital, if the tax only occurred in one place, investors would merely move the capital to somewhere with lower tax rates. Though a truly global tax on capital is rather idealistic at the moment, working to achieve it incrementally can still be plausible. In places such as China where capital flow is less free, working for a regional progressive tax could be a possibility. The Eurozone can possibly also adopt this strategy.

However, for the above to even be plausible, banks throughout the world need to collaborate. Tax accounting would require all places of capital reserves to work together. This could also address the problem of tax havens if private banks were required to share their balance sheets to the UN.

Lastly, the significant revenue accrued from such taxes can further alleviate inequality through fiscal redistribution and tax transfers.

Another promising path one could take is through implementing a progressive consumption tax. The idea is that, up to a point on the income hierarchy, individuals do not have to pay a consumption tax; however, after a certain income, the tax gets progressively higher in each income bracket. However, this tax is unlikely to replace the currently prominent income tax; tax revenues would shrink too much if that were the case.

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