

Background guide for the World Economic Forum

**Topic: Tackling Global
Inequality**

Letter from the Director

Greetings, delegates.

Established in 1971, in Cologny, Switzerland, the World Economic Forum was established with a single, primary objective: “To improving the state of the world.”

Humanity has progressed, leaps and bounds over the centuries, boundlessly towards enriching the lives of its fellow species through innovations, technological breakthroughs and the quest for survival.

But today’s society, fails to reflect this. Inequality, especially with regards to income has spiraled out of control as the rich have no limits for their greed. And untamed greed, as always, will have consequences bearing upon us, and the rest of the world.

In this committee, we decide the future of not just a select group people or special interests; We decide the future of each and every single citizen of the world, of humanity as a whole. And now it is time we ask ourselves, question what we have done and think of what can be done better, to uphold the ideals our foundation was created with.

As the most powerful people in the world, you are the only ones standing between humanity and global catastrophe. Delegates, all the best, for the future of our world, lies in your hands.

Ramith Gopinath

Director

World Economic Forum

Global inequality: A Brief History

“A nation will not survive morally or economically when so few have so much, while so many have so little.”

-Senator Bernie Sanders

When one thinks of income inequality, their first reaction is to think of it within the borders of a country. This can be explained by an inherent bias towards the national perspective. Caused by a world where the nation-state is key to determining one's income level, access to a number of benefits, and where the dominant political organisation is the nation. However, in the era of globalisation, another way to look at inequality is to go beyond the confines of a nation-state, and to look at inequality at a global level.

As the world becomes more connected, the global dimension of inequality is likely to become increasingly relevant. This is for at least two reasons: because of greater movement of factors of production across borders, and the greater influence of other people's standard of living and way of life on one's perceived income position and aspirations. Greater movement of capital, goods, technology and ideas from one end of the globe to another implies greater connectivity with people who are not one's compatriots, and greater dependence on other nations for generation of income.

The knowledge of how other people earn and make money influences perceptions of one's income and position in the income pyramid. This is why the global aspect of inequality is important, and underrepresented.

The basic story that emerges from calculations of income inequality in far-away times is that since the Industrial Revolution, which launched a score of European countries and their overseas offshoots onto a path of faster growth, global inequality kept rising until the mid-20th century. There was a period of more than a century marked by a steady increase in global inequality, followed by 50 years (between the end of the Second World War and the turn of the 21st century) when global inequality plateaued. It is only in the early 21st century that global inequality has begun to spiral downwards.

Global inequality can be split into two parts. The first results from differences in incomes within nations, which means that that part of total inequality is caused by income differences. For example, between rich and poor Americans, rich and poor Chinese, rich and poor Egyptians and so on. If one adds up all of these within nation inequalities, one gets their aggregate contribution to global inequality. This is what can be called the 'class' component to global inequality because it accounts for (the sum of) income inequalities between different 'income classes' within countries. The second, which can be called the location component, refers to the differences between the mean incomes of all the countries in the world.

More than two thirds of total inequality is influenced by location. The implication of this overwhelming importance of location, or citizenship – i.e. being a member of a rich or poor country - is massively lower lifetime incomes. Simply put, more than 50 per cent of one's income depends on the average income of the country where a person lives or was born (the

two things being the same for 97 per cent of world population). This underlines the importance of the location element today.

Karl Marx

Karl Marx wrote, in *Das Kapital* (1867) and in *The Manifesto*, about proletarians in different parts of the world – peasants in India, workers in England, France or Germany – sharing the same political interests. They were invariably poor and, importantly, they were all about equally poor, eking out a barely-above-subsistence existence, regardless of the country in which they lived. There was not much of a difference in their material positions. Here, was introduced the concept of proletarian solidarity, sometimes referred to as international socialism. It was a socialist form of internationalism, based on the view that capitalism is a global system, and therefore the working class must act as a global class if it is to defeat it in class conflict. Workers thus should struggle in solidarity with their fellow workers in other countries on the basis of a common class interest, to avoid continued subjugation via divide and rule. One could imagine and promote proletarian solidarity, and consequently – because equally poor people of different nations faced equally rich people in their own nations – a generalised class conflict. This was the idea behind Trotsky's 'permanent revolution'.

There were no national contradictions, just a worldwide class contradiction. This was a broadly accurate description of the situation at that time. But if the world's actual situation is such that the greatest disparities are caused by the income gaps between nations, then proletarian solidarity does not make much sense. Indeed, the income levels of poor individuals in poor countries are much lower than those of poor people in rich countries. People who are considered nationally poor in the US or the EU have incomes that are many times greater than incomes of the poor people in poor countries and, moreover, often greater than the incomes of the middle class in poor countries. And if that gap is so wide, then one cannot expect any kind of coalition between such income-heterogeneous groups of nationally poor people – or at least not any coalition based on the similarity of their material positions and near identity of their economic interests.

Modern Context

For many years, the World Economic Forum has ranked *income disparity* as one of the ten global risks of higher concern: income disparity has been rising over the last few decades, weakening social cohesion within countries and threatens political stability. The issue of inequality even emerged during the World Economic Forum meeting in Davos, when, Winnie Byanyima, Executive Director of *Oxfam International*, presented the results of Oxfam's latest publication on inequality.

Inequality within most advanced and Emerging Markets and Developing Countries (EMDCs) has increased, a phenomenon that has received considerable attention—President Obama called widening income inequality the “defining challenge of our time.” A recent Pew Research Centre (PRC 2014) survey found that the gap between the rich and the poor is considered a major challenge by more than 60 percent of respondents worldwide, and other prominent figures such as Pope Francis have spoken out against the “economy of exclusion.”

Causes

- **Labour Market:** In most economies it is market forces that determine the wages of workers. They depend on demand, and can be considered as a function of market price of skill. And therefore, inequality is driven by this price. Under the law of supply and demand, the price of skill is determined by a race between the demand for the skilled worker and the supply of the skilled worker.
- **Growth in Technology:** As mechanisation of work increases, more people are facing unemployment. In many jobs, such as packaging and manufacturing, machinery works more effectively and efficiently than a human can. Hence, jobs of this kind have largely been eliminated. As artificial intelligence evolves, skilled labourers are also at risk.
- **Globalisation:** Globalisation has created a gap between developed and developing countries. Taking the example of wages, developed countries usually outsource labour from developing countries, as they can exploit the work force and the wages are much lower than they would be in a developed country.
- **Neoclassical economics:** Neoclassical economists view inequality in distribution of income as a consequence of differences in value added by labour, capital and land. Within labour, income distribution is due to differences in value added by different classifications of workers. In this perspective, wages and profits are determined by the marginal value added by each economic factor.
- **Education:** In today's world, education determines employment rates, income and rate of economic growth. Skilled labour is given more importance as mechanisation increases. Hence, as the literacy rates are higher, so too is the rate of economic growth.

Perspectives:

- **Socialistic perspective:** Socialists consider economic inequality to be a consequence of monopolisation of the means (or factors) of production by the upper class. Therefore, they advocate social ownership of these factors.
- **Meritocracy:** Meritocracy favours a society where an individual's success is a direct function of their merit, or contribution to society. Economic inequality would be a natural consequence of the wide range in individual skill, talent and effort in human population.
- **Social Justice Arguments:** Economists like Giddens hold meritocracy to be incoherent. Social Justice Arguments puts forward the idea of equal distribution of wealth and income through all sects of society, so that contributions of all sects are acknowledged.

Effects:

- **Aggregate demand and consumption;** Some economists, such as Alfred Pigou, have argued that income inequality lowers aggregate demand, leading to increasingly large segments of formerly middle class consumers unable to afford as many luxury and essential goods and services. This pushes production and overall employment down.
- **Inequality Increases Crime:** Studies have established a positive relationship between income inequality and crime. According to a survey of research conducted between 1968 and 2000, most research shows that unequal societies have higher crime rates. The survey concludes that inequality is “the single factor most closely and consistently related to crime.” Disadvantaged members of a society may be more likely to suffer from resentment and hostility as a result of their economic position or competition over scarce jobs and resources, resulting in a higher propensity for criminal behaviour.
- **Concentration of wealth:** Due to inequality wealth is amassed by certain sections of society while others live on the bare minimum.
- **Health:-** Impoverished members of society are disproportionately affected by certain kinds of illnesses. Access to quality health care and healthy food is sometimes limited or is unavailable to poor individuals. The result of a substantial poor population, a defining feature of economic inequality, is a less effective lower-income work force, higher disease and mortality rates, higher health care costs, and progressively deepening poverty for afflicted groups.
- **Terrorism:** Societies that see higher levels of economic inequality also see larger parts of society affected by relative deprivation. Which can lead to terrorism. Besides a direct relationship between inequality and terrorism, inequality may also magnify certain social conditions that in turn lead to terrorism. These social conditions can be thought of as mediator. For example, inequality may constrain the poor’s investment decisions in education and health, leading to unfavourable situations in which the poor cannot afford an optimal level of education or health. In a such situation, people see terrorism as an easy source of earning. Eg: Naxalite terrorism has mainly occurred in the past due to economic inequality and to redistribute land among landless labourers

Policy responses:

Policy responses plays an extremely important role in solving the issue of economic inequality.

- Well-designed labour market policies and institutions can reduce inequality. A relatively high minimum wage narrows the distribution of labour income, but if set too high it may

reduce employment, which dampens its inequality-reducing effect. Institutional arrangements that strengthen trade unions also tend to reduce labour earnings inequality by ensuring a more equal distribution of earnings. Job protection reforms that make permanent and temporary contracts more fair in their provisions lower income inequality through smaller wage dispersion and also via higher employment.

- Removing product market regulations that stifle competition can reduce labour income inequality by boosting employment. The empirical evidence for the link between product market reform and the dispersion of earnings is rather mixed however.
- Tax and transfer systems play a key role in lowering overall income inequality. Three quarters of the average reduction in inequality achieved across the OECD is due to transfers. However, the redistributive impact of cash transfers varies widely across countries, reflecting both the size and progressiveness of these transfers. In some countries (e.g. Australia, the United Kingdom to a lesser extent), cash transfers are small in size but are highly targeted to those in need. In some others (e.g. France or Germany), large transfers redistribute income mainly over the life-cycle rather than across individuals, and their progressiveness is often low. An example of this is the direct cash benefit schemes that are being linked to the Aadhar card.
- Of the various types of taxes, the personal income tax tends to be progressive, while social security contributions, consumption taxes and real estate taxes tend to be regressive. But progressiveness could be strengthened by cutting tax expenditures that benefit mainly high-income groups (e.g. tax relief on mortgage interest). In addition, removing other tax reliefs would increase equity and allow a growth-enhancing cut in marginal labour income tax rates. It would also reduce tax avoidance instruments for top-income earners.

Crisis Committee Procedure:

Points and Motions

The WEF will follow standard Rules Of Procedure, with a few modifications to help facilitate debate. The main deviation from a regular committee is that there will be no General Speakers List. Instead, there are continuous moderated caucuses. Another change is that delegates are given the choice on whether committee is concluded by passing a consolidated directive, a communique or a resolution. All points that regularly hold good apply here. The committee will function for all intents and purposes, like any other committee.

There are a few new motions that can be raised however :-

- **Motion to move into a Round Robin (with individual speaker time x):-** this motion allows for every delegate in committee to get x minutes of uninterrupted speaking time. Basically, we pass a mic clockwise/anticlockwise around committee. This motion can be raised at any point and the delegate making the motion can elect to be the first or last speaker.
- **Motion to introduce directives:-** (there is a separate section dealing with directives later). This motion is similar to a motion to introduce resolutions in a normal committee. The motion can specify a particular (set) of directives or can be for all directives submitted. What happens is that the EB reads out the specified directive(s).
- **Motion to vote on directives:-** the name says it all. This allows for the delegates to vote on a particular directive. The motion can specify that there is to be a set of speakers arguing for and against the motion before voting, in which case it would be phrased as motion to have a 2-for-2-against followed by voting on directive x.

Directives

There are many ways a delegate in the crisis committee can influence debate and the world that have nothing to do with making speeches. Some of these are Directives. A directive is a chit sent to the EB asking that some action be taken.

- **Action Orders:-** these are steps that delegates wish to take in order to solve the crisis or further their personal goals. Action orders can be either individual or joint in nature.
 - Action orders that are intended to further a delegates personal goal or are intended to utilise the powers or influence of a single delegate or group of delegates are to be labeled as "CRISIS NOTE" on the top of the chit so that they can be differentiated from the rest. These will not be voted upon and the rest of committee will not be informed that such a directive has been sent in.
 - The committee can also pass committee wide directives that aim to solve a particular aspect of the given crisis. These will need to be voted upon by the whole of committee and pass with a simple majority.

- **Communiqués:-** a communique is a means of sending a message to either a group of delegates in committee or a person not represented in the committee. It can solicit information or request that person to take action. It is submitted to the EB and not voted upon.
- **Press Releases:-** a press release, as the name suggests, is a statement released to the public. These can be to reassure the public or pass on information about the activities of committee or anything else. They can be joint or individual.

Delegates please note, the above is only a primer on the scope of your powers in committee. For the purpose of this simulation, you can do anything that is logically possible. So be creative, it makes committee a lot more fun and interesting.

Good luck and feel free to ask us any questions you may have on the official committee email (wef.cjcmun@cjchristcollege.edu) or in committee.

References:

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