

Inequality and the 1%

IS A TRANSFORMATIVE FISCAL POLICY POSSIBLE?

Tackling inequality requires more than raising people out of poverty; it depends on progressive and substantial shifts in fiscal policy, an essential equality-enhancing instrument with the potential to do three things: ① raise necessary revenues for public spending which tackles vertical and horizontal inequalities; ② stem market incentives for accumulation of income and wealth at the top; and ③ forge a credible fiscal compact between citizens and the state. But how can such progressive policies be implemented while those in power benefit from the status quo?

At the 2019 United Nations High-Level Political Forum (HLPF), convened in New York City to evaluate the progress made towards achieving the Sustainable Development Goals (SDGs), Goal 10: *Reduce inequalities within and among countries* was reviewed for the first time. The inclusion of inequality in the 2030 Agenda for Sustainable Development was a hard-won achievement, marking a shift in the conversation from a focus on poverty to recognition of the importance of exploring barriers to sustainable development across the distributional spectrum. Yet discussions about inequality within the development community continue to revolve primarily around the bottom of the pyramid, while wealth and income further concentrate at an alarming rate at the very top.

It was in this context that UNRISD and the Friedrich-Ebert-Stiftung (FES) New York Office held a parallel event during the HLPF on the topic of economic inequalities and fiscal policy, issues which, as FES New York Director Luise Rürup stated in her opening remarks, have long been neglected at the HLPF. Bringing together two panels of experts from the UN, other international organizations, the research community, and civil society, the event posed the question: *is a transformative fiscal policy possible?* In his opening remarks, UNRISD's director Paul Ladd offered an answer, suggesting that the experts at the table, working in collaboration, could likely design a fair taxation system capable of reducing inequality in a matter of days. "But that's not the point," he conceded.

So, what is the point? In response, Norway's Special Envoy for the 2030 Agenda, Inge Herman Rydland, summed up the crux of the matter quite succinctly: "Inequality cannot be solved by money. It is solved by politics."

The massive concentration of wealth that has left more than half the share of the world's wealth in the hands of the top 1% of the global population is at its heart a political problem. As Ricardo Fuentes-Nieva, Executive Director of Oxfam Mexico, argued, "This concentration of economic resources is translated into a concentration of political influence over power, over media control, and over all those things that

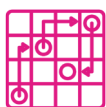
actually determine the economic, political and social systems in which we live". As elites gain influence over political processes, they work to preserve the status quo that serves their interests: "We are creating systems that perpetuate themselves to the benefit only of the few."

Reducing inequality through fiscal policy: What works?

Throughout the event, many technical solutions were suggested. UNRISD Senior Research Coordinator Katja Hujo presented findings from UNRISD's ongoing research on *Overcoming Inequalities in a Fractured World*, published recently in an *Issue Brief*, along with a number of recommendations gleaned from this work, including: making policy processes related to revenue mobilization more inclusive and transparent; reforming the international financial architecture; and combining "national-level reforms with global support for domestic resource mobilization". Both Dora Benedek from the International Monetary Fund (IMF) and Matthew Martin from Development Finance International highlighted the importance of looking not only at taxation but also spending when designing fiscal policies, in order to support social protection systems, an idea underlined and promoted by UNRISD work on *Financing Social Policy* over the last decade. Jo-Marie Griesgraber of New Rules for Global Finance provided insights on what international financial institutions like the IMF and the World Bank are doing to reduce economic inequality, and how they can do better. Shahra Razavi from UN Women brought up the gendered dimensions of fiscal policy, arguing that it needs to address and respond to shifts in family structures and changes in the gender contract in order to be transformative. On the same topic, Ambassador Luis Bermúdez of Uruguay shared insights from Uruguay's experience in reducing inequality, specifically its very progressive care policy which views care work "as a matter of co-responsibility between the state, communities, families and the market, as well as a shared responsibility between men and women in the face of clear inequality in the gendered division of care work". Paola Simonetti from the International Trade Union Confederation made the case for building a new social contract in which



capital is held accountable, for example by expanding employer contributions to social protection systems. And Kate Donald of the Center for Economic and Social Rights warned against viewing private finance as a magic bullet for achieving the SDGs, and stressed the importance of giving developing countries a seat at the table when designing global tax governance.



Alliances for progressive fiscal policy

However, the question of *how* to implement these policies in a political landscape increasingly antithetical to progressive social change loomed large over the discussion. Paul Ladd posed the question directly: “How do you create alliances and coalitions that demand greater equity?” Echoed throughout the morning by many other speakers and participants, this is a key question that is central to the UNRISD research inquiry *Overcoming Inequalities in a Fractured World*. How can actors come together to exert effective pressure on those in power so that they work for the benefit of the masses, disadvantaged minorities, and those left behind and facing multiple layers of marginalization?

The landscape for such alliances is growing more and more bleak as forces like climate change, globalization and wealth concentration reshape our world, exerting pressures that are prompting economic systems to evolve, identities to shift, new forms of politics to emerge, and new conceptions of class to arise. Further, people’s perceptions about where they fall on the distributional scale are often skewed, with those at the bottom believing they are higher up and those at the top believing they are lower down, which affects their opinions about redistribution: “Perceptions about the levels and positions that we occupy in the structure of inequality are one critical issue regarding how we perceive and how we support or don’t support tax reform,” argued Fernando Filgueira, a researcher working in Uruguay and Argentina. Finally, would-be allies have been pitted against each other by divisive populist rhetoric, obstructing possibilities for progressive alliances.

As Filgueira argued, this reality is a threat to progressive policy: “If you have a wedge between the poor and the middle classes [...]; if you have a wedge between informal workers and formal workers; if you have a wedge that grows within families because of gender dynamics, then it’s very hard to build stable institutional coalitions that will challenge the status quo and that will sustain progressive policies.”

Yet, there are promising examples from around the world. Actors are adapting to the changing landscape, engaging in new forms of mobilization and forming partnerships that would have previously been difficult to imagine. UNRISD research on *Overcoming Inequalities* has explored examples of such cases. Presenting some findings from this project, Katja Hujo explained: “There are new forms of social movements, coalitions and alliances emerging, and you can find a lot of examples of how tax justice networks, environmental movements, informal workers and also workers in the gig economy organize, how they promote their rights, and how they create interesting alliances with formal actors such as trade unions.” Research into these new spaces for progressive mobilization is crucial. As Katja Hujo made clear, “We need to understand what characterizes a successful movement and of course take into account the specific context in each country.” Knowledge generated by such research can help empower other actors to create similar strategies and alliances of their own and help shift the balance of power towards a more just world.

Overcoming Inequalities in a Fractured World: Between Elite Power and Social Mobilization

In the context of increasing inequalities and a 2030 Agenda for Sustainable Development which aspires to “leave no one behind”, this UNRISD research inquiry aims to answer three key questions:

1. What role do elites and institutions of power play in the deepening of social and economic cleavages across the globe?
2. How have these inequalities reshaped structures from the local to the transnational level, and what consequences (economic, political, environmental, human) do they have?
3. What examples exist of peaceful processes of policy change that have made societies greener and more socially just, levelled out social stratification, and what were the drivers in those processes?

The research methodology is designed collaboratively with partners and includes both quantitative and qualitative methods.

For more information, see www.unrisd.org/OvercomingInequalities

This event was organized jointly with the Friedrich-Ebert-Stiftung (FES) New York Office.



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This brief was prepared by Maggie Carter. The opinions expressed do not necessarily reflect the views of UNRISD.

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Through our work, we aim to ensure that social equity, inclusion and justice are central to development thinking, policy and practice.

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