WE ARE THE 99%

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Economic Inequality, Human Rights and the Institutions of the Economy

Master's Dissertation in Economics,

supervised by Professor Doctor Vítor Manuel Leite Neves

and presented to the Faculty of Economics of the University of Coimbra

Coimbra, [February/2019]

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Abstract

The problem of rising inequalities within countries is at the centre of the economic and political debate. In advanced economies the gap between the rich and the poor is at its highest level in decades. However, inequality is not inevitable but is the consequence of years of policies and laws which have benefited a few.

The purpose of this work is to contribute to a better understanding of the institutional basis of economic inequality.

After covering the evolution of economic disparities in developed economies over the last century, the paper explores the economic literature on inequality mostly based on the institutionalist point of view. In this way, it is possible to outline the main institutional areas that cause inequality nowadays.

The definition of its determinants allows us to proceed with the analysis of some possible solutions to the issue of inequality.

This research combines a human rights perspective with the institutional approach to economics as the most adequate framework to address economic disparities. We argue that it is crucial to remake the rules of the game with an eye on human rights and on the improvement of the quality of institutions.

Therefore, we try to understand the role of the institutions of the economy in the reduction of inequality and present some concrete solutions to reinforce their quality, with the support of empirical evidence as well as previous studies, and show a general framework which goes through the implementation of an effective institutional reform. Such reform concerns the rule-of-law principle, the laws that favour the wealthy and the top earners and welfare and (re)distributive policies.

Finally, some closing remarks and questions for future research conclude the paper.

Keywords: Economic Inequality, Human Rights, Institutions.

Resumo

A problemática das crescentes desigualdades dentro dos países é central no debate económico e político. Nas economias avançadas o gap entre ricos e pobres atingiu o seu nível mais alto em décadas. Contudo, a desigualdade não é inevitável tão somente como é o resultado de políticas e leis que beneficiaram uma elite.

O propósito deste trabalho é contribuir para uma melhor compreensão sobre a base institucional da desigualdade económica.

Uma vez abordada a evolução das disparidades económicas em países desenvolvidos no último século, o artigo explora a literatura económica sobre desigualdade largamente baseada numa perspectiva institucionalista. Desta forma, é possível delinear quais áreas institucionais causam desigualdade hoje em dia.

A definição das suas determinantes permite-nos proceder à análise de algumas possíveis soluções para a questão da desigualdade.

Esta investigação combina uma perspectiva focada nos direitos humanos com uma abordagem institucional como enquadramento mais adequado ao tratamento de disparidades económicas. Argumentamos que é crucial refazer as regras do jogo, com o foco virado para os direitos humanos e para o melhoramento da qualidade das instituições.

Desta forma, tentamos compreender qual o papel das instituições da economia na redução de desigualdade e apresentamos soluções concretas, sustentadas por evidências empíricas assim como estudos prévios, para reforçar a sua qualidade, e mostramos um enquadramento geral que passa pela implementação de uma reforma institucional efetiva. Esta reforma refere-se ao princípio de legalidade, as leis que favorecem os abastados e os altos rendimentos e as políticas de (re)distribuição.

Finalmente, alguns comentários finais e questões para futura investigação concludem o trabalho.

Palavras-chave: Desigualdade Económica, Direitos Humanos, Instituições.

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Introduction

Economic inequality is on the rise in advanced economies since the late 1970s and the early 1980s. Nevertheless, it is just more recently that the topic has acquired a renewed attention in academic research and in the political debate.

As a matter of fact, it was only with the financial crisis of 2008 that people became more aware of the problem of rising inequality as it pointed out in a more crude way the failure of the political and economic system.

In developed countries, protests started to spread in response to the chaos and uncertainty consequent to the crisis.

In the U.S., the social movement "Occupy Wall Street" began firstly to demonstrate against the loss of jobs, in contrast with the increase in bonuses that were granted to the bankers in the same period (Stiglitz, 2013). Later on, the movement adopted the slogan "we are the 99%" to protest against the widening gap between the rich and the poor, which led to the current situation where the top 1 percent of the earners among the entire world population own almost half of the world's wealth.

Therefore, disparities are reaching extreme values and are becoming more and more unbearable for people at the bottom of the distribution, but this is not the only reason why economic inequality matters. In fact, huge inequalities are also a matter of human rights violation.

The economic inequality debate rarely integrated human rights practices in its discourse as well as concerns on inequality in economic status began to be a concern for human rights laws and advocacy just more recently. Inequality about gender, race or disability has long been at the core of human rights interest but not the inequality in distribution of economic resources. Nevertheless, economic inequality has severe implications in the spectrum of human rights. In fact, it can result in profound disparities in access to health, education, housing and other services that allow to comply with economic and social rights.

Extreme inequality is both a cause and a consequence of human rights violation given that many key determinants of inequality (for example the weakening of labour rights) are a manifest denial of internationally guaranteed human right (Saiz and Aguilar, 2015) and at the same time such a denial causes the widening of inequality among individuals and groups.

Therefore, one often neglected way to look at economic inequality is based on human rights, which can provide a consistent mean to address disparities in the long term.

Another important contribution to analyse disparities is the institutional framework.

As a matter of fact, the concept of institution plays a significant role in explaining the functioning of the economy.

An institution is defined here as a rule that governs human behaviour (Keizer, 2007).

These rules can be categorised in habits, that are more or less conscious persistent regularities in behaviour that facilitate humans' life; routines, that are more urgent regularities that make a particular process more effective; customs, that are rules with a moral connotation that people expect other individuals to behave accordingly; and legal rules, that are rules set by the government in the attempt to regulate human behaviour. Moreover, among the concept of institutions can be counted also all the organisations and agencies, both governmental and private, responsible for the maintenance or the implementation of the rules and production activities that favours the well functioning of the economy (Keizer, 2007).

Institutions constrain but also enable human behaviour: the existence of rules implies a constraint but this very same constraint can open up possibilities and enable actions that otherwise would not exist (for example, the rules of language allow us to communicate) (Keizer, 2007).

Giving this definition, an institutional framework is a set of interrelated rules or institutions that aims at framing the human behaviour in a particular situation. Some examples of institutional framework are the system of collective bargaining of labour conditions, the social security system and the monetary system.

Without a certain degree of quality and coherence of the institutions that it is made of, but also capability to adapt to new circumstances, an institutional framework is not able to work (Keizer, 2007).

In this research, we will therefore look at the role of institutions in explaining the causes of economic inequality and we will combine human rights and the institutional framework to construct a general scheme to address inequalities in the future.

We will argue that the quality of economic institutions is fundamental to tackle inequality and that the rising dispersion in earnings is due to a failure in the reform of the institutional

system. The retrenchment of the welfare and the inefficacy of public policies to improve the life's conditions of the poorer, the weakening of the "rule of law" principle that is the inadequacy of the institutions in assuring the fairness of the economic system and the flourishing of laws that favour the wealthy and the top earners instead of the population as a whole, eroded the effectiveness of a just distribution of economic resources, causing social conflicts and the revival of populisms and of the extreme right wing in advanced economies. This is the reason why we need to move our focus from mere productivity to a more holistic view of the economy as an instituted system of provision of goods and services, capable of improving the living conditions of all the members of a community.

This work will be structured as follows.

In Chapter 1, we will first define the concept of economic inequality (section 1.1). As a matter of fact, before analysing the issue we have to know what we are talking about and which the different views on the concept are.

When speaking about economic inequality, economists generally refer to income or wealth inequality. Nevertheless, this interpretation addresses just one aspect of the concept of economic disparity, that is the inequality of outcomes, which deals with differences in overall material living conditions.

Another way to look at disparities in a broader sense, instead, is to look at the inequality of opportunities that is the lack of a common starting place for individuals because of cultural or social restriction.

Neither the former nor the latter are easy to compute and don't have a specified indicator to refer to one or another. Therefore, we will have a look at some of the ambiguities on the measurement of inequality and describe some indicators. To be sure, we will not examine all the indicators that exist on inequality. We will explore just the variables that will be useful in our study to depict the pattern and the current situation of the rich-poor gap given that a detailed exhibition is beyond the scope of this work.

After this conceptual exercise, section 1.2 will deal with the evolution of the economic inequality since the beginning of the last century.

In fact, even if economic inequality has been rising lately in advanced countries, it has not always been so in the past. This is the reason why, to better understand how current inequality within countries rose and how it could be reduced in the future, it is crucial to examine the historical record about inequality and try to learn from history.

In order to do so, in this paragraph our attention will be focused on the aspects related with the inequality of outcomes that are the most available data and the most useful ones to have an overall picture of the patterns of disparities in the long term. Therefore, together with wealth inequality data when available, we will examine the long-run trend of income inequality, which is now on hand thanks to the studies of researchers that constructed estimates covering more than a hundred years. We will present the empirical evidence of how income disparities have changed over time from the beginning of the twentieth century until today.

The chosen starting point is the First World War (1914) for being the first major and most overwhelming shock of the last century, a turning point of our recent history, and for the broader availability of data and previous studies that we have from this moment onwards. For the period that comprehends the very beginning of the 20th century, the analysis will be centered on the top 1 percent income shares which are the oldest data available for studies on inequality. For few countries, given that just little data are available, we will also have a look at top 1 percent wealth shares.

For later periods (from the 1960s onwards), we will also have a look at another variable that addresses the whole income distribution and not just the top percentiles, that is the Gini coefficient. We will also see what happens at other components of the income and wealth distribution that is not just the very very top (1%) but also the top 10% and the bottom 40-50%. Moreover, we will have a look at the P90/P10 ratio and the Palma ratio. The sources of the data used are mainly the Income Across the Distribution Database, put together by the researchers Brian Nolan, Stefan Thewissen and Max Roser and based on microdata from the Luxembourg Income Study Database[1]; the Chartbook of Economic Inequality (Atkinson, Morelli, and Roser, 2016); and the World Wealth and Income database (WID) coordinated by Facundo Alvaredo, Anthony B. Atkinson, Thomas Piketty, Emmanuel Saez and Gabriel Zucman[2].

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[1] "The Luxembourg Income Study Database (LIS) is the largest available income database of harmonised microdata collected from about 50 countries in Europe, North America, Latin America, Africa, Asia, and Australasia spanning five decades. Harmonized into a common framework (...), LIS datasets contain household- and person-level data (...) on labour income, capital income, social security and private transfers, taxes and contributions, demography, employment, and expenditures." (LIS Datacenter: Luxembourg Income Study Datacenter "LIS-DATABASE" www.lisdatacenter.org/our-data/lis-database/[29th October 2018]

[2] "(...), the World Wealth and Income Database aims to provide open access to data series on income and wealth worldwide. The goal is to be able to produce Distributional National Accounts: estimates of the distribution of wealth and income using concepts that are consistent with the macroeconomic national accounts. The focus lies not only on the national level, but also on the global and regional level." (EDAC:

The focus will be the evolution of economic inequalities in a selection of advanced economies, as defined according to the classification of the International Monetary Fund (IMF)[3]. This choice was made to show the upward trend of income inequality within rich economies that started in the 1980s. We will then conclude with an overview of the actual situation on disparities in developed economies.

In section 1.3., the literature about inequality will be reviewed, giving a predominant role to the institutional approach in explaining economic disparities through the history of economic thought.

The institutions, welfare and policy intervention will inherently come up as useful means that allow a more equal redistribution of resources in the topic of the distribution of wealth, challenging the neoclassical idea that inequality is an inevitable outcome of the economic activity. This would help us construct a theoretical framework encompassing previous consistent findings and theories that consider institutions as having a decisive role in addressing inequalities.

Finally, the last section of this chapter (1.4) will be dedicated to examine the causes of inequality. We will first summarise the determinants of inequality that came up during our historical analysis of the long-run evolution of disparities and of the institutionalist literature on the topic. Then, we will add further explanations and go into more details of the factors that are more interesting for our examination, that is factors related with institutional arrangements.

We will focus on four institution-related causes that are crucial for the explanation of inequality: the labour market institutions, financial (de)regulation, the redistributive policies and human capital. We will also have a look at how the technological change and the globalisation affect these types of institutions.

European Diary Archives & Collections "Indicators" http://www.edac.eu/indicators_desc.cfm?v_id=381 [29th October 2018]

[3]The IMF defines the advanced economies according to three main criterias: 1) per capita income level, 2) export diversification and 3) degree of integration into the global finance system. However, note that these are not the only factors; as a matter of fact "This classification is not based on strict criteria, economic or otherwise, and it has evolved over time. The objective is to facilitate analysis by providing a reasonably meaningful method of organizing data." Currently, the following 39 economies are classified as "advanced economies": Andorra, Australia, Austria, Belgium, Bermuda, Canada, Cyprus, Czech Republic, Denmark, Estonia, Faroe Islands, Finland, France, Germany, Greece, Guernsey, Holy See, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Jersey, Latvia, Liechtenstein, Lithuania, Luxembourg, Macau, Malta, Monaco, Netherlands, New Zealand, Norway, Portugal, Puerto Rico, San Marino, Singapore, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Taiwan, United Kingdom, United States.

With all these tools in our hands, we will then be ready to enter in the second Chapter of this work and start to think about possible solutions to the problem of inequality.

The section 2.1 will be dedicated to the issue of how human rights may contribute to the reduction of disparities. We will explore some elements of the Human Rights Declaration and how it evolved to address economic inequality, with the focus on social and economic rights. After that, we will argue how the human rights-based approach is capable of challenging the traditional minimalist perspective of policies aimed at the lowering of inequality through its universalist, egalitarian and redistributive vision of social protection, identified as one of the core areas for human rights advocacy.

Giving that the human rights framework still suffers from a debate on its importance in the struggle against economic inequality, in section 2.2 we will dwell on a better-known relation that is the one between institutional quality and inequality. As a matter of fact, the amelioration of the institutions plays a crucial part in achieving a fairer distribution of the resources produced by the economic system.

Nevertheless, the fact that also advanced countries are experiencing higher levels of inequality means that the institutional system needs to be improved, thus requiring some sorts of reforms. We will discuss the necessity of the elimination of some laws that clearly favor top income earners, at the expense of the rest of the society. We will affirm that an institutional reform has to pass through this withdrawal of the current legislation, thus reinforcing the rule-of-law principle. In fact, a judicial system so much influenced by the economic and political power as to fail in protecting the citizens, leads to a lack of credibility of the institutions, therefore endangering the effectiveness of our institutional framework. The institutional reform could then move forward and consider the adoption of well-constructed (re)distributive and welfare policies, capable of assuring the well-being of the society as a whole.

Section 2.3 will go into more detail on the characteristics that the institutional reform should assume if we want to be able to address the level of inequality in the future.

We will give some examples of the steps to take if we want to put into practice the renewal of the institutional system and we will explain why these steps are fundamental pillars for the reform to start.

Finally, this work will end with some conclusions, where we will describe our main findings and the contribution we manage to provide to the topic of inequality. We will leave some open questions that we hope will be the focus of future research.

Chapter 1

Understanding the causes of inequality

1.1. Setting the scene: concepts and measurements of economic inequality

Economic inequality can be described as the difference across the population in the control over, and access to, economic resources (Osberg, 2018) which determine the well-being of an individual. The economic resources taken into consideration are usually income and wealth.

Income inequality refers to the existing disparity between the members of a society in the money that each one receive through employment, such as wages and bonuses, with the addition of investments, state benefits, rent and pensions. When data are available, economists prefer to mention disposable income disparities rather than just income disparities because the former represent the difference in the amount of net income a household or individual has available to invest, save, or spend after income taxes and it therefore shows better the actual potential purchasing power of the economic agent.

Wealth inequality, instead, comprehends not just the variance in the income earned by different individuals in a country but also the variance in the assets, such as financial assets (stocks, bonds, etc.), private pension rights and property, that they possess.

The income is the most used indicator to depict economic inequality because of the broader range of data available and because its easier measurement.

Nevertheless, the dimension of inequality introduced until now has to do with just one aspect of the notion of inequality: the inequality of outcomes, which occurs when there are different levels of material wealth or overall living conditions.

However, since the late 1970s, the Indian economist and philosopher Amartya Sen introduced the concept of inequality of opportunities that deals with the difference not in means of living but in actual opportunities for people to pursue a life of their own choosing (UN, 2015). In other words, he considers that society gives equal opportunities when conditions don't determine differences in life outcomes. In practice, it results when policies compensate the individuals facing disadvantageous circumstances that depend on factors such as the individual's age, gender, family background, disability, societal and climatic

conditions (healthcare, education system, prevalence of crime, community relationships), customs and conventions, among others.

While the inequality of outcomes is concerned with the finish line, that is with reaching similar results in material conditions, and with circumstances both beyond one's control as well as talent and effort, the inequality of opportunities is defined on an ex-ante basis, ensuring a common starting place where life outcomes depend only on factors for which a person can be considered responsible and not on disadvantageous attributes outside their control (UN, 2015).

Francis Steward, a pre-eminent development economist, considered the inequality of outcomes as vertical inequality because it reveals the disparity among individuals or households while the inequality of opportunities is seen as horizontal inequality because it has to deal with the existing disparities among groups, typically culturally defined.

Concerning the measurement of economic inequality, while the progress in tackling inequality of outcomes is measured through an income or wealth perspective, the measurement of the inequality of opportunities extends to a broader range of political, economic and social variables such as access to services and political participation.

Both measurement are difficult to compute and have not a universal or specific indicator that can fully represent inequalities.

In this work, when describing the evolution of the rich-poor gap over the last century, we will focus on the inequality of outcomes, that is more strictly related with economic variables.

When speaking about the causes of inequality and the institutional and human rights framework to address disparities, our analysis will embrace a broader vision and therefore consider aspects related to the inequality of opportunities, not focusing on a mere economic characterisation of the rich-poor gap.

On the inequality of outcomes, the most-cited measures of inequality involve income followed by wealth but neither the former nor the latter are free from critiques.

Critics of the income-based approach note that an individual's or household's income can vary considerably over time and may not reflect all available economic resources, such as assets or government transfers.

Critics of the wealth-approach, instead, argue that wealth is hard to measure. As a matter of fact, it can be done through surveys or estate tax multipliers, for example, but each method has its own advantages and disadvantages that leave some important component of wealth behind.

Anyway, this discussion is beyond the scope of this work. In fact, it is not the level of economic inequality that it is interesting for us but the trend, pattern and recent evolution of inequality so that we don't need a fully perfect measure of it. Therefore, we will have a look at various indicators that address the two components of economic inequality in advanced countries, that is wealth and income, to see if they confirm the recent upward trend of disparities we want to demonstrate.

In our analysis, we will examine an overall economic inequality indicator that is the Gini coefficient.

The Gini coefficient or Gini index is a statistical measure developed by the Italian statistician Corrado Gini in 1912, often used as an indicator of economic inequality. It measures the extent to which the distribution of income, or in some cases wealth, deviates from a perfectly equal distribution among individuals or households within an economy. Nevertheless, given that wealth is hard to assess, the Gini coefficient usually refers to income and when possible, to disposable income, which gives a more accurate perspective on inequality. It is an important tool for analysing the distribution but it is not an absolute measurement given that high-income and low-income countries can have the same Gini index as long as income is distributed similarly within each. The Gini coefficient calculates the area between the Lorenz Curve, which plots population percentiles by income on the horizontal axis and cumulative income on the vertical axis, and the hypothetical line of absolute equality expressed as a percentage of the maxim area under the line. When the Gini index is zero, there is perfect equality which means that every resident of a country has the same income; when the Gini index is 100, there is perfect inequality instead, which means that one resident earned all the income.

For the income component of economic inequality, we will also have a look at the share of total income that goes to the top and bottom earners of the income distribution.

In particular, we will analyse the top 1%, the top 10% and the bottom 40% income share in total income. In addition to it, we will look at the available data on P90/P10 interdecile ratio and the Palma ratio.

Interdecile ratios compare disposable income between different income groups and in the specific, the P90/P10 ratio compares income in the highest income decile to that in the lowest.

The Palma ratio, instead, compares the share of income of the richest 10% in a society to that of the poorest 40%, focuses on the locus of inequality, and is also sensitive to extreme inequality unlike the Gini. The Palma ratio was developed by two economists, Alex Cobham and Andy Summer, on the basis of the work of the Chilean economist Gabriel Palma. Palma observed that the income share of those in deciles 5 to 9 is usually stable, around 50% across countries and across time, while the remaining 50% is shared amongst the very top earners in decile 10 and those in deciles 1 to 4, but its distribution varies widely between countries and across time. Some researchers argue that the Palma ratio gives a more accurate picture of income inequality than the Gini Coefficient because the Gini is not sensitive to data in the tails, where the inequality actually lies.

Relating to wealth, we will examine almost the same sections of households (1%, 10% and bottom 50% instead of 40%) but referred to the wealth distribution.

These measurements that take into account what happens at the extreme points of the distribution will help us understand if the rich-poor gap began to widen because of an increase in the income or wealth of the richest, a decrease in the income or wealth of the poorest or because of both reasons put together.

On the inequality of opportunities, there is even less consensus on the best measurements to use. As a matter of fact, it is just recently that, especially through surveys, researchers are starting to construct indexes and compute indicators that address the differences in opportunities of different individuals and groups in a society. Most of them, as the Human Opportunity Index that "measures how individual circumstances (i.e., characteristics -- such as place of residence, gender, and education of the household head -- that should not determine access to basic goods and services) can affect a child's access to basic opportunities such as water, education, electricity and sanitation" (World Bank), are not available in the long run and are focused primarily on developing countries where the barriers in the access to equal opportunities are stronger than in developed countries.

Therefore, in our analysis we will consider some components of the inequality of opportunity when dealing with the explanation of the causes of disparities, namely: the government effectiveness indicator, that measures the quality of the public service, the

quality of civil service and its degree of independence from the political power, the quality of the formulation and implementation of government policies and the credibility of the political power on its commitment to those policies; health assessments from the World Health Organisation that are related with information about the access to the healthcare system for individuals belonging to different socioeconomic groups; and the people at risk of poverty or social exclusion indicator, where social exclusion refers to the situation that occurs when people are excluded from employment opportunities, education and community activities because of their poverty, learning opportunities or other reasons of discrimination.

1.2. Evolution of the rich-poor gap from the First World War until today: the patterns of economic inequality

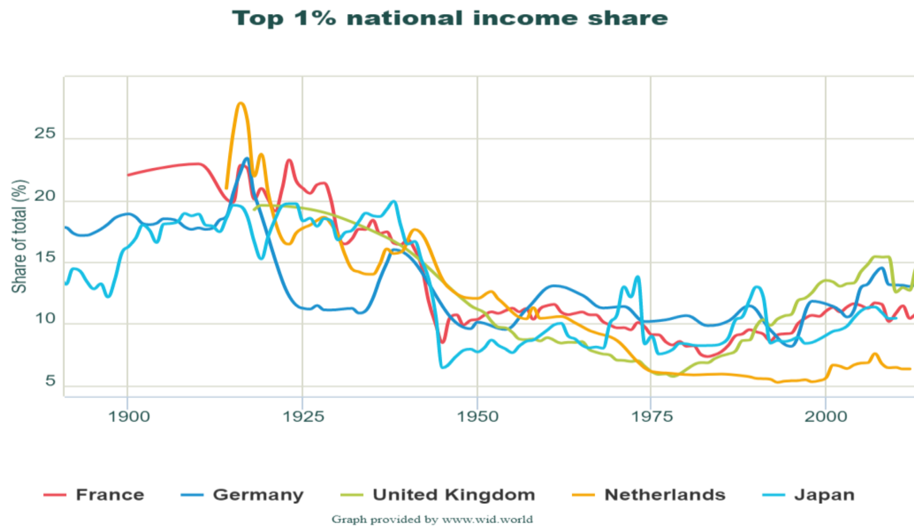
The evolution of the economic inequality suffers from a lack of data, especially prior to the 1970s. In fact, more complete indicators such as the Gini coefficient are not available before this period.

Therefore, to look at the pattern of economic inequality starting from the First World War, the only data available refer to the share of the income or wealth that goes to earners at the top of the distritìbution, usually the top 1 percent. Historical top inequality estimates are reconstructed from tax records which are the only data source that is consistently available on a long-run basis (Piketty, 2005)[4].

Figure 1.a shows top income shares distribution for a number of advanced economies that participated to the First World War and for which data are available from the beginning of the 20th century while Figure 1.b shows data from three countries that did not participate in the conflict.

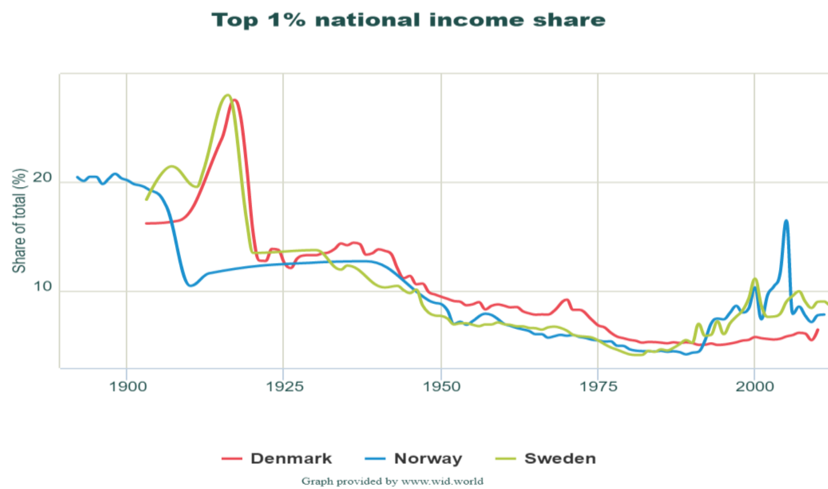
[4] "Household income surveys are a relatively recent venture: they virtually did not exist prior to 1950, and in most countries they were not available in an homogenous, machine- readable format until the 1970s–1980s. The only data source that is consistently available on a long-run basis is tax data. Progressive income tax systems were set up in most Western countries at the beginning of the 20th century (1907 in the U.K., 1913 in the U.S., 1914 in France, etc.), and in all countries with an income tax system the tax administration started compiling and publishing tabulations based on the exhaustive set of income tax returns.(...) One can then use standard Pareto extrapolation techniques to compute top fractiles thresholds and average incomes using such data." (Piketty, Thomas (2005) "Top Income Shares in the Long Run: an Overview", Journal of the European Economic Association, p. 1–11, http://piketty.pse.ens.fr/files/Piketty2005.pdf[29th October 2018]). Nevertheless, measuring income shares through tax records has some limitations: it means that we are looking at inequality before redistribution through taxes and transfers and that we are just able to see what happens at the top percentiles and not at the bottom.

Figure 1.a. Long-run top 1% national income share for a selection of advanced economies participating in the World Wars.



Source: World Inequality Database

Figure 1.b. Long run Top 1% national income share for a selection of advanced economies not participating in the World Wars.



Source: World Inequality Database

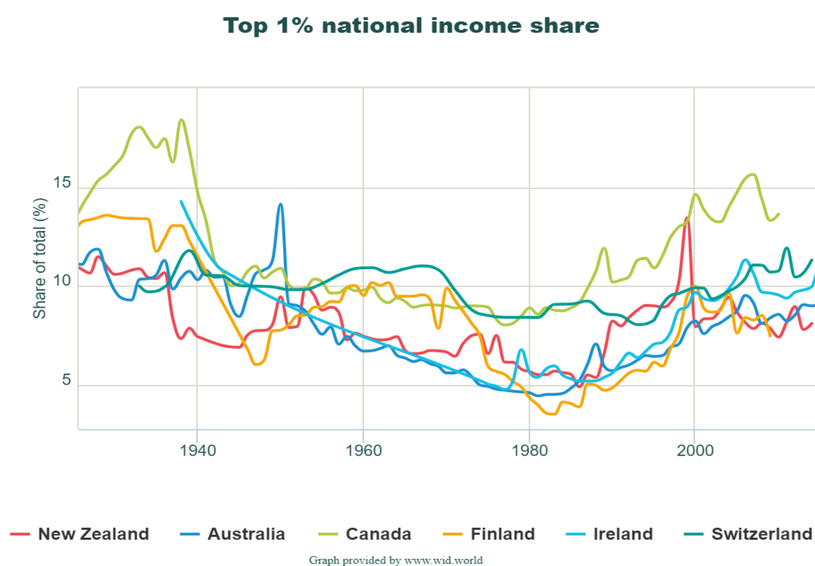
As we can see, in all the countries with the exception of Norway, top income shares fell consistently after the First World War. Therefore, income inequality decreased mostly as a consequence of the chaos of the war with its economic and political shocks (Atkinson, 2015). Nevertheless, the First World War had profound consequences but did not redistribute so much away from rich people (Atkinson, 2015). As a matter of fact, "there were indeed calls after the war [...] for a capital levy to deal with war profiteering" (Atkinson, 2015:56).

It is with the Second World War that inequality felt more widely.

Figure 1.c shows top income share data for other six advanced economies we have now data for. For all the fourteen advanced economies we have top income share data (Australia, Canada, UK, US, Denmark, Japan, Sweden, France, Netherlands, New Zealand, Germany, Norway, Ireland and Switzerland), there was a wide fall in inequality between 1939 and 1945 and not just in occupied or defeated countries (Atkinson, 2015).

The shares of the top 1% fell to a similar extent in all countries, except for Switzerland. Therefore, the Second World War was different: a more general reduction in income inequality, "product of the 'chaos' of war and occupation or structural breaks imposed by postwar settlement" (Atkinson 2015:57). But even in countries with continuity of government, changes took place as a result of new social attitudes and a greater sense of social solidarity (Atkinson, 2015).

Figure 1.c. Long run Top 1% national income share for a selection of advanced economies, data available after the First World War.

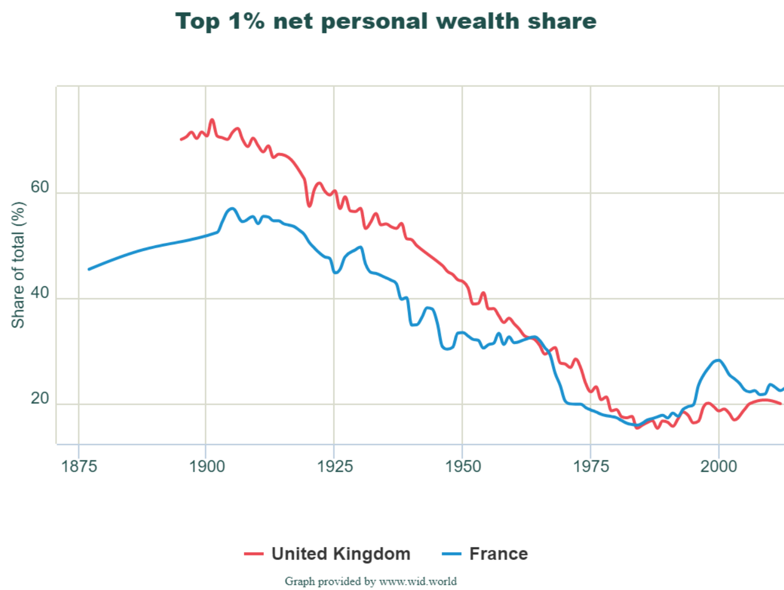


Source: World Inequality Database

Data on top 1 percent wealth share for the only two countries we have information on (France and United Kingdom) confirm our analysis about a decrease in the wealth gap in the periods following the world wars (see Figure 2).

Therefore, we can conclude that economic disparities in general saw a reduction, greater after the Second World War, in advanced economies.

Figure 2. Long run Top 1% net personal wealth share, France and the United Kingdom.



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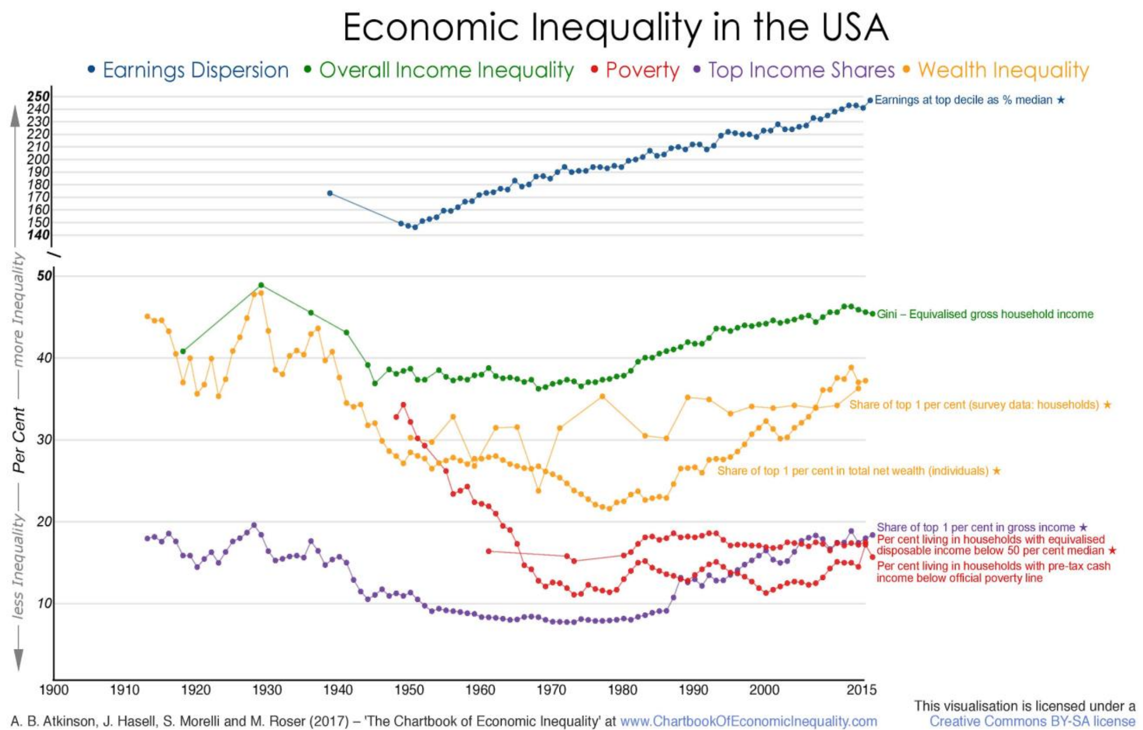
Source: World Inequality Database

Concerning the U.S., more researches and studies are available so that more estimates have been reconstructed.

The Chartbook of Economic Inequality offers us a more comprehensive vision on economic disparities in the United States (see Figure 3).

Figure 3. Economic Inequality in the USA, 1913-2015.



Source: The Chartbook of Economic Inequality

All variables presented in this figure validate the same conclusions we got before from indicators referred to other developed countries.

Both the top 1 percent income shares and the top 1 percent wealth shares saw a fall after the First World War but more consistent and wider just after the Second World War. The estimates of the Gini coefficient for the U.S. case also indicate an overall reduction in income disparities as well as the earnings at top decile as percentage of the median sees a sharp decline from 1939 until the 1950s. Top income shares data shows us that in 1951 earnings distribution in the US began to widen but the widening was not accompanied by a rise in the Gini coefficient: that happened much later, in the 1970s. This was possible thanks to the expansion of social transfers, coupled with strong growth of average income

in the earlier postwar decades (with a consequent impressive reduction of proportion of population living below the official poverty line) and increased labour-market participation of women acting in an equalising direction (Atkinson, 2015). Another contributing factor was taxation[5]. Similar forces were operating in other OECD countries (Atkinson, 2015).

Unfortunately, these counteracting forces did not apply in the final quarter of the 20th century. After 1969, in the US "gains in nonlabor income were tilted in favor of the well-to-do. Capital income and benefits from private pension plans have climbed faster than cash government transfers targeted to the poor." (Karoly and Burtless, 1995 apud Atkinson 2015:61). In this case, the change in the course of events was due not to social or economic change but to policy choices.

In fact, from the 1970s and the 1980s the situation started to change in a large portion of advanced countries. Table 1 shows estimates of the Gini coefficient for selected advanced economies from the 1960s until the year of the last data available (note that the values for each decade correspond to the value available for the year closer to the beginning of the decade for each country).

[5] "High level in 1950-1979: top US tax rate on earned income averaged 75% (whereas that for the next 30 years, 1989-2009, averaged 39%) but the impact was much debated at the time because the impact of progressive taxation depends on the tax rate but also a lot on the tax base. Moreover, the impact can be evaluated only comparing disposable income with gross income that would have obtained if there had not been income taxation so this counterfactual is not easy to establish: it requires to predict changes in behaviour that are induced by the tax". (Atkinson, Anthony Barnes (2015) *Inequality, What Can Be Done.* Cambridge, Massachusetts; London, England, http://www.acarindex.com/dosyalar/kitap/acarindex-1436513133.pdf[29th October 2018])

Table 1. Gini coefficient (%) for a selection of advanced economies.

		GINI COEFFICIENT (%)						
	1960s	**1970s**	**1980s**	**1990s**	**2000s**	**2010s**	**LATEST**	**NOTES**
AUSTRALIA	--	--	27,01	30,2	31,1	31	32,3	2013
CANADA	--	30	28,6	28,6	31,7	31,5	31,9	2013
FINLAND	31,1	27	20,9	20,8	24,9	25,9	25,2	2014
FRANCE	39,89	35,82	31,48	30,39	29,53	30,3	28,9	2013
GERMANY	29,2	24,81	24,7	24,8	25,5	28	28,8	2012
ICELAND	--	--	--	--	24,1	23,6	22,7	2013
ITALY	39,1	38,3	32,5	29,3	33,3	34,7	35	2012
JAPAN	24,71	22,55	22,55	23,97	24,56	--	25,44	2008
NETHERLANDS	--	27,69	25,05	27,39	27,49	25,8	26,4	2014
NEW ZEALAND	--	--	25,8	30	33,4	32,4	34,2	2014
NORWAY	--	--	21	21,7	26,2	24,5	25,6	2014
PORTUGAL	--	--	--	38,5	36,9	34,2	34,5	2013
SINGAPORE	--	--	--	--	41,4	42,5	41	2015
SPAIN	--	--	29,22	27,75	31,49	34	34,6	2014
SWEDEN	--	23,84	22,08	23,7	31,3	32,5	33	2013
SWITZERLAND	--	--	--	--	30,3	29,7	28,5	2012
U.K.	26,1	25,9	25,7	33,9	35,3	33,66	34,2	2012
U.S.	37,98	36,85	37,85	41,75	44,2	45,6	45,6	2014

Source: the Chartbook of Economic Inequality-in OurWorldinData.

In the Us, overall income inequality as measured by Gini coefficient was much the same at the end of the 1970s as in the late 1940s; in contrast, a number of European countries saw a major decline in overall inequality in the immediate postwar decades.

Nevertheless, from the 1980s the situation started to change, while for the US the change in the trend was visible since the 1970s.

In many although not all developed countries, income inequality is higher today than in 1980. There has been a distinct turn towards greater inequality but with exceptions: in countries like France, overall inequality is not higher than it had been thirty years ago.

The Gini coefficient increased in 13 out of the 18 advanced countries for which long time series are available, rising by more than 5 points in Finland, Israel, New Zealand, Sweden and the United States.

Going back to the previous figures concerning top income/wealth shares in advanced economies, we can see that the trend of the earnings of the top 1 percent earners goes upwards.

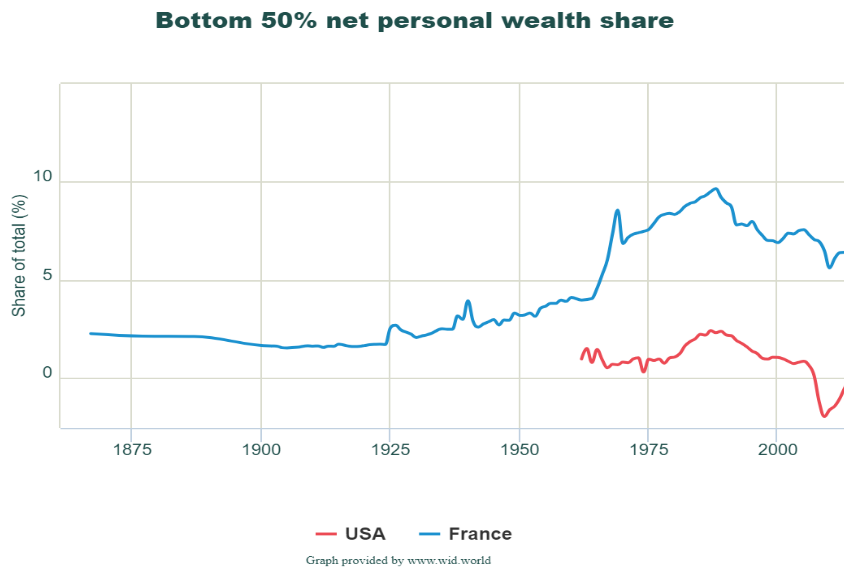
However, if overall inequality arose, it was not just because of the increase in top income/wealth shares but also because very often, incomes at the bottom grew much slower during the prosperous years and fell during downturns (see Table 2 for income data and Figure 4.a and 4.b for wealth data, the latters available just for 2 or 3 countries), putting relative (and in some countries, absolute) income/wealth poverty on the radar of policy concerns (Cingano, 2014).

Table 2. Recent trends in different income inequality measures.

	S90/S10 income share Ratio			Income share in total income (2011 or latest available)		Palma ratio		
				Bottom 40%	Top 10%			
	2007	2010	2011			2007	2010	2011
Australia	9,3	8,9	8,5	19,8	24,4	1,33	1,3	1,23
Austria	5,7	6,1	7,1	22,4	22,2	0,95	0,94	0,99
Belgium	6,5	5,8	--	22,9	20,8	0,98	0,91	--
Canada	8,5	8,6	8,5	20,4	24,2	1,2	1,21	1,18
Denmark	5,1	5,3	5,3	24	21	0,85	0,87	0,87
Finland	5,8	5,6	5,5	23,7	21,5	0,96	0,93	0,91
France	6,8	7,2	7,4	21,6	25,5	1,09	1,14	1,18
Germany	6,7	6,7	6,9	22,2	23,7	1,04	1,04	1,07
Greece	10,7	11	12,6	18,8	24,4	1,3	1,32	1,3
Iceland	6,5	5,6	5,6	24,4	20,9	1,04	0,84	0,86
Ireland	6,9	8,4	7,7	21,3	23,3	1,12	1,16	1,1
Israel	13,4	13,6	12,5	16,6	25,6	1,62	1,62	1,55
Italy	9	10,5	10,2	20	24,4	1,16	1,21	1,22
Japan	10,3	10,7	--	18,9	24,4	1,25	1,3	--
Netherlands	7,1	6,6	6,6	22,9	22,7	1,1	1,02	0,99
New Zealand	8,3	8,3	8	20,2	24,7	1,3	1,24	1,22
Norway	5,9	6	6,1	24,3	20,5	0,85	0,84	0,85
Portugal	10,6	9,4	9,9	19,6	26,7	1,54	1,39	1,36
Slovenia	5,3	5,4	5,3	24,1	19,6	0,8	0,82	0,81
Spain	8,4	12,1	13,8	18,3	24,6	1,1	1,27	1,34
Sweden	5,8	6,1	6,3	22,7	21,8	0,89	0,94	0,96
Switzerland	--	7,3	6,9	22	23	--	1,1	1,04
United Kingdom	9,8	10	9,6	19,7	27,6	1,37	1,37	1,4
United States	15,1	15,9	16,5	16,3	28,4	1,65	1,66	1,74

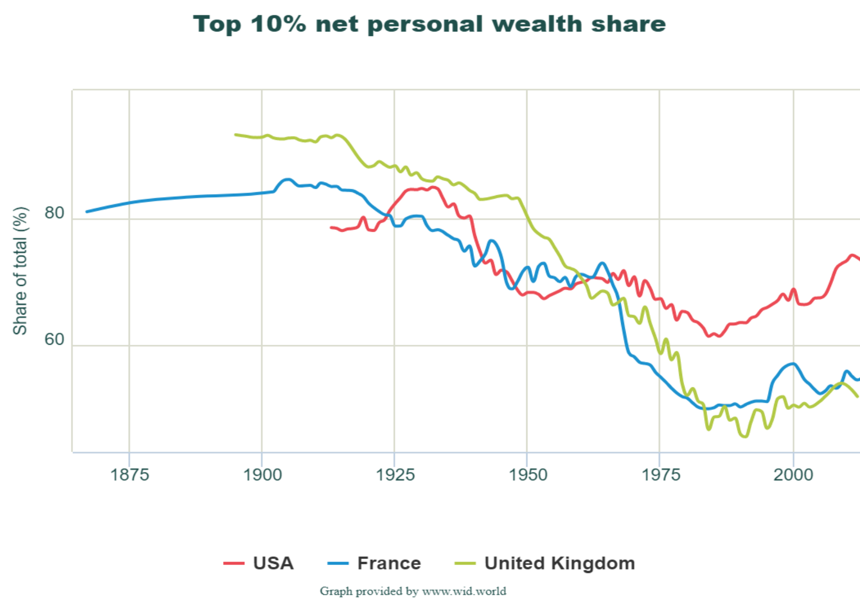
Source: OECD Income Distribution Database (IDD

Figure 4.a. Long run Bottom 50% net personal wealth share, USA and France.



Source: World Inequality Database

Figure 4.b. Long run Top 10% net personal wealth share, USA, France and United Kingdom.



Source: World Inequality Database

To sum up, even if the pattern of income inequality can differ across countries, we can see a first grow in the late 1970s and early 1980s for some English-speaking countries (the United States and the United Kingdom) together with Israel. From the late 1980s onwards, the increase in income inequality became more widespread. "The 1990s and early 2000s witnessed a widening gap between poor and rich in some of the already high-inequality countries, such as Israel and the United States, but also, for the first time, in traditionally low-inequality countries, such as Germany and the Nordic countries" (Cingano, 2014:10).

In seeking to learn from history to depict the causes of inequality, it is important to distinguish which can be the lessons still valid today and what it was due to specific circumstances that will not replicate themselves in our days. This will be taken into account in the paragraph 1.4, where we will explore the origin of inequality and we will take just the most valuable lessons that history has to offer.

1.3 The history of economic thought about inequality and the relevance of an institutionalist approach

Nowadays, the neoclassical theory dominates economics. According to it, inequality is an outcome of the free market price mechanism and it is therefore inevitable in such a context. Considering disparities as unavoidable stopped governments and institutions from trying to influence the actual level of economic inequality.

Nevertheless, institutionalists challenge the mainstream view and argue that inequality depends on the institutional structure of the economy. As a matter of fact, the institutionalist approach suggests that the concentration of top income is closely related to institutional arrangements and power relationships that tend to favour the rich rather than the poor.

The Old (or Original) Institutional Economics (OIE) sees human behaviour as essentially rule-governed and assumes that social scientists should very much be concerned with the institutional framework that shapes life and interactions because individuals canot be seen as separate from what surrounds them.

The New Institutional Economics (NIE), instead, combines a neoclassical point of view with institutionalism and sees institutions as meant to be economic efficiency-enhancing rules in a frame where the individual is seen as an abstract entity and the point of departure of the analysis, with no holistic view as the OIE.

Moreover, the NIE approach is very formal, based on mathematical models combined with game theory models and stochastic approaches, while the OIE is less formal, based on the examination of empirical facts and statistics.

Finally, while the NIE is more deductive, departing from the individual behaviour to arrive at more general conclusions on institutions or other economic features, the OIE is more inductive, observing what happens outside the individual, in the society, to then arrive at some theorisation of human behaviour for economic purpose. NIE has more in common with the neoclassicism than OIE but both try to offer a different position on inequality.

Old institutionalism representatives like Thorstein Veblen (1919), Clarence E. Ayres (1944), and John R. Commons (1950) gave a significant contribution to build a better framework to deal with the distributional phenomenon not centered on the neoclassical point of view.

In the late 19th century, with John Bates Clark, the American father of the marginal productivity theory of distribution, the neoclassical approach supported the idea that everyone in the society was earning what he or she deserved because the income received corresponded to the marginal productivity of the relative factor of production (capital or labour) owned by the economic agent. The neoclassical presupposition that only the free market could play a central role in rationing scarce goods was, and still is, a subject of debate.

The institutionalist approach does not provide a single comprehensive theory of distribution, focusing on related phenomena such as the nature of technology, the evolving substance of poverty, or the meaning of capital (Brown, 2005).

Nevertheless, institutionalism comes as an opponent of the assumptions of the neoclassical distribution theory. In fact, "the institutionalist approach on distribution is based on the following ideas: 1) production as a social activity; 2) assistance of folk views or belief systems in the maintenance of power relationships; 3) market outcomes being predetermined by the rules of governing transacting parties; 4) the institution of poverty not static; and 5) the ability of the pursuit of pecuniary interest to upset the delicate balance among vertically arranged activities vital to modern production and distribution methods" (Brown, 2005 apud Josifidis K., Supić N., 2018:3).

Therefore, while neoclassical theory separates the social and institutional framework from human behaviour, institutionalists argue that distributional arrangements are not primarily market determined (James T .Peach, 1987), but that income is distributed according to the norms of the prevailing institutional arrangements (Wendell C.Gordon, 1973). Distribution is an instituted process (Brown, 2005) and inequality stems from the way in which particular markets are instituted (Clark and Catherine Kavanagh, 1996).

Moreover, other economists that are not considered as institutionalists defended the idea that discretionary institutional arrangements, including power relationships in the society, determine income distribution more than anything else (see Kang H. Park, 1996; Charles M.A. Clark, 2003; Philip Arestis and Ana Rosa Gonzalez Martinez, 2016). Bowles (2006) calls for an "institutional poverty trap", referring to institutional arrangements that engender inequality.

Other non-institutionalist authors pointed at a similar view when they associated income inequality with government policies that favour the elite over the masses. It is the case of

Larry M. Bartels (2008), Martin Gilens (2012), Joseph E. Stiglitz (2012) and David A. Stockman (2013). This can be linked to the recognition made long before by Thorstein Veblen that what is good for the interested and the kept classes is not necessarily good for the "common man" (*The Vested Interest and the Common Man,* 1919). Acemoglu, Johnson and Robinson (2002) as well as Piketty (2006) also suggest that the actual pattern of inequality could depend on institutional arrangements adopted by the governments which are redistributing away the gains of economic growth from people more at the bottom of the distribution. Furthermore, Chong and Gradstein (2007) found a correlation between income inequality and a number of institutional factors that deal with democratic and institutional stability: according to their study, better institutions lead to a reduction of the income inequality while the contrary is also true, that is that increasing inequality is the result of poor institutional quality.

Amendola, Easaw and Savoia (2013) argue that institutions affect individual income because they shape incentives and constrain the range of activities that an individual can undertake. In particular, they affirm that property rights protection, both formal and informal, enhance the ability to appropriate returns from ownership and from the use of factors of production and if it clearly favors the elite, it leads to an unjust distribution of resources. This can happen also with taxation and wage-setting policies, educational factors and access to markets constraints which do not benefit the poorer.

One of the causes of poor institutional quality is corruption. Gupta, Davoodi and Alonso-Terme (1998) found that corruption increases income inequality and poverty through different channels: by lowering economic growth; by favouring the rich in the tax system; by reducing social programs targeted to the poor; by benefiting the well-do through policies that maintain their privileges on ownerships; by lowering social spending; by giving an unequal access to education; and by involving an higher risk for the investment decisions of the poor. As a matter of fact, corruption undermines the strength of the rule of law and leaves room to biased political programs.

Moreover, " the institutional features often cited as determinants of the rise in top income shares are the fall of top marginal personal income tax rates and financial deregulation" (Jaumotte and Osorio-Buitron, 2015:7). Jaumotte and Osorio-Buitron (2015) focus on the relationship between labor market institutions and the distribution of income. They argue that the erosion of labour market institution is one of the causes of the rising inequality in

advanced economies and in particular the decline in unionisation, the erosion of minimum wages and the extensions of collective agreements to non-union members.

Finally, it is important to present the ideas of Amartya Sen, a preeminent economist who criticised the whole approach of orthodox economics to questions related to human well-being and inequality. In fact, he argues that the standard approaches to inequality fail to depict the most important real inequalities of opportunity that people face (Sen, 1992). For him, the concept of distribution is strictly related with the concept of human needs: the diversity of human needs leads naturally to the idea that inequality is something more complex than just a matter of income or wealth. The well-being of an individual depends on the *capability* to achieve valuable *functionings.* He describes as “functionings” the states and the activities constitutive of a person’s being while “capabilities” are the opportunities and different combinations of functionings that are feasible to achieve for the individual. This approach will be very useful when constructing a more comprehensive institutional framework because it will remind us that income or wealth are not the only components of inequality that institutions should address.

The institutionalist approach helps us seeing disparities as something we have power on and therefore offers a possible solution to the problem. In fact, considering inequality as a product of the institutions that shape our society, it gives us a tool through which we can influence the level of economic disparity.

Nevertheless, before jumping into conclusions it is important to further examine the possible causes of inequality to see what is attributable to the role of the institutions and what goes beyond our control.

1.4. Possible causes of economic inequality: past and current factors

Inequality is the result of a complexity of causes, strictly related with the nature of the economic system. Nevertheless, some factors are more decisive than others in explaining the rise of disparities.

After analysing the historical patterns of economic inequality and how disparities have been seen from an institutionalist perspective in the history of economic thought, we are ready to outline a few set of relevant causes and key determinants of inequalities that we believe should be emphasised and addressed.

When describing the fall in inequality of the postwar decades, we saw that the decrease was caused by the great economic and political shocks that the chaos of the wars brought. We can deduce that these events reduced overall wealth and through this channel, they leveled personal wealth for people at the bottom but more consistently for people at the top of the distribution, therefore reducing the gap in-between. In fact, the world wars deteriorated the means of production while the labor force was needed for the reconstruction of the entire production process. However, this reduction happened not just in countries that participated in the war or that were occupied but also in other advanced economies for a general greater sense of social solidarity in dealing with the disastrous situation left by the conflicts. As a matter of fact, there were the expansion of social transfers, the growth of average incomes, the increase of the women participation in the labour market and a fairer taxation. The policies were directed to the improvement of the whole society, serving also as compensation from the political power in charge for the damages of the wars and with the aim of a broad recovery.

Since the 1970s and 1980s, instead, the policies have changed: the government transfers to the poor lowered; the welfare state in general reduced its services to the population; and top income shares began to rise while incomes at the bottom were growing slower in prosperous years and falling during downturns. As a matter of fact, in the beginning of the 1970s the oil crisis struck the developed countries. This, together with the increasing competition of developing economies, made very hard for governments to keep up with a generous politics of benefits as they had in the postwar decades. Such crises, as well as the more recent financial crisis of 2008, are not comparable with the world wars. They destabilised the economies of the most powerful countries of the world but did not reduce so much their wealth as to redistribute it among the whole population. During these

economic collapses, people at the top of the distribution managed to keep their privileges because the governments were helping big national firms from bankruptcy and privatising when necessary. In the meanwhile, the ones in the middle and in the bottom of the distribution suffered the most. The destabilisation brought government policies to reduce their support to the population, diminishing the coverage and the amount of the social transfers, while firms started to compensate less their workers or to fire part of the labor force where possible. The unemployment and the inflation arose during this economic turmoil.

With the fall of the Soviet Union in the very beginning of the 1990s, the situation worsened. In fact, from this moment on the governments could reduce their social policies because there was no more the threat of the communism to haunt their political choices and to remind them of the importance of public policies to avoid the revival of communism within the national borders.

Taking lessons from the most recent literature on inequality that we explored, we can complete this reasoning by saying that the neoclassical and neoliberal emphasis on the idea of a perfect free market with no need for the intervention of the state, contributed to the lack of action of the governments to tackle inequality and justified the reduction in the help for the poorer.

In fact, we are living in the era of liberalisation and this turned into a dogma for the most recent generation of economists. The way we look at capitalism and the thought that everyone is responsible for his/her own fortune left no room for the expansion of the social state. Moreover, the institutional arrangements and power relationships tended to favour the elite over the masses because all that mattered was economic growth, brought primarily by the substantial investments of people at the top of the distribution.

In the name of economic progress, we defined strong property rights that improved the conditions of the capital owners, a softer taxation for top earners and hard constraints to access the market for smaller enterprises.

The corruption and the pursuit of the interests of lobbying groups eroded the rule of law and the efficacy of the redistribution of the gains of economic growth for the benefit of society as a whole, leading to an impoverishment of the quality of the institutions.

The increase in the educational barriers of some developed countries where there was a reduction in the number of scholarships and the rise of tuition fees is just an example.

Finally, we saw as some studies affirm that the financial deregulation and changes in labour market institutions also affected inequality. For the labour market, we can refer in particular the decline in the unionisation, the erosion of the minimum wage and the extension of collective agreements to non-union members.

However, this is just a resume of what has already been said until now.

It is important to describe additional factors that we haven't mentioned before and to go into more detail on some of the aspects we just covered on surface.

We will emphasise the most substantial causes of inequality for our challenge against rising disparities that is changes in institutional arrangements.

As a matter of fact, as already suggested previously in our analysis, the role of institutions is crucial because it can determine the level of inequality in a society. Besides, when institutions are ineffective or their quality is low, they fail in serving as guarantors of the rights of citizens, therefore leading to the violation of basic economic and social rights that affect especially people at the bottom of the distribution.

The key institutional determinants we will examine are: labour market institutions; financial (de)regulation; redistribution and human capital.

The first thing to keep in mind when talking about the causes of economic inequality is how income is distributed among wages, profits and rents and why. As a matter of fact, since the 1980s, in most advanced economies the labour share showed a reduction in its capability of capturing the economy's productivity gains of about 10 percentage points while capital income and rents raised (Franzini, 2011). Given that top earners are the ones owning most of the capital and properties, this consequently led to an increase of the rich-poor gap.

On the labour side, since the 1980s the most advanced economies have seen an increase in wage inequality, more severe in Anglo-saxon countries. Since 2003 one third of European workers have experienced a decline in real wages while almost the entire other two thirds have seen their wages growing, on average, less than their labour productivity (Franzini, 2011).

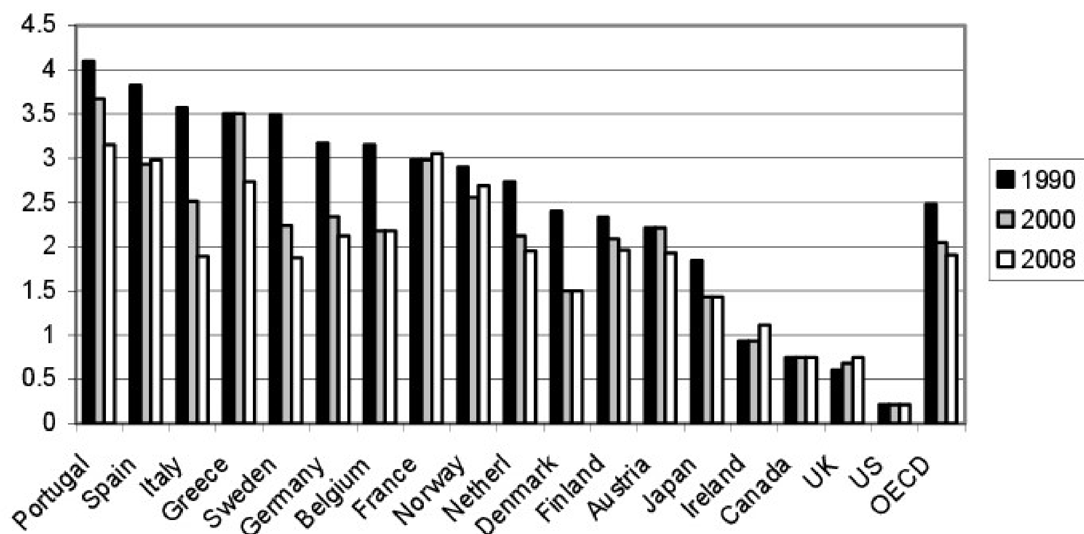
This is due to several factors but first of all to changes in labour market institutions.

As a matter of fact, recently there has been a greater flexibility which is more and more challenging for workers, especially low-skilled. Part-time, temporary and outsourced jobs

are the result of policies of precarisation which are implemented in some European countries in particular (Portugal, Germany, Italy, Spain, Ireland). These policies caused a growing number of “working poor”, that is people with jobs but that live in poverty conditions.

Figure 5 shows the changes in employment protection in advanced countries for the period 1980-2010 (Chusseau and Dumont, 2012). On the vertical axis, the variable represented is the OECD indicator of employment protection (a synthetic indicator of the strictness of the regulation on dismissals and the use of temporary contracts), valid for each country in a given year.

Figure 5. Changes in employment protection in a selection of advanced economies.

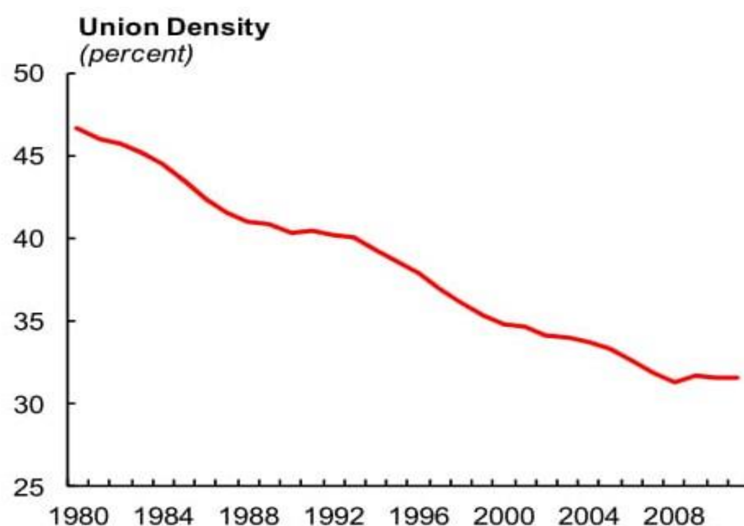


Source: OECD Statistics, stats.oecd.org

In almost all the advanced countries represented in the figure, the strength in the protection of employment rights is less in the 2000s than in the very beginning of the 1990s.

Another change in the labor market is the decline in the trade union membership (Figure 6) which reduced the bargaining power of labor. This led to a reduction of the minimum wage (Table 3), compared to the medium wage, in advanced economies and the rise in top income shares.

Figure 6. Union density average for a selection of advanced economies.



Source: OECD= Organisation for Economic Co-operation and Development.
Note: Advanced Economies = USA, GBR, AUT,BEL, DNK, FRA, DEU, ITA, NLD, NOR, SWE, CHE, CAN, JPN, FIN, IRL, PRT, ESP, AUS, and NZL. Simple average.

Table 3. Ratio minimum wage/median wage in a selection of advanced economies, 1975-2008.

	1975	1985	1995	2005	2008
Australia	..	0.652	0.62	0.575	0.522
Belgium	0.548	0.567	0.562	0.509	0.508
Canada	0.513	0.389	0.425	0.4	0.414
France	0.439	0.517	0.524	0.597	0.603
Ireland	..	..	..	0.54	0.524
Japan	0.276	0.311	0.306	0.335	0.346
Netherlands	0.666	0.615	0.525	0.479	0.47
New Zealand	0.647	0.447	0.498	0.544	0.591
Portugal	0.7	0.594	0.518	0.525	0.524
Spain	0.647	0.509	0.439	0.442	0.442
UK	..	..	..	0.45	0.461
US	0.454	0.384	0.355	0.316	0.341

Source: OECD Statistics, stats.oecd.org

Jaumotte and Osorio (2015) found out a strong negative relationship between unionisation and top earners' income shares. They argue that if the decrease in unionisation lowers the earnings for middle and low-income workers, this necessarily increased the income shares of corporate managers and stakeholders through two channels. Firstly, through the positive effect of weaker unions on the share of capital income, given that the latter tends to be more concentrated than labour income. Secondly, because lower union density may reduce the influence of the workers on corporate decisions.

A weak bargaining power of average wage earners relative to top earners exacerbates the gap between skilled and low-middle skilled.

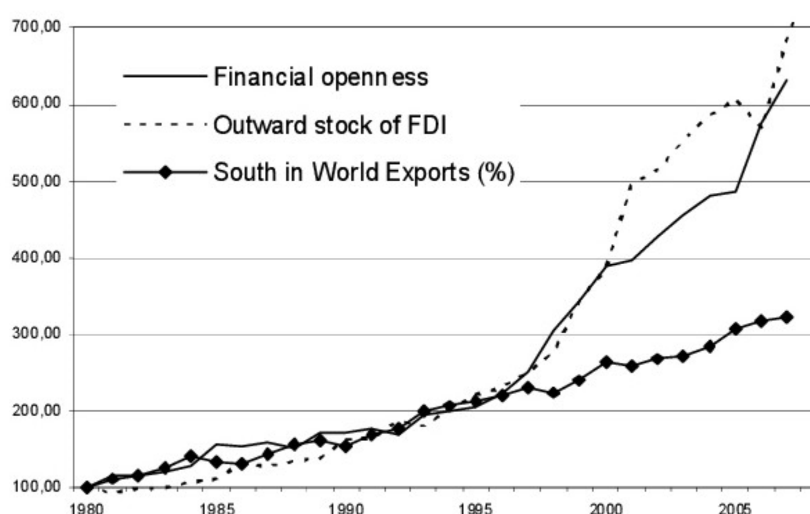
Furthermore, unions can affect income redistribution through their influence on public policy: when the labour market institutions are weak, the power of the workers is consequently much lower.

Finally, the labour market suffers from the strong impact of technological change and globalisation. As a matter of fact, innovation and technology contributed to the replacement of unskilled workers with skilled workers: the new information and communication technologies lead to a rise in the demand for skilled labour damaging the low-skilled or unskilled workers which are replaced by automated processes or have to upgrade their skills to attain or keep those jobs (Card and Dinardo, 2002; Acemoglu, 1998). In this way, the wages of low-skilled or unskilled workers falls while profits/capital income rise thanks to the development of new products and processes. This phenomenon is referred to as "skill bias technological change" and it is seen as a natural effect of the technological change. Nevertheless, instead of leading to un improvement in the skills of the workers in search of better job conditions, it caused a polarisation in the labor market that sees professionals and managers on one side and unskilled manual workers on the other while clerks and craft manual workers are left behind. Globalisation is helping to exacerbate the effect of these changes in the widening of inequalities. In fact, globalisation led to a greater openness of national economies with a consequent increase in trade and a reduction in the tariffs. This contributed to greater inequality within countries because it favored profits through the liberalisation of capital movements that increased capital income. Moreover, the relocation of firms lowered domestic wages, especially for low-skilled and unskilled workers. In fact, the offshoring can be an incentive for the firms because they would be able to pay lower wages. Even if the expenses for monitoring and

coordinating rise with the relocation, low skilled workers make routine task and require little monitoring or control, making profitable for companies to offshore, especially if domestic low-skilled wages are high. Nevertheless, technological change and globalisation favour economic growth and the political and economic power is not willing to stop the benefits they can gain from these processes. Moreover, policies addressing these factors are more difficult to implement and we should not focus on them. Our attention has to be channeled to the causes where we can have an impact and that are, therefore, the ones related to institutions.

Another important institution that explains a big portion of current inequalities is financial deregulation. As a matter of fact, the financial industry is one of the fastest growing sectors in advanced economies (see Figure 7) and the financial openness, together with financial deregulation at national and global level, led to the growth of the financial activity and to the search for short-term speculative gains. Inequality then increased because those with higher incomes and assets have a disproportionately larger access to finance (Dabla-Norris et al.,2015), thus exacerbating the rich-poor gap. Having an access constrained by the economic resources the individual has already available, finance can't benefit the society as a whole but just the ruling elite which can play easily within this market.

Figure 7. Indicators of globalisation (1980=100)



Source: OECD (2011) for Financial Openness and FDI; CHELEM database for the South in world exports (%).

Redistributive policies are the third key determinant of our analysis. In fact, inequality in standards of living or in disposable income may be mitigated with the action of the state that operates on the market process (Franzini, 2011).

Historically, public policies concerned a progressive tax system, social transfers (such as pensions and subsidies) and provision of in-kind services. However, the tax-and-transfers system is failing in counteracting the forces of the market that cause the rising of inequalities. In many advanced economies, the effective tax rate on high-income earners and corporation is lower than before: it dropped from a 60 up to 70% to an average of 40% by the late 2000s.

Different countries have different welfare regimes, with the Nordic countries historically dedicating a larger share of their GDP to social transfers. Greater social expenditures in these nations made possible a lower level of inequality compared to other advanced economies throughout the history. We can deduce that this is an important tool to address disparities but nevertheless, it seems to lose its efficacy. In fact, even in the Nordic countries inequality is on the rise. The globalisation and the technological change, as well as changing in the labor market, are challenging the old system of tax-and-transfers and are questioning the job of current policy makers who have to deal with a ever-transforming world, in and out the national frontiers, and need to find new regulations to help people at the bottom of the distribution and for the tax system to be efficient.

In Table 4, data on government effectiveness are shown for a selection of advanced economies.

Table 4. Government effectiveness indicator for a selection of advanced economies, 2008 and 2018.

	GOVERNMENT EFFECTIVENESS	
	2008	**2017**
UNITED KINGDOM	1,64	1,41
UNITED STATES	1,61	1,55
AUSTRALIA	1,79	1,54
FINLAND	2,05	1,94
DENMARK	2,25	1,8
SWEDEN	1,96	1,84
BELGIUM	1,39	1,18
FRANCE	1,58	1,35
GERMANY	1,52	1,72
SPAIN	0,92	1,03
ITALY	0,28	0,5

Source: World Bank

As we can notice, in Anglo-Saxon and Nordic countries the government effectiveness lowered after the crisis of 2008, demonstrating the growing difficulties of the political power in maintaining high performances. The exceptions are represented by Germany and South European countries such as Spain and Italy.

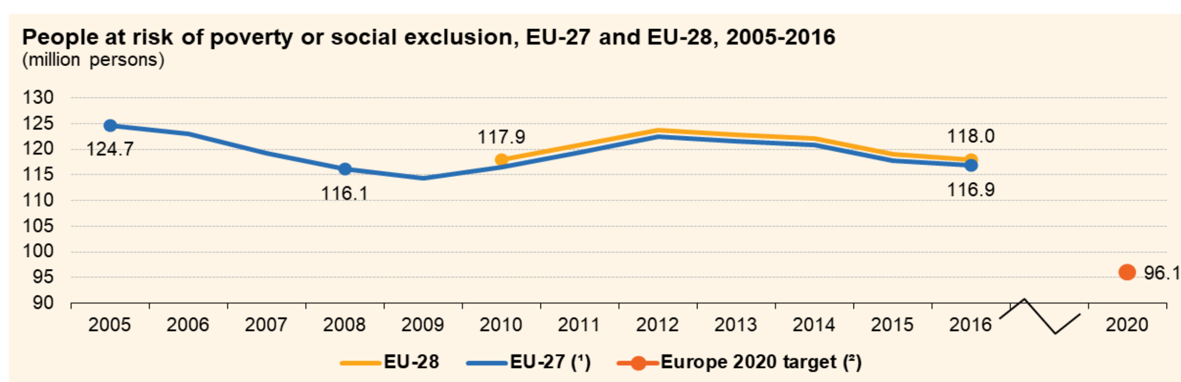
Finally, the intergenerational persistence of inequality is a factor that is due to institutional arrangements and prevents the decrease of disparities. As a matter of fact, approaches that take into account an inequality of opportunity point of view, revealed that differences in human capital can lead to "acceptable" income inequality (Franzini, 2011).

In several advanced countries, income differences across generations are highly related to current inequality: countries where there is a higher transmission of inequality have higher

disparities. This means that inequality shows persistence across time and the components that determine the transmission has to deal with family wealth, privileges and network connections among others. This persistence is "stronger than the one expected by the advocates of social mobility through equal opportunity and market processes" (Franzini and Raitano, 2009).

Figure 8 shows the evolution in the level of people at risk of poverty or social exclusion in Europe.

Figure 8



(¹) Data for 2005 and 2006 are estimates.

(²) The overall EU target (referring to the EU-27 — the 27 EU countries before the accession of Croatia) is to lift at least 20 million people out of the risk of poverty or social exclusion by 2020. Due to the structure of the survey on which most of the key social data is based (EU Statistics on Income and Living Conditions), a large part of the main social indicators available in 2010, when the Europe 2020 strategy was adopted, referred to 2008 as the most recent year of data available. This is the reason why monitoring of progress towards the Europe 2020 strategy's poverty target takes 2008 as a baseline year.

Source: Eurostat (online data code: t2020_50)

The level is higher than in 2005 and is far from reaching the Europe 2020 target. Nevertheless, it is possible to interrupt this mechanism through welfare expenditures in sectors such as education. Education determines occupational choices and level of pay and can be the way through which it is possible to climb the social ladder and change the degree of wage dispersion in the labor market.

Finally, concerning the inequality of opportunity is important to mention different levels of access to healthcare present in advanced economies.

The United States fail in having a free and universal healthcare service and even if some improvements have been made in the last years, with attempts of reforms in the legislation partly implemented such as the Obama care, the situation is far from being optimal.

Even in Europe, where the universal access to health is a commitment made by all member states, the access to healthcare still depends on socioeconomic factors.

As the World Health Organisation's final report on the social determinants of health affirms:

"The poor health of the poor, the social gradient in health within countries, and the marked health inequities between countries are caused by the unequal distribution of power, income, goods, and services, globally and nationally, the consequent unfairness in the immediate, visible circumstances of peoples' lives – their access to health care, schools, and education, their conditions of work and leisure, their homes, communities, towns, or cities – and their chances of leading a flourishing life. This unequal distribution of health-damaging experiences is not in any sense a 'natural' phenomenon but is the result of a toxic combination of poor social policies and programmes, unfair economic arrangements, and bad politics. Together, the structural determinants and conditions of daily life constitute the social determinants of health and are responsible for a major part of health inequities between and within countries". (WHO, Commission on Social Determinants of Health 2008)

The access to health is a crucial factor in determining inequality of opportunity because it is from health that depends the possibility for the fulfillment of life's personal aims.

Our look into the causes of inequality is now completed.

What is left to do with the fundamental elements that came up in our analysis is to make a good use of the conclusions we arrived at until this point.

The questions left to be answered are the following: in which way can we tackle inequality by acting on the institutions of the economy? And how do human rights come to help us in addressing disparities?

We will attempt to answer these questions in Chapter 2.

Chapter 2

How to address economic inequality: human rights and the role of institutions

2.1. How the human rights framework can provide a suitable platform for addressing inequality? A hotly debated question.

Recently, a debate about a possible role for human rights in the challenge against inequality has emerged, showing very polarized views.

Some social scientists as the historian Samuel Moyn but even philanthropists such as Aryeh Neier, founder of Human Rights Watch, consider that human rights should not be concerned with economic inequality and vice versa. Other researchers, instead, such as Ignacio Saiz and Kate Donald who are, respectively, the Executive Director and the Director of Human Rights in the Center for Economic and Social Rights (CESR) argue the very contrary (Saiz, 2018).

The basis of their differences stands primarily in their divergent approaches regarding the extent of human rights. As a matter of fact, Saiz and Donald claim that, while Moyn and Neier have a narrow view of the range, diversity and ambition of human rights, human rights actors see their role more broadly and therefore concerned with a number of socio-economic injustices including the rising economic inequality.

Branco (2008) shares the same vision on the complementarity between economics, and therefore economic problems, and human rights. He argues that both economics and human rights helped the human kind consistently: the first, trying to overcome the problem of scarcity, freed people from the chain of want; and the second, claiming justice and dignity for every human being, can free them from fear. They are bound in many ways because "there is no real individual freedom without freedom from want and there is no real economic choice without freedom of expression" (Branco, 2008:1). Therefore, there is an economic dimension in what concerns human rights as well as there is a human rights dimension in economics. Nevertheless, the economic discourse has not adopted a human rights perspective while human rights still have a long way to cover to be fully recognized as a possible tool to solve economic issues, such as economic inequality.

Yet, some steps have already been tracked.

In fact, the Universal Declaration of Human Rights, adopted by the United Nations General Assembly in 1948, even if it doesn't make any direct reference to economic inequality, gives an important framework for policies that could tackle disparities by stressing crucial and universal economic and social rights. Its principles suggest a struggle against unjust trade policies, corporate impunity, financialisation of public goods and many other determinants of economic inequality.

The Human Rights Law evolved especially over the past 25 years in courts and other human rights mechanisms to address economic inequality, although it has not been often applied (Peiris, 2018). The Article 23(4) of the Declaration, for example, enshrines the right to collective bargaining which helps reducing inequalities. The Declaration also affirms the rights to education, healthcare and social security which have a huge (re)distributive potential. Moreover, while before, according to the Declaration, the ademption of the social and economic rights was limited by the resources available to the different states, there is now a broader commitment to address inequalities that damage human dignity, thus requiring states to regulate the market and redistribute resources to prevent discrimination against disadvantageous groups.

Other Human Rights bodies and the UN committee on Economic, Social and Cultural Rights declare the obligation of states to ensure a minimum level of socio-economic rights even during times of constraint and assert that austerity measures are not justified unless there have already been considered other less (re)distributive options such as measures on taxation. For example, the case number 66/2011 of the EU Committee of Social Rights managed to overturn non-necessary austerity measures that would have lowered the minimum wage under the poverty level, in contrast with labour rights, therefore providing a tool to avoid the deepening of disparities (Peiris, 2018).

The Center for Economic and Social Rights[6] sees rising inequalities as a core issue for human rights actors because it assumes the presence of inherent injustice. Furthermore, it is the product of regressive policies that lead governments to the non observance of their economic and social rights obligations. Indeed, social protection is an example of policy area relevant to economic inequality but also a key focus of human rights activists.

[6] CESR: Center for Economic and Social Rights http://www.cesr.org

“Social protection policies are proven to promote social integration and to be key in mitigating both economic and social inequality” (Saiz and Donald, 2018).

Moreover, social protection policies are the perfect example of how a human right perspective on inequality-related policy issues can make a difference when addressing disparities. As a matter of fact, the human right approach transforms the idea of social protection into something that must be universal and with the explicit aim of being redistributive.

This is in contrast with the measures proposed by organisations such as the World Bank and the International Monetary Fund which are only capable to provide the so-called “social bribery”, that is minor palliative reparations for those groups suffering most from the prevailing neoliberal economic model.

Saiz and Donald argue that researchers like Moyn are wrong when they think that human rights actors are only concerned with ensuring minimum levels of well-being as the policies adopted by these international organisations. In fact, the human rights-based approach questions that traditional minimalist perspective and proposes a universalist, egalitarian and redistributive vision of social protection. From this point of view, it is not just the equality of opportunity that is important but also the equality of outcomes which is achievable through the use by governments of the maximum available resources for the full realisation of economic and social rights for the society as a whole.

The human rights-based approach takes into account the fact that societal power dynamics can be challenged when framing concerns within a human rights perspective. For example, it could make businesses more responsible for human rights, that is having them share the responsibility with governments not just in the respect of political and civil rights but also the socio-economic ones.

Nevertheless, the debate is still open and there are still various questions to be answered. From a conceptual and normative point of view, it is crucial to relate economic and social rights with an effective implementation of social security guarantees. Moreover, it is needed to combine a broader legal regulation with social mobilisation and monitoring. From a strategic perspective, instead, human rights advocates have to find a way to dispute the less holistic positions of actors such as the IMF and the World Bank.

Finally, from a methodological point of view, it is important to develop evidences and statistics capable of measuring the effect of social policies on human rights standards and inequalities.

Although more studies and researches are needed in this field, the lack of a better explored relation between the implementation of human rights, in particular socio-economic, and the reduction of inequalities is not an excuse to doubt about the value of a human rights framework in addressing disparities.

As a matter of fact, the human right perspective, dealing with legal regulation matters, can be inserted into, or combined with, a broader institutional framework.

The impact of the amelioration of the institutions on the reduction of inequalities is better studied, as we will see in the next section. Therefore, it is possible to think about a reform of the institutional system to improve institutions that includes a reinforcement of the legislation on human rights, whose compliance could become an obligation for the states. In this way, the duty of governments to guarantee their application would help lowering the gap in the well-being of different segments of the population, for the benefit of the society as a whole.

2.2. Improve institutional quality to tackle inequality: a better known relation that could pass through human rights compliance.

Throughout our analysis, it has been made clear how important is the role of institutions in determining the level of inequality within a country. Consequently, it is more than reasonable to affirm that the improvement of the quality of the institutions can be an effective way to tackle disparities.

Although the indicators and measurements can differ according to different studies taken into consideration, the concept of institutional quality comprehends elements that deal with five core areas: regulatory quality; government effectiveness; rule of law; corruption; and voice and accountability.

Chong and Calderón (2000) explore the link between institutional quality[7] and income inequality over a long period of time, being the pioneers in a systematic empirical research on this relation. They found out that in poor countries, the institutional quality is positively associated with inequality while in rich countries, the relationship is negative. They argue that this is consistent with the theories by Bourguignon and Verdier and by Acemoglu and Robinson on the fact that it may exist some sort of augmented Kuznets curve[8] that makes reforms costly for inequality at first but then more and more advantageous for the lowering of disparities.

In a later study, Chong and Gradstein (2007) further confirm the positive impact of institutional strength on a more equal distribution of income, finding out a double causality between the two variables. In particular, they argue that "when the political bias in favor of the rich is large, income inequality and poor institutional quality may reinforce each other (...). Consequently, the economy may either converge to a steady state with high-quality institutions and minimal inequality, or to low institutional quality and high inequality" (Chong and Gradstein, 2007).

[7]Chong and Calderón use two sets of institutional quality measures from two different private services: the International Country Risk Guide (ICRG) and the Business Environmental Risk Intelligence (BERI).

[8]The Kuznets Curve is a curve that illustrates Simon Kuznets' hypothesis about what happens to the distribution of income as countries develop, with the income per capita on the horizontal axis and inequality on the vertical axis. He argued that low-income countries tend to show low levels of inequality but that the latter would increase when those countries start to experience higher levels of average income. In this case, the increase in inequality would continue until these very same countries reach middle-income status. After that, a further increase in average incomes would be associated with declining inequality. By the time countries became fully industrialized, inequality would have returned to a low level. This explains the "inverted U" of the Kuznets Curve, which shows this pattern.

They arrive at these conclusions correlating the income share of the middle-income quintile and then the Gini coefficient with various measures of institutional quality[9], confirming that the observed persistence in income inequality levels within countries goes together with institutional quality persistence. Moreover, the highest correlation resulting from their study is the one between inequality and rule-of-law measures.

The empirical evidence confirms the close relation between institutional quality and inequality that these studies suggest. As a matter of fact, countries with high quality institutions are the ones with lower inequality and advanced economies are a perfect example. In fact, when comparing developed countries with less advanced economies, which also have poorer institutions, it is clear the advantage of the former in showing a consistently lower level of disparities.

Nevertheless, the institutional quality varies considerably across developed countries and they have recently been witnessing a decrease regarding the effectiveness of their institutions too (Briegel and Bruinshoofd, 2015).

In Europe, for example, the Nordic countries show a far better institutional quality than institutions in Southern nations (see Table 5, left columns). Still, the institutional deterioration is affecting all these countries in a minor or major degree. The factors leading to the impoverishment of the efficacy of institutions have to deal with aspects related with the worsening of corruption, the weakening of the rule of law and of the regulatory quality (see Table 5, right columns).

[9]Chong and Gradstein use the International Country Risk Guide (ICRG) and indices from the Freedom House, specifically an index of civil liberties, an index of political rights and their simple average, or Gastil index.

Table 5. Change 2010-2013

	Voice and Accountability	Political Stability and Absence of Violence/Terrorism	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption	Ease of doing business	Legal protection (2008 -2013)	Absence of corruption (2008 -2013)
Nordics									
Finland	0.06	-0.03	-0.08	-0.04	-0.05	0.01	0.01	0.06	-0.06
Norway	0.12	0.02	0.00	0.14	0.05	0.18	0.02	0.08	0.28
Denmark	0.10	-0.08	-0.12	-0.08	-0.02	0.00	0.03	-0.19	-0.27
Sweden	0.09	0.04	-0.12	0.22	-0.01	-0.03	-0.05	0.06	-0.21
Iceland	-0.02	0.25	-0.11	0.21	-0.05	-0.04	0.03	-0.30	-0.58
Western Europe									
Switzerland	0.02	0.14	-0.08	-0.01	0.02	0.03	-0.09	0.04	-0.06
Netherlands	0.10	0.20	0.04	0.03	0.00	-0.13	0.04	0.06	-0.10
Luxembourg	0.05	-0.11	-0.09	0.07	-0.04	0.05	-0.04	0.21	0.13
Austria	0.00	0.22	-0.27	0.01	0.02	-0.12	0.01	-0.12	-0.50
Germany	0.10	0.14	-0.05	-0.03	0.00	0.04	-0.12	-0.12	0.07
United Kingdom	0.02	0.08	-0.09	0.03	-0.09	0.12	-0.02	0.39	0.33
Ireland	-0.03	-0.10	0.13	-0.04	-0.05	-0.16	-0.11	-0.02	0.22
Belgium	-0.01	0.14	0.01	0.00	0.03	0.14	-0.11	0.08	0.37
France	0.00	-0.25	0.02	-0.16	-0.11	-0.13	-0.09	-0.03	-0.02
Central Europe and Baltics									
Estonia	0.00	0.13	-0.13	0.03	0.04	0.25	-0.14	-0.03	0.45
Lithuania	0.02	0.26	0.07	0.16	0.04	0.09	-0.04	-0.07	0.28
Slovenia	-0.06	0.03	-0.03	-0.14	-0.01	-0.15	0.36	0.01	-0.40
Poland	-0.05	-0.04	0.07	0.06	0.13	0.14	0.54	0.49	0.43
Czech Republic	-0.04	0.09	-0.04	-0.22	0.08	-0.07	0.34	0.03	0.01
Latvia	-0.03	0.08	0.16	0.04	-0.03	0.14	0.20	-0.17	0.32
Slovak Republic	0.04	0.08	-0.05	-0.08	-0.08	-0.18	0.06	-0.16	-0.25
Hungary	-0.17	0.11	-0.02	-0.13	-0.18	0.04	-0.01	-0.38	0.00
Southern Europe									
Portugal	-0.06	0.04	0.21	0.07	-0.01	-0.11	0.25	0.08	-0.05
Cyprus	-0.06	0.07	-0.18	-0.52	-0.20	0.23	0.09	-0.67	-0.25
Spain	-0.15	0.30	0.16	-0.23	-0.16	-0.20	0.05	-0.26	-0.64
Italy	-0.02	0.04	0.01	-0.12	-0.02	-0.03	-0.05	0.01	-0.23
Greece	-0.23	-0.07	-0.10	-0.03	-0.17	0.05	-0.12	-0.62	-0.22
Malta	-0.02	-0.21	0.05	-0.14	-0.11	0.14	n.a.	-0.45	-0.27
South-Eastern Europe									
Croatia	0.05	0.03	0.06	-0.11	0.09	0.14	-0.06	0.07	0.04
Bulgaria	-0.21	-0.15	0.04	-0.12	-0.03	-0.09	-0.11	0.05	0.19
Montenegro	-0.02	-0.06	0.07	0.12	0.02	-0.01	0.21	0.08	0.04
Romania	-0.13	-0.09	0.18	-0.05	0.07	0.01	-0.05	0.04	0.08
Turkey	-0.15	-0.27	0.06	0.12	-0.04	0.08	-0.03	0.32	0.25
Serbia	0.01	0.35	-0.05	-0.05	0.06	0.01	0.02	0.00	0.05
Albania	-0.07	0.25	-0.06	-0.06	-0.14	-0.23	-0.41	0.01	-0.11
Moldova	0.00	0.35	0.24	0.01	-0.02	-0.05	0.04	-0.73	0.00
Bosnia and Herzegovina	-0.03	0.33	0.27	0.01	0.20	0.10	0.07	0.49	0.00
Kosovo	-0.07	0.14	0.20	0.01	0.07	-0.02	0.25	0.04	0.00
Macedonia, FYR	-0.13	0.11	0.09	0.04	0.09	0.08	0.36	n.a.	n.a.

Source: Rabobank

If the countries that are considered most advanced are experiencing a decrease in institutional quality, this means that we have to make important institutional changes to overcome current disparities and consequently, these changes could become an important lesson for developing economies as well.

One of these changes could pass through the human rights compliance, as we saw in the previous paragraph. Having a more holistic view when addressing inequality, as well as making the respect of human rights mandatory and integrated in the national legislation

with practical and effective policies to implement them, could be crucial. Furthermore, respecting the rule of law of what should be mandatory human rights, as well as reinforcing the obligations coming from the existing legislation, has to go in hand with other changes related to redistributive policies and the way the current welfare system is structured. While for the role of human rights there is an ongoing debate that slows down their application to tackle inequality and prevent their assimilation within countries' obligations, the role of the rule of law principle and the redistributive and welfare policies is unquestionable so that they are urgently in need to be improved.

Nevertheless, these adjustments are prevented by the elitisation of the society, that is the institutionalisation of the minority's interest. As a matter of fact, in a democratic institutional environment, typical of the most advanced economies, the majority is supposed to have more weight than the minority through its electoral power. Therefore, it is supposed to influence the distributive mechanism through its pressure on institutions which have to improve the quality of their action by applying a more efficient redistribution and pro-poor policies. Although, "the absence of institutional changes with redistributive effects is usually interpreted by the fact that increases in income inequality allow the minority, through increased economic and political power, to institutionalize *de facto* their interests, regardless of the interests of the majority" (Josifidis, Supić and Pucar, 2017). So the high concentration of wealth by the richest 1% of the population results in reducing the impact of the redistribution and the implementation of adequate welfare policies through institutions.

This analysis makes clear that first of all it is essential to eliminate some of the privileges of the elite. One of the dimensions where we can assume the power to contrast these privileges is the legal dimension. We ought to eliminate the laws that reward just the top earners at the expense of the rest of the society. Furthermore, we have to effectively make everyone equal before the law, avoiding the usual practice that sees power and money able to buy a free pass when there is a law infringement. This is the only way we could manage to implement better redistributive policies and a broader welfare, capable of guaranteeing indispensable social services for the society as a whole.

To sum up, the institutional reform has to go through the abolishment of laws that favorish the top 1% in order to arrive to: the reinforcement of the rule of law principle, which must be valid for everyone and not be an exception for the society's elite or the power in charge;

a fairer redistribution of resources and more consistent welfare policies for the poorer segments of the community.

In section 2.3, we will support these statements with empirical evidence and give some practical examples to achieve this goal, able to undermine actual levels of inequality.

2.3. Institutional reform: rule of law, laws that favour the wealthy and top income earners, welfare and (re)distributive policies.

An institutional reform implies changes that are not easy to implement, especially when we are referring to adjustments in legal institutions.

As a matter of fact, legal institutions belong to the category of slow-moving institutions. This happens because it is complicated to generate a social consensus on how to modify or improve some laws at the same pace as the rapid developments of the contemporary world occur so that the legislation can fail to answer society's new needs.

Nevertheless, it is exactly from here that an effective institutional reform has to begin because legal institutions can help reestablishing the equilibrium and justice that economic power relationships overthrew. Moreover, in some cases it was the very inefficacy of the legal institutions in assuring their own independence from a system where who owns more resources gets even more privileges and advantages that deepened the actual level of inequality.

One example is the fact that the legislation has been incapable of resisting the pressure of the political and economic power in applying laws that clearly favor the top earners at the expense of the rest of the society.

For the American case, Hsu (2015) identifies four main areas that guaranteed the legal enrichment of the top 1% earners: the financial regulation, or rather the number of deregulatory moves pursued by the U.S. legal system; the subsidies granted to the gas and oil sectors; the "grandfathering", or the "transaction relief" that is the fact that new regulations tend to exempt existing regulatory targets in various ways in order to avoid a great decrease in returns from private capital; and electric utility regulations, which are more concerned with private returns than with ratepayer welfare.

Other laws concern a most favorable tax treatment for the wealthiest.

In Europe, a study by Godar and Truger (2017) on the evolution of taxation in the EU states from 1980 until 2007, found out that taxation has become less and less progressive with lower marginal rates of income and corporation taxes, therefore giving a preferred treatment to capital income. The 2008 crisis slew temporarily down this tendency but the

raising VAT has been acting all along as a counteracting force to this deceleration, allowing an increase in revenues.

Finally, in Anglo-Saxon countries some influence on the deepening of inequality is made by a permissive corporate law which should require a broader disclosure for high executive pay packages but fails in doing so, allowing CEOs to keep on with their privileges without any surveillance.

Special mention needs to be done for the labour legislation that favours top earners because it has a prominent role in the increase of disparities. In fact, various international agreements, as well as the practice of offshoring, made labour cheaper and cheaper, thus favoring multinationals at the expense of the workers. Furthermore, in the U.S., for example, the Court has recently decided that employers have the right to insist that labour disputes get resolved individually, therefore trying to impede class-action lawsuits (Wolf, 2018). Undermining the power of unionisation is one of the channels through which businesses and corporations act in order to prevail in trials against their employees or to succeed in implementing the regulations that best pursue the increase of their profits. In Massachusetts, the local government was trying to establish laws to prevent or restrict corporations doing businesses if violating certain rights but it was pressured by a coalition of 600 corporations, claiming that it was unconstitutional and obtaining the approval of the judges (Shah, 2006). This shows how the workers' protection in the U.S. fails its scope under the weight of the economic power.

Nevertheless, many European corporations also adopt American attitudes towards unions while declaring their (false) support for the norms on workers' freedom association (Compa, 2015). Finally, when multinationals don't manage to escape neither from the U.S. legislation nor from the European one, they simply relocate their activities in under-developed countries where they can be let off the hook against employees' rights.

In Portugal, between 1986 and 2013, the number of workers under fixed-term contract increased 50 per cent, making the country the third State, member of the European Union, where fixed-term contracts are most relevant (DN, 2015). This means that the link between workers and employers became more precarious and the tendency causes a distortion in the Portuguese labour legislation. As a matter of fact, the costs to dismiss employees under open-ended contract are among the highest in Europe but the ones associated to collective dismissal are among the lowest in the Union (DN, 2015).

The same happens in Italy where the number of fixed-term contracts is rising, in particular very short fixed-term contract (about 6 months) (La Rassegna,2018). This endangers the possibility for the workers to have an effective action through unionization and ask for better job conditions, especially the ones related to security in the workplace and the quality of the hours worked.

Therefore, legal rules and institutions are biased in a way that promotes the formation of capital by enhancing returns to private capital for a small part of the world population. Eliminate these very same regulations, or at least redefine them to be more just and equal, is the first step to reform our institutional system and so reestablish a more balanced relation with the earners that control most of the world's resources. This could be attained by pressuring the political power in charge in implementing policies that increase economic justice while investing in companies that share social values and advocating for the rule of law.

As a matter of fact, rule-of-law measures are strictly related with the achievement of a fairer system.

The Rule of Law principle states the equality of all individuals before the law. Nobody, according to this principle, is above or outside the reach of law - nor presidents or corporations. Nevertheless, reality shows as this principle may fail in unequal societies.

In the U.S., for instance, just one among all the high-level CEOs or officers of important banks involved in the 2008 crisis has been held criminally responsible, with the trial starting just on 2012 (Noonan et al., 2018).Moreover, Trump's right wing nominees for the U.S. Court system recently favored big corporations over consumers with the abolition of the "Citizens United" ruling which was imposing some limits on the corporate money in politics (Liptak, 2014). In doing so, corporations now have increased their influence and politicians have even less incentives to punish them, therefore leading to a progressive erosion of the Rule of Law principle by applying double standards for the businesses that finance their campaigns.

Another example is in the U.K. where the HM Revenue and Customs, that is responsible for collecting, paying, administering and enforcing taxes, has admitted for the first time in an economic crime conference on September 2018 that it allows the most powerful members of society to escape from the prosecution for financial crimes, settling debts privately to avoid the embarrassment of a public trial (Harper, 2018).

Nevertheless, it is not just by giving a preferred treatment to the rich that the in the U.K. we see two weights and measures. In fact, the government revoked legal aid for whole categories of cases, mining the essential notion that one law covers us all (Clarke, 2018). Denying the access to justice to whom cannot afford it is creating citizens incapable of questioning the bureaucrats' behaviour and ensuring that the state obeys its own rules.

These are just some cases but it is in advanced countries in general that we can see how there seems to be a progressive shift from a democracy to a plutocracy, which occurs when a society is ruled or controlled by people of great wealth and power.

On April of 2017, as an illustration, in Italy the ex-prime minister Silvio Berlusconi was acquitted from the umpteenth process (de Feo, 2017) and it is difficult to think that this was not due to some concessions he gained thanks to his power or to his more-than-well-paid lawyers.

Big corporations and multinationals are difficult to win on a trial and even if this happens, what they have to pay is just a very small percentage of their huge fortune, tipping the balance on their favour again.

All these episodes are creating a wound in the rule of law and undermining the legal system which is appearing more and more unjust to people at the bottom of the distribution. Therefore, there is a need for the reinforcement of the rule of law principle in order to reestablish the fairness of the legal institutional framework not just from a moral point of view but also from a practical one. As a matter of fact, only with the effectiveness of the legal institutions it is possible to implement good policies to address the society as a whole. The rule of law could be fostered through the consolidation and development of an international framework of norms and standards, the establishment of international and hybrid courts and tribunal and non-judicial mechanisms. Furthermore, institutions of justice, governance, security and human rights could be expanded and the civil society strengthen (UN, 2012). In this way, it would be possible to jump into the next step of implementing effective policies.

The policies we are referring to are related with redistributive programs and the welfare system. In fact, public policies can help to build a ladder of opportunities for people who can't afford to provide all they need by themselves.

When benefits are unequally distributed, it is crucial to shift resources from those at the top of the scale to those who are more at the bottom, therefore taking proportionately more tax

from those on higher levels of income and redistributing welfare benefits to those on lower ones. Taxation and cash transfers are the most direct way to address inequality in the short-term and have been widely used by governments. Nevertheless, their design needs to be improved to assure a more efficient (re)distribution.

The tax reform should pass through the abolishment or at least the scaling back of tax deductions and exemptions while at the same time it should charge stock and other asset options as ordinary income. The privileges coming from wealth taxes such as inheritance or immovable property taxes should be reviewed as well as capital and labour income taxation should be harmonised. The international commercial law should also be improved to increase transparency in multinational businesses in order to be able to obtain tax compliance at international and national level.

On the benefit side, using the new resources that a reform of the tax system would bring, the base of the population that has access to social services should be expanded and the number of the services offered should be increased. As a matter of fact, the segments of the society entitled to receive help from the government declined with the years for the non-sustainability of an extensive welfare state but this was caused by a decrease in the capacity of the countries in collecting taxes and not by the impossibility *a priori* in the survival of this type of aid. Moreover, if the wealth gap takes more time to be addressed because the top earners are reluctant to cede their wealth, we should at least assure equity in the access to education, healthcare, housing and food to those who require it. In this way, there will still be economic inequality but the difference will not be between who struggle to survive and who accumulates his/her fortune. In this era of consumerism, there is so much waste that could be better used with a proper regulation: for example, improving the law on the food management of big supermarkets or producers, it could be possible to give to the poorest what some people consider not up to their standards. Furthermore, education and skill policies that promote the access to education (especially of the low-skilled) or job-related training and facilitate access to jobs to under-represented groups, are proved to be essential in reducing economic inequality in the long-term so that the implementation of these policies today could mean a significant decline in inequality for the future generations.

Conclusion

The conceptualization of economic inequality marked the beginning of our analysis.

We defined it as the discrepancy in the control over, and access to, economic resources.

Income and wealth are usually the most cited resources in studies on economic inequality, with income in the first place for its easier measurement. This aspect has to do with the inequality of outcomes which surges when there are differences in the material living conditions of the individuals. This very same aspect was the first to be explored when we looked at the evolution of disparities, starting from the XX century.

In fact, the top income and wealth shares were the only reliable data, until the 1960s, capable of showing us the pattern of the rich-poor gap at that time. After that, other shares related to the bottom of the earners percentiles and the more comprehensive Gini coefficient, with the help of the 90/10 percentile and the Palma ratio, gave us a better picture of the evolution of inequality in advanced countries over the last century.

It became clear how an upward trend is marking our most recent history, from about the 1980s until now but the reasons behind this phenomenon stayed still obscure.

We then looked at the economic literature on inequality mostly through a review of the institutionalist approach on the determinants of economic disparities. Seen as an inevitable product of the market process by neoclassical economists, inequality assumes a different meaning under the institutionalist framework. As a matter of fact, inequality is considered as a result of discretionary institutional arrangements.

Summing up the conclusion we came up after our glance in the history of thought on inequality, we managed to identify key institutional areas that most determine the rising disparities we see nowadays in advanced economies so that we could start to think about some concrete solutions to address the issue.

We found out that the causes are mostly related with changes, or their absence, in labour market institutions, financial (de)regulation, (re)distribution and human capital.

Globalisation and technological change exacerbate the failure of institutions in responding adequately to the new challenges our ever-changing world has to offer.

On the labour side, the precarisation, the practice of offshoring, the decrease in employment protection and the fragilisation of unionization are the elements that most negatively influence inequality.

On the financial side, the lack of en effective regulation and the need for large resources in order to access the financial market, prevent the finance sector from being a source of wealth for a bigger portion of the population.

When discussing the (re)distribution and the human capital factors, the inequality of opportunities, which is the other side of the inequality of outcomes, clearly came up. In fact, the inequality of opportunities deals with the actual possibility to have access to basic services, without any type of social discrimination. Therefore, as further causes of inequality, we discovered the inefficacy of the tax-and-transfers in counteracting the problem of rising disparities, assuring a common starting place for every individual, as well as an intergenerational persistence that characterizes inequality, higher than what should be expected in a developed economy.

After understanding the determinants of inequality, the second part of our work was dedicated to find possible solutions to the problem.

Human rights were proposed as an interesting way to re-think our approach to current disparities. As a matter of fact, they imply a more universalistic resolution to inequality and distribution. Nevertheless, their role is still debated and there is a long path to cover to integrate human rights in the economic discourse.

A better known relation, which could pass through human rights compliance, is the one between the quality of institutions and the reduction of disparities. In fact, studies and the empirical evidence show how the two are strictly related. Advanced countries tend to have high quality institutions but the fact that inequality is rising also in this area shows how the institutional framework is lacking important changes and is failing to deal with the challenge of promoting human rights.

Indeed, the human rights framework, giving us a more comprehensive view on the issue, came up as a possible tool to combine with a necessary institutional reform, as to arrive to a long-term answer to tackle the determinants of inequality. The reform should pass through an improvement of the quality of the institutions and of the adaptive capacity of these in order to keep the pace of the constant changes that our current world challenge us with. This process, we argue, can only start with the elimination of some of the privileges

that we grant to the richest, functioning also as a reminder that the progress loses its significance when it does not mean progress for all. Making fairer laws and reinforcing the rule-of-law principle are important steps for institutions to cover. After that, it is necessary to implement distributive and welfare policies that involve a larger part of the population, first enhancing the capacity of collecting taxes of the governments. Improving the well-being of the citizens should be a priority for the political agenda of every country, without exception.

This work clearly assumes that we cannot look at the problem of economic inequality from a mere economic point of view. In effect, purely "economic" events do not exist in the complex reality we live. Starting from this principle, it is consequentially essential to propose actions that involve other aspects of the way our society is organised. Legal institutions are strictly related with economic outcomes so that the legislation can serve as a primary mean for the reduction of disparities. Nevertheless, it is also in the hands of political representatives the duty of re-thinking the way to distribute resources through effective policies in order to assure a more equal and just system. If this does not happen, the civil society must press the political power in charge to obtain what it is in its right. As a matter of fact, we are the 99% and this does not mean that we are powerless because we have a small amount of resources but the very contrary: we are the majority and we have the strength to turn the tables according to the rules we believe are fairer when the system fails in doing so.

Our analysis still leaves some open questions about the relation between human rights and inequality for which there are no empirical studies we can rely on. Moreover, the institutional reform we proposed has the characteristics of a general framework that needs to be detailed in order to offer a step-by-step proposal, feasible for the people responsible for its implementation.

Nevertheless, we believe this work remains capable of offering new perspectives on the way we look at the problem of inequality, therefore introducing possibilities to overcome disparities, somewhat different from the traditional ones.

Thinking out of the box is what it is necessary to transform our world into something that better represents our dreams and aspirations: the inherent forces that drive human souls much more than any economic system ever adopted in the history of humankind.

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