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### Key Finding

**As income and wealth inequality increases throughout the world, the corollary is a growing risk of social unrest and political instability.**

### Business Application

**Corporate leaders should take these concerns seriously and ask themselves whether their decisions about taxation, charity-giving and wage-setting strengthen or conversely harm the social contract.**

Income and wealth inequality are increasing throughout the world. The 1% highest earners captured 27% of global growth over the period 1980–2016. In the US, the 0.01% richest families (16,000 households) possess \$6 trillion in assets, equal to the total wealth of the bottom two-thirds of US citizens (80 million families). This increase in wealth inequality is exacerbated by tax avoidance and evasion, recently in the spotlight due to numerous leaks.

In a speech at Bocconi University on 28 November 2017, Margrethe Vestager, the European Commissioner for Competition, highlighted the stakes: “All the stories that we’ve heard in recent years – from LuxLeaks and SwissLeaks, the Panama Papers, and now the Paradise Papers – have produced so much anger [...] because people have just been through a decade of crisis. They’ve seen their governments raise taxes and cut back on services. And now they see that some of the people and businesses who can most afford to pay have been using loopholes in our tax systems to escape from paying tax. They see that among the rich, and the powerful, there are some who don’t seem to believe that the social contract applies to them.”

The corollary of increasing inequality is a growing risk of social unrest and political instability, to the extent that it should become a concern for businesses. Corporate leaders should reflect upon the idea that the social contract is in danger and ask themselves, both as business managers and citizens, whether their decisions about tax behaviour, charity-giving and wage-setting contribute to an improvement or conversely the deterioration of the current situation.

**Read more:** Bennedsen, M., Henry, B., Roulet, A., and Stabile, M. (date), “Leaks, Dumps and Whistleblowers: Tax Havens and Wealth Inequality”, INSEAD Case Study

**Alexandra Roulet** is an Assistant Professor of Economics at INSEAD. She graduated from the Ecole Normale Supérieure, Paris, and earned her PhD in Economics at Harvard University. Alexandra’s research focuses on labour and public economics and has been published in leading



academic journals, including the *American Economic Review* and the *Journal of Public Economics*. She is the co-winner of the 2017 Upjohn Institute Dissertation Award. To know more, visit her [website](#).

**Research interests:** labor and public economics.