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The Challenges ahead : Addressing the rising inequalities

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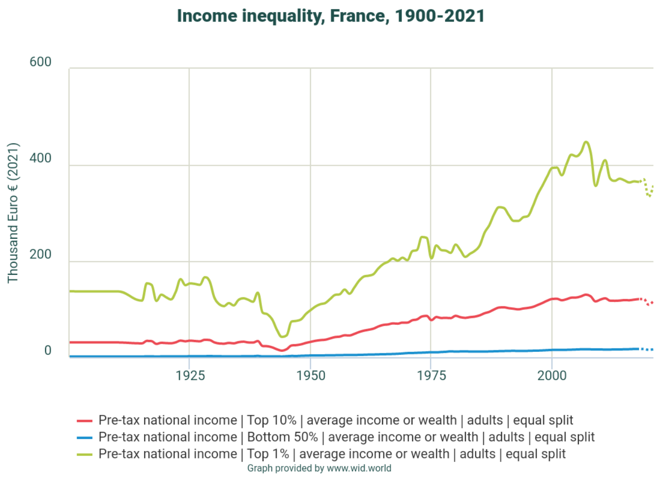
I. An observation : Increasing inequality in France and Italy

In order to analyse the situation regarding inequality, we need to split the reasoning into two steps. For each of the two countries (A & B), the analysis will first focus on income inequality (1) and then on wealth inequality (2).

The analysis is based on data provided by the World Inequality Lab database which gathers social scientists committed to helping everyone understand the drivers of inequality worldwide through evidence-based research.

A. In France

1. Income inequality

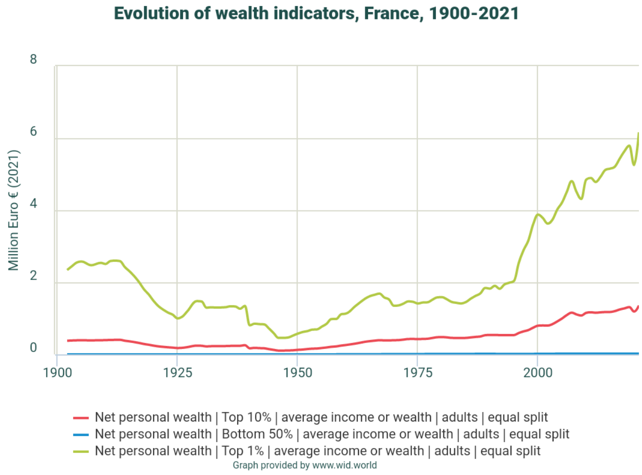


No surprise, there is income inequality in France. Indeed, the top 10% receive about 123,000 euros of income before taxes while the bottom 50% receive approximately 17,000 euros, or 7 times less. The gap with the top 1% is even more significant, who earn on average 350 000€.

We can observe that income inequality has skyrocketed since 1950. Nevertheless, the situation seems to have stabilized since the 2000's.

However, the income gap is smaller in France than in the United States or Germany.

2. Wealth inequality



In terms of household wealth, inequalities are growing. The bottom 50% have almost no wealth while the top 10% have average net personal wealth of more than 1 million euros.
The top 10% own about 60% of total household wealth while the bottom 50% own about 5%.
Since 1990's, there has been a clear increase in wealth inequality. the top 1% now have an average of 6 million euros in assets. In 1990, it was 2 million euros.

Thus, although inequalities have always existed in France, there is now a real problem of inequality in the distribution of wealth, which continues to increase.

Sources :
Base donnée - https://inequalitylab.world/fr/
Articles - Le Monde : "Les disparités de patrimoine se creusent en France"

B. In Italy

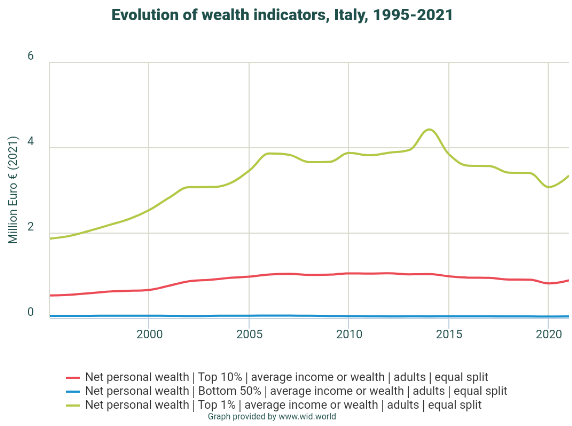
1. Income inequality

In terms of income inequality, the situation in Italy is different:

The bottom 50% earn on average 12 000€ while the average salary of the TOP 10% is 101 000€, i.e. 8 times more. This is more important than in France. Nethertheless, the gap with the top 1% is smaller, they earn on average 250 000€.

Moreover, since the beginning of the 2000s, the situation has stabilized and there is no longer any increase in income inequality.

2. Wealth inequality



In terms of wealth inequality, the situation is less unequal in Italy than in France.

<u>Datas for 2021</u> :

Percentile	Year	**Net personal wealth** average income or wealth | adults | equal split | Euro € | ppp | constant (2021) | **Italy**	**Net personal wealth** average income or wealth | adults | equal split | Euro € | ppp | constant (2021) | **France**
p0p50	2021	36 842	22 294
p90p100	2021	882 155	1 355 793
p99p100	2021	3 336 546	6 162 871

Percentile	Year	**Pre-tax national income** average income or wealth | adults | equal split | Euro € | ppp | constant (2021) | **Italy**	**Pre-tax national income** average income or wealth | adults | equal split | Euro € | ppp | constant (2021) | **France**
p0p50	2021	12 068	16 493
p90p100	2021	93 877	116 950
p99p100	2021	253 724	356 977

Therefore, what can be the solutions to overcome these income and wealth inequalities ?

II. **Solutions to fight inequalities**

A. **Taxes: A tool to fight inequalities**

Inequality can be measured along two axes;

- On the one hand by looking at inequality between nations
- On the other hand by looking at inequality within nations.

States are thus targeted and are in a position to implement proactive policies aimed at reducing inequality, in particular through their fiscal policies.

Let's take an example : the study conducted by **Emmanuel Saez** and **Gabriel Zucman** demonstrated the extent to which a country's fiscal policy could contribute to the widening of inequalities, in particular by constantly reducing the taxation of the wealthiest and shifting most of the tax burden onto the middle class. In their study, the country taken as an example by them was the United States during the period between the Second World War and the arrival of Reagan.

Yet, taxes are undoubtedly one of the best tools to reduce inequalities in living standards since they allow for the redistribution of wealth.

In France, the tax system is based on three types of taxes: flat rate, proportional and progressive.

- Flat tax ;
- Proportional tax ;
- Progressive tax ;

Flat tax : The flat tax levies the same amount of tax on everyone. This is the most simplistic form of taxation in France, but also the **most unfair**. « Unfair » because this method does not take into account the standard of living. Each taxpayer's standard of living is reduced by the amount of the flat rate.
This tax does not change the income gap in euros (the difference between the income of the rich and the poor), but increases relative inequalities (the ratio between the income of the rich and the poor).

Let's take an example : if we take 100 euros from Mr. A who earns 1,000 and also from Mr. B who earns 2,000, Mr. A and Mr. B will have 900 euros and 1,900 euros respectively after the tax operation.

So the difference between Mr. A and Mr. B is 1,000 euros, but the ratio, which was 1 to 2 (2,000 ÷ 1,000 = 2), increases to 1 to 2.1 (1,900 ÷ 900 = 2.1).

This type of tax persists in France in the form of the television taxe. To put our Italian counterparts in perspective, this tax is paid at the same time as the « taxe d'habitation » or for italian residents « Imposta Municipale Unica ». The television tax is levied on the vast majority of households, since 95% of French people have a television. This taxe does not take into account the standard of living, or just with rare exceptions. Our current president Emmanuel Macron is currently talking about abolishing the television taxe.

Proportional tax : This form of levy is proportional to income or consumption, of which the French tax authorities deduct a proportion. It is no longer a question of deducting an amount, as in the flat tax.

This type of tax reduces absolute inequalities, i.e. the difference in euros.

Let's take an example : A tax of 10% on an income of 1,000 euros represents 100 euros. And on an income of 2,000 euros, that is 200 euros. Thus, the after-tax income is 900 (1,000 - 10%) and 1,800 euros (2,000 - 10%) respectively. The difference in income goes from 1,000 euros before tax to 900 euros after tax.

So this type of tax does not change the relative inequality : the gap goes from 1 to 2 before tax (2,000 euros against 1,000 euros) as well as after tax (1,800 euros against 900 euros).

In France, most of our tax system works with this method. For example, we have the generalized social contribution, social security contributions, value-added tax, fuel tax and cigarette tax. Thus, social contributions are proportional to income and the VAT is proportional to consumption.

Progressive tax : In this type of tax, the term "progression" is used because the rate of tax increases with the value of what is taxed. This is the case for income tax in particular. The tax rate increases with income.

Progressive taxation reduces at the same time absolute and relative inequalities.

Let's take one last example : If a 10% tax X is levied on Mr. A's income of 1,000 euros and a 20% tax Y is levied on Mr. B's income of 2,000 euros, after taxes are applied, we obtain incomes of 900 euros for Mr. A and 1,600 euros for Mr. B. The ratio goes from 1 to 2 before tax to 1 to 1.8 after tax.

Thus, we can see that this type of tax is the most effective in promoting an efficient fight against inequalities.

For a historical point : the justification of this type of levy is old. The economist Adam Smith was in favor of it. The reason is simple: when Mr. A who earns 1,000 euros receives an extra 500 euros, it is useful to him. Whereas, the extra 500 euros earned by Mr. B, who earns 1 million euros, is superfluous income for him.
In other words, the "capacities" or "faculties" to contribute to the expenses of the State - as provided for in Article 13 of the French Declaration of the Rights of Man and of the Citizen of 1789 - increase at the same time as the income.

So, on the one hand, from a social point of view, this progressive method is fairer and, on the other hand, from an economic point of view, this method is more effective in taxing at a lower rate those with the lowest incomes.

Now, we can look at taxes to illustrate their application and effects.
Income tax uses the progressive method. It thus favors limiting income inequalities.
The wealth transfer tax uses the progressive method as well. It thus favors limiting wealth inequalities.

The current policy in France, especially for inheritance, is to favor the transmission of assets within the same family. The French tax law thus proposes a certain number of allowances to be applied according to the family relationship.

Focus on the proposals of the candidates for the next French presidential election: The return of the old wealth tax : a climate wealth tax : Formerly in France, there was a wealth tax, allowing to tax the movable and real estate wealth of the richest. It was abolished in 2017 by President Emanuel Macron, and was replaced by the tax on real estate wealth. Very soon in France there will be the election of a new president. Candidates have thus suggested in their presidential program a return of the wealth tax, but with some differences focused on ecology. This is a Wealth Tax modulated according to the environmental impact of financial investments of households, calculated according to their impact on the climate and from a report of the laboratory of global inequalities which indicates that 10% of the wealthiest are responsible for half of global CO_2 emissions.

Why does cooperation between French and Italian administrations facilitate the fight against inequalities?

The principle of equality before the tax is a constitutional principle of French law. It has two branches: the principle of equality before the tax law (Article 6 of the DDHC of 1789) as well as the principle of equality before public charges (Article 13 of the same declaration). (Maybe explain the block of constitutionality?). We will focus here on the second part.

"The principle of equality before public charges does not prevent different situations from being the object of different solutions. It is up to the legislator to determine, in compliance with constitutional principles and taking into account the characteristics of each tax, the rules according to which the taxpayers' ability to pay should be assessed (i.e. the rules of assessment), basing its assessment on objective and rational criteria in relation to the aims it proposes. But this assessment must not lead to a breach of equality before public charges: in particular, the tax must not be confiscatory or impose on taxpayers an excessive burden with regard to their taxpaying capacity. O. Fouquet as Honorary President of the Finance Section of the Council of State.

From this principle emerges the possibility of modulating the tax according to the situation of each taxpayer, which in fine allows the tax to be a formidable social tool in order to erase the inequalities between citizens. Nevertheless, certain limits are necessarily set in that the tax cannot become confiscatory for certain taxpayers, particularly the wealthiest. There is therefore a balance here between safeguarding the principle of equality on the one hand,

and respect for property rights on the other. It is then up to the legislator to set the cursor correctly, under the control of the constitutional judge.

Above all, it follows from the principle of equality before public burdens that, even if his or her taxable capacity is taken into account, each citizen must fulfill his or her tax obligations. Consequently, a taxpayer who does not fulfill his obligations by not declaring his activity or by not paying the tax would make the rest of the community bear the burden that is incumbent upon him, thus creating a breach of equality. Tax control plays a crucial role in ensuring that each citizen fulfills his or her obligations, thus safeguarding equality between them.

This reflection leads to this point: cooperation between the French and Italian tax authorities, which facilitates access to certain tax information and tax collection, is an important element in that it allows each of these authorities to more easily collect the sums due to them. Therefore, this cooperation necessarily contributes to the fulfillment of the principle of equality before public charges (it remains to be seen whether such a principle exists in Italy) and to the elimination of inequalities between citizens.

In fact, it should be noted that in the event of a taxpayer's refusal to pay tax, each administration is only competent to proceed with enforced collection on its own territory. Therefore, the cooperation between France and Italy allows France to recover debts when the debtor and his assets are located in Italy by requesting the assistance of the Italian Administration, and vice versa.

B. Other solutions to inequalities

It is becoming increasingly clear that inequality has a negative impact on development as it reduces well-being, slows down poverty reduction, leads to social and political instability and, in the long term, is associated with lower growth. High levels of inequality thus reduce countries' development.

Reducing inequality is good for societies as a whole, but it is not a win-win situation for everybody. The potential losers of greater equity are often the most powerful in society

Defining and measuring inequality

Inequality of income: This refers to how the income earned in an economy is distributed across the population. It is usually calculated at household level (i.e. by pooling income for all household members), weighted for the number of household members and their age.

Inequality of opportunity: Income inequality measures outcomes, but this is a mix of (i) the opportunities afforded to an individual at birth, (ii) the choices she or he made in life, and (iii) luck. While more difficult to measure, ensuring individuals have an equal opportunity to succeed is a policy goal for which there is a clearer consensus to act, than for achieving equal outcomes.

The most immediate tool for correcting an unequal distribution of income is through the tax and benefit system. Progressive taxation, coupled with a system of social transfers which adequately supports poorer households, can reduce income inequality substantially.

However, the extent of the inequality reducing impact of taxes and transfers also varies across countries. This suggests that in some countries there is scope for increasing the use of this instrument, but in certain countries specific factors should always be considered.

“Inequality is neither economic nor technological; it is ideological and political,” Piketty writes.

To reclaim the votes of the less advantaged and start tackling inequality, Piketty argues, social democratic parties need to abandon market-friendly policies that favor the wealthy and carry out a root-and-branch reform of the entire political and economic system, even if that means amending constitutions and neutering supreme courts. “Our present problems cannot be solved without major changes to existing political rules,” he writes.

The solutions proposed by Piketty to effectively address the problem of inequality can be summarized in three main points. (participative socialism)

1. First, it is fundamental to guarantee a fair and equitable educational system.
2. Second, workers need to be empowered in the management of firms, for instance through the voting right systems present in Germany and Sweden.
3. Third, the transmission of wealth needs to be limited through higher tax rates, in order to guarantee more equal access to property. These problems must be tackled collectively, especially in Europe, in order to limit tax elusion.

1. **Equitable educational system**

We have to overcome negative discrimination - which means that disadvantaged social classes in all OECD countries have less education than those allocated to the wealthy.

Another proposal concerns the limited number of places in elite universities and schools, particularly in the United States. It presents, in a positive way, a proposal that would draw lots from students who score above a certain level to enter these institutions, which in fact amounts to applying a social quota.

OXFAM (2019 research)
Reducing poverty. A good education makes the likelihood of higher incomes and lower poverty much greater. It is estimated extreme poverty could be halved if universal primary and secondary education were achieved.

Boosting opportunity for all. Social mobility, i.e. the possibility for children from poor families to end up better off than their parents, is intimately tied to the availability of education

Bringing society together. Schools can be places where the children of rich and poor families can become friends, and the barriers of inequality are broken down. They can challenge the rules that perpetuate economic inequality in broader society, and give young people the tools to go into the world and build more equitable societies.

Supporting democratic societies. Education offers individuals the tools to exercise their right to an equal say over the structures and policies that govern their lives, which boosts democracy.LIm Extensive research shows that increased education leads to greater **political and civic engagement.**

2. **Empowerment of the workers**

wealth generally grows faster than the economy, and it tended to become concentrated, as more wealth brings more opportunities to save and invest.

We must rethink private property and replace it with a system of social and temporary property. We must redefine the distribution of power in firms, via systems of worker participation in management, like those that have been in place in Germany and the Nordic countries for 50 years, where 50% of board of management seats go to employees. We could go further, by limiting the voting rights of the biggest shareholders.

I am convinced that decision-making power in companies must be better distributed and that it would result in greater social and economic dynamism.
Individual workers should be allowed to buy shares in their company; this will add the votes of these shares to half of the total votes they would already have collectively.

The other amendment is that capital injections of more than 10 % of the capital of an undertaking would result in voting rights corresponding to one third of the amount invested, which would limit the power of large investors.

3. **Higher tax rates**

The book suggests introducing a 2% global tax on fortunes above €10 million and tracking capital flight.

there is an urgent need to rethink international taxation in order to share revenues from multinationals and billionaires. On the one hand, the prosperity of rich countries would not exist without poor countries and the legacy of slavery and colonialism, and on the other hand, every human being should have a minimum equal right to health, education and development.

Indeed, wars played a central role in reducing inequality in the twentieth century. They destroyed the patrimony of the past and imposed progressive taxation and a social state that the elites refused before the conflicts.

Only a progressive capital tax, with rates of 5-10% on the multi-billion-euro fortunes, would restore balance peacefully. Otherwise, there will be a variety of nationalist and protectionist setbacks. There is also a need to modernize and fundamentally renovate the existing fiscal and social institutions. France is a case study: our taxes have reached a level of complexity that seriously threatens their comprehensibility and social acceptability

Introduction of a progressive capital tax, complementary to the progressive income tax. You pay in installments based on your wealth. But it would be far more systematic and progressive. Between 1 and 2 million, you pay 1%; between two and 10 million, you pay two percent... and up to five percent or 10 percent on the multi-billion assets. Taxing capital, then, not to exact revenge on the rich, as some fear, but to prevent the top wealth from growing, structurally, three or four times faster than the economy. And to maintain control of an explosive global dynamic.

Example of Canada

In its 2021 Budget, the federal government proposed to introduce a tax on the sale of certain luxury goods purchased for personal use such as cars, boats, and aircraft. The tax would apply to new cars and aircraft with a retail sales price over $100,000 and to boats over $250,000. The tax would be calculated at the lesser of 20% of the value above the threshold ($100,000 for cars and personal aircraft, $250,000 for boats) or 10% of the full value of the luxury car, boat, or personal aircraft.

Increase the VAT on luxury goods and decrease the ones on products of first necessity could reflect on a social justice. However, this proposition has its limits. How can we really determine what is a luxury good? Moreover, how can we make sure that the consumer will not simply by this product elsewhere?

Other possible solution for reducing inequalities

To the extent that these socio-economic and political formations are interconnected, this also implies that the States in place will withdraw from free trade treaties, redefine the rules of international trade and impose social and environmental justice rules aimed, inter alia, at rebalancing the North and South.

Recommandations from the OECD
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 even in their provisions lower income inequality through smaller wage dispersion and also possibly via higher employment.