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# ECONOMIC MEASURES TO COMBAT INEQUALITIES IN THE 21ST CENTURY

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**Abstract:**
*The great income and wealth inequalities within the EU but also globally is the most important economic and social challenge for the 21st century and should be addressed by taking appropriate measures at national level, with support actions at European level. Our article aims to reflect that attention must also be paid to wealth inequalities. We propose to present the reasons for these inequalities and the factors that determine them and to analyze several political decisions taken to address them. The hypothesis launched in debate by this article states that the most important instrument at the disposal of the Member States to promote the fair distribution of value added, for the society as a whole, is fiscal policy and the active labor market policies, that contribute to facilitate the transition between education, training and professional life, should occupy a central place, next to policies governing taxation and social transfers.*

**Key words**: inequalities; fiscal policy; globalization; taxation; education

**JEL classification:** F6

## 1. INTRODUCTION

Global economic integration has varied and has had profound effects on the economies of developed and emerging states. Some of these effects have been accepted by governments, others have not, and this is the consequence of a set of contradictions that have arisen: the installation of significant general welfare, but also of social inequality, sometimes even more significant; economic growth, but also degradation of the environment; cheaper products, but lower revenues in certain sectors; a middle class swollen alongside a stagnant poverty; a strengthening of the political legitimacy of the authoritarian governments that use globalization in order to obtain increasing rates of economic growth, together with undermining democracy in regions of the world where incoming revenues are the consequence of the loss of national sovereignty.

At EU level, although the income and wealth gap between rich and poor has increased over the past decades, the community bloc is still a world leader in combating inequality. The internationally accepted Gini coefficient formula for measuring disproportion in the distribution of income and wealth places the European Union as a whole on one of the best positions worldwide, alongside Canada.

Both the EU and Canada recorded a coefficient of 0.31, according to the latest data from the OECDE, on a scale from 0 to 1, an increasing value illustrating a higher level of inequality. But the score obtained by the EU countries taken separately differs greatly from one another, with the average being negatively influenced by some Eastern states as well.

Jo Walker, Caroline Pearce, Kira Boe and Max Lawson in their study entitled “The Power of Education to Fight Inequality” state that “inequality is reaching new extremes”, arguing that “significant increases in inequality of both income and wealth are leading to larger gaps between rich and poor, men and women”. Therefore, at a global scale, this is creating significant difficulties in overcoming poverty and exclusion.

In our study, with an optimistic approach, we embrace the idea that inequality is not inevitable, being a political choice as much as an economic one. “It is the result of deliberate policy choices made by governments and international organizations. Conversely, it is now broadly agreed by most global policy makers that extreme inequality is also avoidable, and that concrete steps can be taken to reduce inequality” (Walker *et all*, 2019).

## 2. DETERMINANTS OF INEQUALITIES AND HOW TO ADRESS THEM

The defenders of globalization claim that the phenomenon produces a lifting of all economies, all consumers benefiting from the decrease of prices. Critics of this phenomenon believe that it is the main driver of economic inequalities of the 21st century, serving the rich more, to the detriment of the poor. It is difficult to measure inequalities at global level or what is the contribution of economic globalization in the evolution of social inequality. A study conducted by the International Monetary Fund concluded that recent increases in inequality between states are due, more, to changes in technology than to the process of global economic integration. The study also suggested that different aspects of global economic integration have contradictory effects on inequality: while trade liberalization tends to diminish inequalities, financial globalization, especially foreign direct investment flows, has the opposite effect. The effects also differ depending on the state. While, globally, emerging economies such as China or other countries in Central and Eastern Europe have narrowed economic gaps, society has become increasingly polarized in industrialized countries. Here we find the explanation for the feeling of many that they are losers in the global competition, that they have been "abandoned" by governments. The market, the economic freedom, are not rejected, but public policies based on an ultra-simplifying paradigm, which has accentuated economic inequalities and struck in the principle of equal opportunities.

With China's entry into the global economy, economic power relations have changed radically. And this entry would not be the problem, but the inability of the industrialized economies to cushion this extraordinary shock - unique in the last hundreds of years.

The erosion of the middle class in the industrialized countries has adverse effects on the social and political life and that, in combination with the increasingly unbalanced income distribution and growing uncertainty on multiple levels, leads to radicalization, extremism. Against this background, the voice of those who question the liberal order, globalization is also manifested.

In another study on this topic, conducted by the World Bank, it was highlighted that different measurements of inequality lead to different conclusions regarding whether globalization is its main determinant:

- inequality between states, measured by applying the Gini Coefficient to average incomes, steadily increased between 1980 and 2000, so that after 2000 it would decrease;
- inequality between states, measured by adjusting the calculation with the value of the population, causes a decrease in inequality, and due to the fact that the population of China and India is increasing;
- inequality at global level, measured on the basis of individual and not average income at country level, has been steadily increasing, registering a downward trend between starting 2002.

The way that imbalance levels are so extraordinary among nations, in any event, when nations share comparable degrees of advancement, features the presence of another significant driver in molding monetary disparity: national policies and institutions.

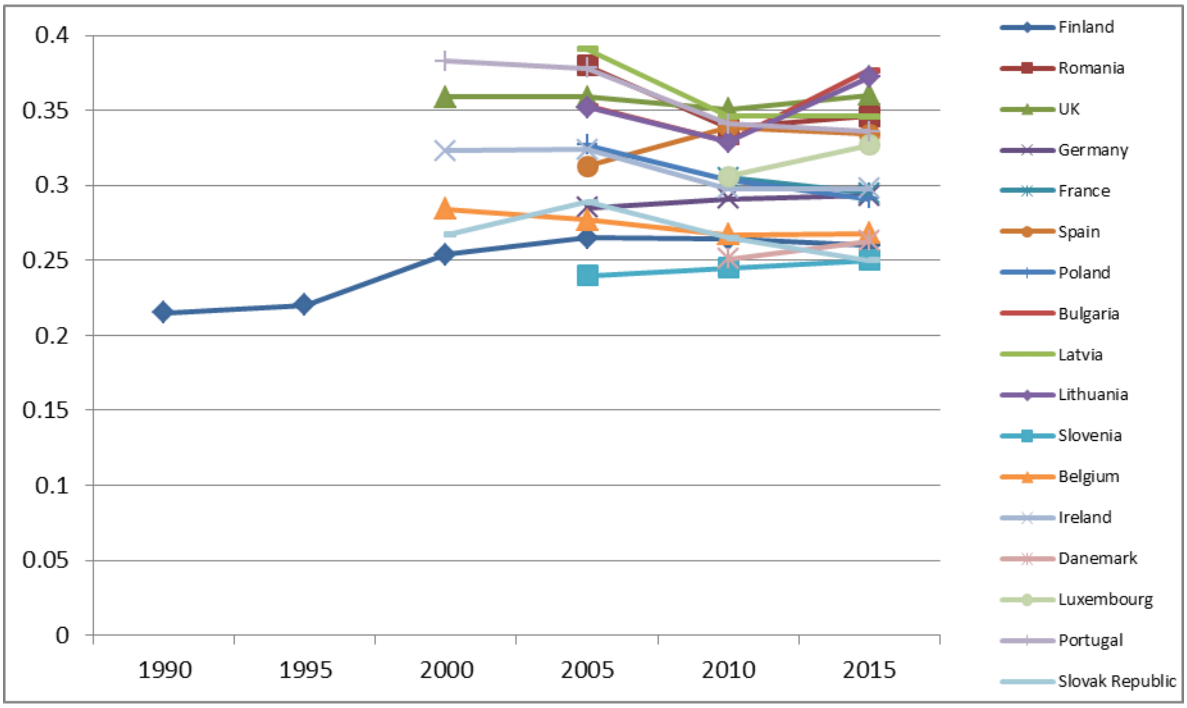
Social orders work as per a lot of financial and political standards made and forced by the state and residents, on the whole. Monetary organizations shape financial measures: impetuses to invigorate access to the instruction framework, to spare and to contribute, to improve in various fields of action and to receive new advances. It is the political procedure that decides the working of the monetary establishments individuals depend on and the political institutions are the ones that choose how this procedure functions.

According to Daron Acemoglu and James A. Robinson, the US economic institutions have given the possibility to people like Bill Gates or other legendary figures in the information technology industry, to easily open companies, without encountering insurmountable barriers. These institutions have also made it possible to finance their projects. The US labor markets allowed them to hire qualified personnel, and the relatively competitive environment conducted to the extension of their companies and the launching of their products on the market. These entrepreneurs were confident from the beginning that the projects they dreamed of could be implemented: they trusted the institutions and the rule of law that they generated.

Political institutions have guaranteed stability and continuity. The two authors show that while economic institutions are indispensable to make a country poor or prosperous, politics and political institutions are the ones that decide which economic institutions a country owns. The authors' theory on world inequality shows how political institutions interact with economic ones leading to poverty or prosperity and how different parts of the world have come to have so many different economic institutions. The deep rooting of economic and political institutions in the past and the complexity of the interaction of the two make the process of eradicating inequalities globally so difficult. We are also drawn to the fact that a society does not necessarily develop or adopt the most appropriate institutions for economic growth or for the well-being of its citizens, because other institutions may be even more suitable for those who control politics and political institutions.

## 3. RESULTS AND DISCUSSION

The present study, using a qualitative approach, employing the technique of analyzing and interpreting different known sets of data or opinions, launches three working hypotheses that may stand as sets of possible measures to combat inequality. Because of the point we tackle, it very well may be watched the interdisciplinary character of our paper that examines viewpoints that fit predominantly in the financial circle, however have significant and pertinent associations with the field of human science and political theory. Taking into consideration important debates regarding economic inequality, launched by the practitioners in the field, the present research began from the possibility that the large number of global economic measures to combat inequality proposed by economists must be systematized for a better understanding of the phenomenon.

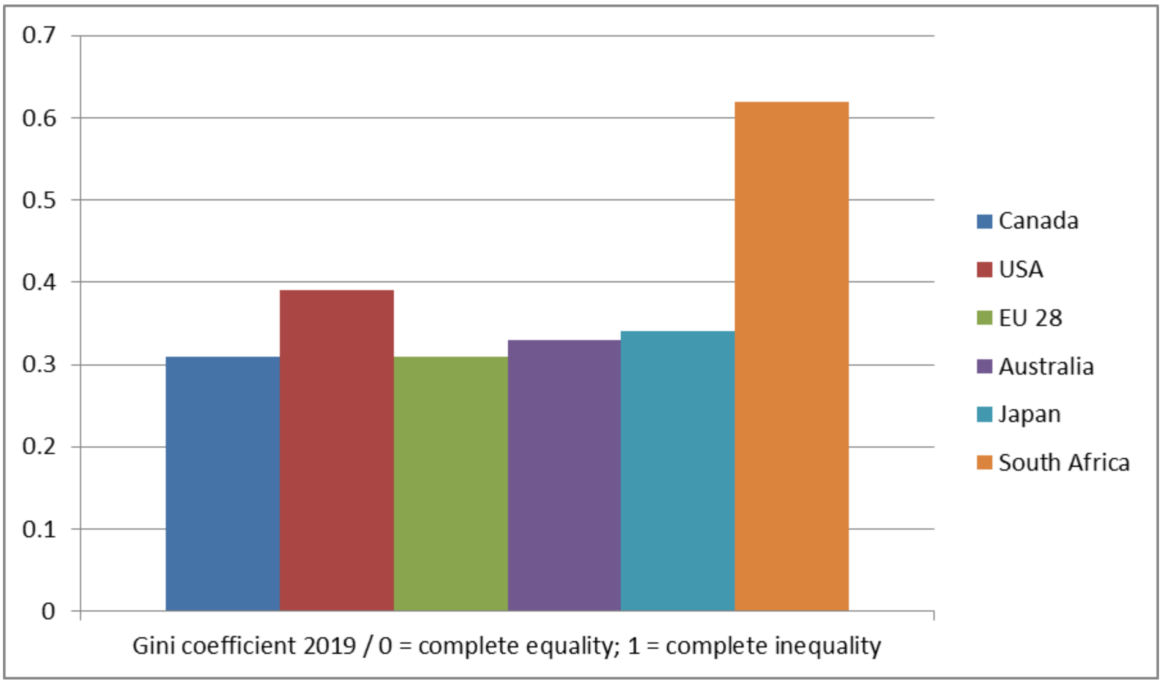



**Graph no. 1. Income inequality in EU countries measured by the Gini coefficient**
**0 = complete equality; 1 = complete inequality**
Source: OECDE data, own processing

Expanding inequality and moderate financial development in numerous nations have moved thoughtfulness regarding arrangements to help comprehensive turn of events. While a specific degree of imbalance is inescapable in a monetary framework dependent on a market economy, excessive inequality can dissolve social union, lead to political polarization and at last to more vulnerable financial development.

Although Europe has been more successful than other regions of the world in combating income inequality, in most European countries these inequalities have increased over the period 1980-2017, according to the World Inequality Lab (WIL). Thus, "the incomes of the 1% of the wealthiest have increased twice as much as those of the 50% of the bottom", notes this expert group in a WIL report. This report also shows that social inequalities have decreased among EU member states rather than within these countries.

The strongest growth of inequalities was registered in the former Eastern European states, which were the most egalitarian in the 1980s and switched to capitalism in the 1990s. In these countries, "a small elite benefited from the privatization of the transition period from socialism to capitalism", the report explains.




**Graph no. 2. Income inequality measured by the Gini coefficient**
**0 = complete equality; 1 = complete inequality**
Source : OECDE data, own processing

Despite the increase in inequalities, the EU is better off in this regard than the US, the same report states. The education and health systems of the community block are more equitable and social assistance plays a major role. In the period since 1980, the incomes of the poorest half of the European population increased by 37%, while in the USA they stagnated. Also, in the same time period the incomes of the 0.01% of the richest people increased in the US by 300%, twice as much as in Europe.

The US has a Gini coefficient of 0.39, eight points above that of the EU, according to the Organization for Economic Cooperation and Development (OECD).

Most OECD countries outside Europe also have coefficients above the EU, such as 0.33 for Australia, 0.34 for Japan, and 0.62 for South Africa.

Inequality should not be perceived as an imminent effect generated by capitalism. Public policy can contribute to reducing inequality and addressing poverty without slowing economic growth. The investigation of a progressively complex informational index yet summed up in *Table 1* and *Table 2* shows that approaches ought to be nation explicit, yet should concentrate on expanding the pay portion of poor people and guarantee that there is no emptying out of the white collar class.

This paper proposes three bearings to be followed that can create proof based arrangements that can positively affect turning around rising imbalance, shutting monetary abberations among subgroups and upgrading financial portability for all.

**1. Taxation**

In Western Europe, the wealthiest 10% earn before tax, on average, seven times more than the 50% most needy, according to WIL. However, after tax the ratio decreases, the same gain being five times higher, the income decreasing by 29%. This percentage of income adjustment after tax payment is 23% in southern and northern Europe and 15% in the east. While the states of Western Europe usually have a progressive tax rate, respectively taxes whose percentage is higher in the case of higher incomes, many Eastern European states - such as the Baltic countries, Bulgaria and Romania - have a single tax rate, which means that both the rich and the poor pay the same percentage.

Waiving progressive taxation in some countries, in the context of economic competition, contributes to increasing inequalities, including due to reduced funding for public services.

**2. Investment in Education**

In the context of increasing economic inequality between countries and within each country, the functioning and investments in a country's education system can have a major impact on a nation's ability to manage this phenomenon. Access to a high quality education system for children is a safe alternative for controlling poverty and the spread of disease. Individual education, particularly at the more significant level, can change lives and expel kids from the shadow of poverty and minimization. For social orders, it goes about as a leveler, and as an operator for more prominent balance. A procedure to put rapidly and effectively in quality state funded training for all ought to be a need for all countries. So as to manufacture a reasonable and great quality government funded training framework, which can make a generous commitment to fighting financial and gender imbalance, leaders must concentrate on the accompanying activities: providing all inclusive education, for free, from the pre-essential to the auxiliary; generating policies that can help deliver quality for everyone; providing equal access to the education system; prioritizing the strengthening of the public systems.

Our analysis reveals that national governments must scale up spending to convey quality and value in education. According to Walker. J *et al*, “in low- and middle-income countries this will require at least 20% of government budgets, or 6% of GDP allocated to education”.

**3. End Residential Segregation between socioeconomic groups**

According to the World Inequality Report (2018) comparable national degrees of income inequality relate with altogether different private isolation levels between the top and base financial gatherings in European urban areas. Since the 1980s, globalization, rebuilding of work markets and the advancement of the economy have prompted rising salary imbalance over the globe.

As indicated by EUROSTAT (2018), the North European nations speak to the least degrees of salary disparity in Europe; the South European nations speak to the most elevated levels of pay imbalance in Europe; and numerous East European regions, including Estonia and Hungary, have changed from the most equivalent to most inconsistent nations in Europe.

From the point of view of ethnic distribution, an important social aspect with important consequences in the economy is the fact that, in most of the European urban regions, important, numerically, groups of immigrants are overrepresented in jobs for unskilled persons and implicitly associated with very low incomes which causes a substantial overlap between income inequality and inequality along ethnic lines. The underestimation and spatial centralization of lower salary individuals, regularly with an ethnic minority foundation, flags profoundly settled in basic imbalance on the work and lodging markets.

## 4. CONCLUSION

The efforts of the last twenty years to measure the effects of economic integration on the distribution of global income have resulted in very irregular results:

the biggest "winners" were the rich and the middle class in the developing economies;

the “losers” were the poorest and those included in the 75-90% percentage range of the global income distribution (states from the former Soviet bloc and Latin America);

with the exception of the above two categories, there has been a general increase in real income for the vast majority of the world's population, including the poor in the third world.

However, even though the vast majority of the population benefited from globalization, the effects were uneven and many people did not benefit at all. These things pose a number of challenges for economists, who have concluded that:

the promotion of measures to reduce inequalities is compromised by the idea that the process is unfair and disruptive;

the increase of the capacity of the services sector in the economies of the developed states has determined a structural friction between the incomes of the persons with activity in the tradable and the non-tradable sector. For example, the incomes of hairdressers or carpenters are under the pressure of a limited group of clients and the arrival of immigrants, who accept lower wages for jobs in the field. At the same time, the salaries of persons active in the legal or financial sector benefit from significant barriers to entering this market, but from a global range of clients;

the development of the education system will be a key factor in allowing citizens to adjust the inequality issues caused by global economic integration;

the management of these inequalities is made difficult by the differences between state policies and the world economy.

The fiscal policy of a country is the main instrument for the governments of the respective countries to influence the distribution of income. Increasing income inequality in advanced and developing economies coincided with the government-wide promotion of the redistribution of income policy. This alternative comes at a time when fiscal restraint is a priority in many advanced and developing economies.

Inequality drivers shift generally between nations, however there are various regular determinants that incorporate capacity related with specialized change and globalization, debilitating work security and absence of budgetary consideration in creating nations. We confirmed that extending the compensation portion of poor people and the white collar class truly augments advancement while a rising compensation portion of the main 20 % comes to fruition in lower development that is, the point at which the well off get wealthier, benefits don't spill down. In consequence, we can conclude that public policies ought to be country specific but ought to focus on raising the wage share of the poor, and guaranteeing there's no hollowing out of the middle class. When tackling inequality, money related consideration is imperative in developing and emerging nations whereas in advanced economies, governmental arrangements ought to focus on raising human capital and abilities and making tax frameworks more dynamic.

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