United Nations Economic and Social Council

Recovery policies to combat wealth inequality

Bangalore Junior Model United Nations 2021

Table of Contents

Message from the Bureau

Dear Delegates,

Welcome to the United Nations Economic and Social council! In this committee, you will be partaking in intense debates on wealth inequality, and generating respective solutions towards eradicating it within your country, as well as globally. This agenda is extremely pertinent especially in today's times, and we hope that you as young delegates are able to put your heads together and develop excellent resolutions.

As we know, due to the impudent Coronavirus we were required to shift to the virtual mode, and while this can be intimidating, your Bureau assures you that this conference will not only give you the right exposure, but also make you feel comfortable to perform your best.

In preparation for the conference, we urge you to thoroughly research the agenda and the repercussions your country would face. Your chair, Jia Misra, and vice-chair, Sunidhi Tumuluru, sincerely hope that you will use this document as a starting point for your research.

We are dedicated to making you feel comfortable, so do not hesitate to ask even the simplest of questions. If you have any questions please email us at bangalorejmun@oakridge.in with the subject line: "UNECOSOC_Queries" or visit the website at https://bangalorejmun.in/.

Your Bureau is looking forward to an interactive, productive, and engaging debate!

Sincerely,

The Bureau of the United Nations Economic and Social Council.

Chair: Jia Misra
Vice-Chair: Sunidhi Tumuluru

Introduction

The United Nations Economic and Social Council (ECOSOC) is responsible for the economic and social concerns across the globe, aiming to promote higher standards of living, increased employment and social progress. The United Nations Economic and Social Council was established by the UN charter in the year of 1945 and is considered one of the six main organs of the United Nations bodies.

The United Nations Economic and Social Council has achieved several goals through its years of functionality. ECOSOC serves an important role in assessing progress through its Annual Ministerial Review and National Voluntary Presentations. The review progress and process were strengthened further by the creation of the High-level Political Forum (HLPF), ensuring that the 2030 agenda of attaining a sustainable global society will also be met.

What is Wealth Inequality?

Wealth inequality is defined as the unequal distribution of income between different communities in society. In other words, the pay gap between those suffering at the hands of poverty, and those who are wealthy are enormous. Wealth inequality has magnified over the years and become a concern in each and every country, making it difficult for those at the poverty line to climb the economic ladder.

Difference between Wealth and Income

While the lines between wealth and income are often blurred, there is an enormous difference between the two. Wealth is referred to as the net value of a person including their income and assets subtracted by their debt. Organisations, countries and people are known as wealthy when they have many goods and valuable resources. On the other hand, income is the money that comes in through employment, rents and businesses. The sole reason wealth and income vary is because wealth is stock and income is flow.

Causes of Wealth Inequality

1. Tax policies that favour the wealthy - While regressive taxes may seem equitable at the surface level, what we fail to realize is that regressive taxes tend to hit harder for lower-income earners. In doing so, the rich continue to get richer while paying minimal taxes whereas the poor that earn limited incomes continue to face financial drawbacks. Additionally, the type of tax paid by the rich and poor varies.

   For instance, those earning low incomes tend to pay income taxes which are dependent on the amount of money made, whereas the rich tend to pay capital gains taxes which is money made from the stock sold. This means that the rich live off of the wealth shares from their stock market and only pay tax when they decide to sell their stock.

   An example of this can be seen when Warren Buffet touched upon how his secretary paid twice the rate he paid and said "She pays twice the rate I pay, and I think that's outrageous". He also went on to say that he believed that the rich were undertaxed. This is because Warren Buffet and his secretary pay different types of taxes. The secretary pays income tax which is dependent on the income she receives per annum whereas Warren buffet pays capital gains taxes on his sold stock. According to research, the maximum tax percentage paid through stock is 20% where the maximum tax paid through income taxes is a staggering 37%. For instance, a wealthy person would earn $400,000 through stock and simply pay $50,000 on capital gains taxes whereas an average person earning $400,000 through employment would be paying $110,000 on income taxes. This creates inequality because of the unequal taxes paid.

   There's also a massive loophole in the capital gains tax system that the wealthy exploit to avoid paying taxes called the stepped up basis. In this system, if a wealthy person were to sell their stock they would have to pay capital gains taxes based on the profit earned, however, if he holds on to the stock until he dies, the next generation inherits the stock. This means that whoever inherits the stock and sells it would only have to pay taxes on the inherited stock, leaving all the original gains untaxed. This loophole has allowed the richest families of the world to sustain their wealth and avoid paying their taxes.

   2. Labour market - research shows that a decline in the demand for a market's product has contributed to wealth inequality in both More economically developed countries and Lesser economically developed countries. This is because when the profit of the market declines, so do the wages of the labourers. Simultaneously, the rich earn more creating a massive gap between the wealth of the rich and poor.

3. Globalization - It is clear that international trade is seen to improve living standards for a concentrated population. These individuals are able to gain access to more resources, but only to some extent. The reality is that globalization also increases wages even further for the rich as their businesses and companies are able to grow due to the wider market, cheap labour and increased economic productivity, thus contributing to wealth inequality.

4. Capitalism - Countries that have low levels of development have relatively equal distributions of wealth, giving every individual equal opportunity for income, resources and an equal yet healthy standard of living. Although, as a country develops it acquires more capital which means the owner of this capital acquires more wealth, thus introducing wealth inequality.

5. Skill-biased technological growth - In present times, technology has been introduced in almost every field, technological change has brought about high paying jobs with the requirement of more specific, high skilled jobs. Unfortunately, this technological advancement also means those who lack the skills and education must opt for low-skilled, low paying jobs increasing wealth inequality yet again.

Consequences of Wealth Inequality

1. Negative social relations: The increase in wealth inequality results in divisions in society on the basis of income. This leads to an economic caste system which can reduce community relationships and trust. Wealth inequality also reduces social mobility, therefore, restricting the poor from climbing up the economic ladder. This absence of social mobility can affect the health and education sectors as well.

2. Reduces Economic Growth in the future: According to research conducted by The Organisation for Economic Co-operation and Development (OECD) on the consequences of wealth inequality, a difference in wealth can impact future growth in the country. Economic equality in Spain, France and Ireland led to an increase in GDP after the Great Recession. Whereas Mexico and New Zealand suffered a loss of 10 growth percentage points. An increase in inequality leads to lower growth in GDP per capita. This also affects the average output of the country leading to low growth.

3. Increases crime rates: An increase in wealth inequality leads to the lower-income section of the society believing that this is unfair. Not having a high enough salary or basic necessities causes them to resort to violence. This violence has a negative impact on society because it decreases community trust, social relationships and can severely affect companies.

4. Health consequences: Scientists have proved that the increasing wealth inequality has a negative effect on health-related topics such as life expectancy and obesity. A greater wealth gap means that the lower sector can barely afford basic healthcare. It also changes how people "perceive their wellbeing" meaning that wealth inequality leads to stress caused by financial tension. In other words, higher inequality directly affects the ability to afford healthcare and the help required for mental health disorders.

5. Increase in Political inequality: Political inequality is where everyone in the country has equal political rights such as one person/one vote or campaigning to be a leader. Unfortunately, a difference in wealth makes it difficult for the lower economic class to actively participate in politics which can result in unfair voting schemes, biased decisions and political discrimination based on wealth.

6. Impact on Education: Studies show that wealth and education have a positive correlation. Education offers the skills required for jobs, thus when individuals lack education, they are unable to support themselves, further expanding the inequality of wealth. Meanwhile, the wealthy and educated continue to climb the economic ladder, therefore, increasing the inequality in society.

Wealth Inequality During Coronavirus

Due to the COVID-19 pandemic, many changes have occurred. Individuals of all communities were required to adapt to their best ability to support themselves socially and economically. Alas, the efforts to tackle wealth inequality were diluted when the pandemic hit the economy causing issues like a drop in economic productivity and an increase in unemployment.

Between 2019 and 2020, the number of unemployed people worldwide increased from 187.3 million to 220.3 million, which was recorded as the biggest annual increase in unemployment in this provided time period. This unemployment rate has only further widened the gap between the rich and the poor. Those such as waiters, labourers and small business owners who were reliant on face-to-face interaction for sales were now unemployed and unable to work. While private enterprises and businesses of the rich may have been impacted by the pandemic, the impact on the poor in comparison is almost negligible. Even if the poor were to be economically productive, the inequality between the wealthy is still significant. Therefore, with unemployment now increasing, the issue contributes to global wealth inequality.

Another extremely important factor to consider is that the rich use technology-driven resources to ameliorate profits. For instance, CEOs of companies such as Amazon, Netflix and Google were able to continue business as usual whereas nonessentials were required to shut down and find alternatives to support themselves. Although, large companies like Amazon took advantage of the virtual shift to increase sales through advertising and creating more appeal through online shopping for customers. According to research, billionaires got $637 billion richer during the crisis of the Coronavirus.

The pandemic has unfortunately amplified the negative effects of wealth inequality. It has caused many to lose their jobs and thus has spiked the numbers of global unemployment. While it may have affected the businesses of the wealthy, the recovery rate is much faster due to more opportunities such as increased resources, healthcare and quality education. The wealthy also used technology to their advantage by growing their audience and customer engagement. These factors have immensely contributed to wealth inequality.

Past actions to Wealth Inequality

Wealth inequality has been at an all-time high, and with the recent Coronavirus outbreak, it seems to only be growing. While wealth inequality may seem to be a thorny topic, politicians, global leaders, governments and even the general public have not shied away from introducing and implementing solutions in hopes to combat wealth inequality.

Countless actions have been taken against wealth inequality. One major example is the progressive tax policy. Unlike the regressive tax policy, the progressive tax policy is based on the ability of the taxpayer. This means, as the income of the individual increases, so does the tax burden. This policy especially seems to have been successful as those who have a lower income do not face as rigorous standards, while the rich who have a comparatively higher income pay accordingly. Many economists believe that this tax policy is one that is rational and consistent.

Another method implemented in the past to reduce the wealth gap between the rich and poor is an implementation of a higher minimum wage. In 1992, a study was conducted by Alan Krueger and David Card that investigated how an increase in the minimum wage would impact the community and its individuals. New Jersey increased its minimum wage from $4.25 to $5.05 while Pennsylvania kept its minimum wage at $4.25. After surveying fast food chains, the economists learned that there was an increase in employment in New Jersey and no employees were getting fired either. Thus, they concluded that with increased minimum wage, employment would be stimulated and the gap between the wealth of the rich and poor would also close.

Studies show that global unemployment currently stands at 200 million, only growing. In hopes of reducing these numbers, the Indian government launched the Sampooma Gramin Rojgar Yojana program in September 2001 with the main objective of this scheme being to provide gainful employment & food security to villagers. Additionally, it aimed to create a durable community, social and economic assets and infrastructural development in rural areas.

Similarly, the Second United Nations Decade for the Eradication of Poverty from 2008-2017 where its theme was full employment and decent work for all. Its main aims were to promote greater awareness about the decent work agenda, increase skills and expand knowledge between UN staff, government staff, private sector staff and workers' and employers' organizations, share good practices in promoting employment at the national and international levels and supporting the integration of decent work towards poverty eradication into national and international policies and programmes.

The efficacy of the resolutions is up for debate.

Questions a Resolution Must Answer (QARMAs)

1. To what extent does wealth inequality affect the educational and health sectors?
2. Identify how wealth inequality affects the economy.
3. How have countries previously tried to decrease wealth inequality? How can we build upon these past actions?
4. The solutions you propose must address and ensure:
5. The labour market is supported.
6. There is an increase in social mobility.
7. Tax policies are made fair for people of all economic standings.
8. Globalisation does not contribute to wealth inequality

5. How can technology be incorporated and utilised to decrease wealth inequality?
6. How do you ensure that the proposed solutions directly benefit the population of a country?
7. How does the wealth economy affect various communities across the globe (not just country-specific)?

Glossary of terms

Social mobility: The movement of individuals or groups up and/or down a social stratification or hierarchy. It is often affected by factors such as income, demographic structure and education.

Gross domestic product (GDP): A standard form of measuring the economies of countries. It is measured on the basis of government investment, personal consumption and net exports. It outlines how developed a country is in terms of its economic growth.

Redistribution: Distributing something in a different/new way often in order to achieve equality socially or economically.

Development index: The standard form of measuring development in countries. It takes into account the following factors; literacy rate, life expectancy, GDP per capita, wealth inequality. This index helps us understand which countries are developed and which are developing.

Globalisation: Globalisation is the exchange and flow of goods, people, technology and information around the world. It is the growing interdependence of countries and individuals.

Capitalism: A system in which economic decisions are taken by private owners rather than the state. In this system, people can set prices according to their own interest, need for profit, supply and demand.

Labour market: Labour market is the concept wherein the labourer supplies the commodity in exchange for a wage and demand from the consumer.

MEDCs: abbreviated for “more economically developed countries”. Shows us which countries are more capable in terms of economic growth. MEDCs are usually developed countries and are better equipped to financially deal with a crisis.

LEDCs: abbreviated for “less economically developed countries”. Helps us identify the countries which still need to develop further. LEDCs are often “developing countries” and have comparatively lower standards of living.

Progressive Tax: the progressive increase in tax as the income of the individual increases.

Regressive Tax: The amount of tax that remains uniform for the entire population.

Position Paper Format

A position paper is a compilation of your research. Writing a position paper is an excellent way to streamline your understanding of a given topic and pinpoint the main ideas that you want to bring up in committee. A position paper is typically divided into 4 sections:

1st Paragraph - Opening Statement (general information of 3 – 4 sentences)
Why is this topic important for the committee to address?
Why does your country care about this topic?
What is your country‘s policy on this topic?

2nd Paragraph – National Actions (delving into specifics with 3 – 5 sentences)
Is the topic an issue in your country?
What actions has your country taken to improve or address the issue on a national level?

3rd Paragraph – International Actions (3 – 5 sentences)
How has your country improved or addressed the issues on an international level?
What actions has your country taken on the issues on an international level?
What conventions, treaties and resolutions has your country supported on this issue?
What organizations is your country a member of that addresses this issue?
Can you reference government officials on this issue?

4th Paragraph – Recommendations for Action (4 – 6 sentences)
What role would your country like to see the international community take to address the problem?
What are your country‘s recommendations to the committee on how to best resolve the issue?

The final, most substantial section of your position paper should create the foundation for your participation in the committee. It should first detail your nation's general policy on the key points of contention presented in this background guide. Then, the most important part of your position paper is your presentation or original proposals for how to solve the issues at hand. These should be presented as specific solutions geared towards the nuances of the topic of the position paper.

<u>NOTE</u> → the position paper should not be more than 1 page long. The formatting should be as follows: Font - Times New Roman and Font - 12. Keep in mind that a position paper is a formal document and cannot contain your personal opinion. It is optional to submit a position paper in this year's JMUN, however the Bureau recommends writing it for further practice.

Bibliography and Links for Further Research

Wealth inequality is one of the most pressing issues in this 21st century because of the opportunities it takes away from society. Some prominent causes include globalisation, tax policies and capitalism. It is imperative that we find respective solutions in order to reach a state of economic equality. Below is a list of resources the Bureau recommends you to go over for further research to gain a better understanding:

"About ECOSOC and Its Subsidiary Bodies." *United Nations*, csonet.org/?menu=123.

"Development Cooperation Forum." *United Nations*, www.un.org/ecosoc/en/development-cooperation-forum.

"Average National Income." *Wid World*, wid.world/world/#anninc_p0p100_z/US;FR;DE;CN;ZA;GB;WO/last/eu/k/p/yearly/a/false/0/75000/curve/false/country.

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“The Consequences of Political Inequality and Voter Suppression for U.S. Economic Inequality and Growth.” *Equitablegrowth.Org*, 3 Feb. 2021, equitablegrowth.org/research-paper/the-consequences-of-political-inequality-and-voter-suppression-for-u-s-economic-inequality-and-growth.

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