THE ECONOMIC AND FINANCIAL COMMITTEE

TOPIC BULLETIN

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CHAIRS

Contents:

Welcome delegates!

My name is Jiwon Son, and I am a senior in the Academy of Business and Finance. I can't begin to describe how excited I am to be chairing ECOFIN for AMUN XXII! I've been part of the Bergen County Academies Model UN team for about three years now, and every moment spent with the club has been more educational and enjoyable than the next. One of the most incredible things about MUN is that through every conference I attend, I learn more about the world around me. I am given the opportunity to meet people of differing backgrounds and viewpoints, and this diversity is, in my opinion, the greatest asset that this organization has to offer. My hope is that AMUN is able to give each and every one of you this same experience.

In terms of our committee, my co-chair and I decided on discussing two urgent issues that the world faces in current day. As a result of the COVID-19 pandemic, and other economic instabilities, both the topics of remediating international income inequality and international measures for preventing future global economic crises

Outside of MUN, I am part of BCA's DECA and varsity Policy debate team. I am also a violinist, a Korean traditional dancer, a political activist, and a dog-enthusiast. Anything business and politics related is very interesting to me, and I try my best to stay in the loop of current events.

Best,
Jiwon Son, Chair, ECOFIN
jiwson21@bergen.org

Dear delegates,

Welcome to AMUN XXII! My name is Laetitia Park and I am thrilled to be your chair for ECOFIN. I am a senior here at BCA and have been doing Model UN for all of high school, both as a part of BCA MUN and the All-American Model UN organization. This year's topics for ECOFIN, international income inequality and international measures for preventing future global economic crises, have been pressing issues contributing to the tense political climate. The devastating economic effects of COVID-19 have further brought these issues to light. As a co-chair, my goal for this committee is to foster fruitful debate that allows each of you to become a more globally minded citizen.

Outside of MUN, I co-run The People Policy, an NGO that publishes research on human rights policies. I assume that many of you are invested in policy research, so I encourage you to check it out. I also write for an economics journal (hence my choice to chair ECOFIN) and honestly enjoy submitting my writing wherever I can. In my free time, I enjoy baking and traveling; I hope to visit all fifty states before I graduate high school.

If you have any questions regarding the background guide or the scope of committee, feel free to reach out to me at any time. I look forward to seeing you all!

Best,
Laetitia Park, Chair, ECOFIN
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Topic A: Remediating International Income Inequality

Committee Background:

The Economic and Financial Committee, or ECOFIN is the second committee of the United Nations General Assembly of the six total committees. It was established after the Second World War in 1945, first meeting in London in January 1946. The primary concerns of this committee focuses on economic development through macroeconomic policy through international trade and debt sustainability, funding sustainable development, poverty elimination, globalization, and economic cooperation. The committee has focused on helping developing countries through financial assistance in order to spur economic development. ECOFIN's foreign aid programs are dedicated to decreasing poverty in indebted and financially dire countries.

ECOFIN is available to all 193 member nations of the UN, with equal representation and voting rights. ECOFIN is administered by one chairperson, three vicechairpersons and one rapporteur. The committee therefore follows the same parliamentary procedures as any other main organ of the United Nations. Decisions made by the committee take the form of written resolutions, which in most cases are adopted by acclamation or a simple majority vote

Although resolutions enacted by the committee are not binding, they are maintained by the will of the international community.

Topic History:

Income inequality is an adversity faced by every single nation in the modern world. Defined as the imbalance in distributions of income, not only do nations face income inequality within their domestic borders, but the problematic concept exists *between* countries as well.

Resulting in a plethora of negative outcomes, income inequality points countries to increased crime, insufficient health standards and services, disparate political climates, and dangerously inadequate access to education, among many other things. International income inequality also poses a formidable threat to the economic, political, and social growth and progress of the entire world as a whole. When some countries thrive while others suffer, instances of exploitation, stunted growth, and mortality of vulnerable groups ensues.

In the 19th century, only a handful of countries were experiencing economic growth and modernization, and the presence of international income inequality was relatively insignificant. However, as the rest of the global community became involved in innovation and economic growth, income inequality rose. By the last quarter of the 20th century, the world had divided itself into poorer developing countries, and richer developed countries. The latter was, on average, ten times richer than the former, according to an Our World in Data study. Among the many reasons behind the rise of international income inequality, one of the most notable was the start of industrialization in Europe. This trend of industrialization was followed by various American and Eastern Asian countries, but other nations in Africa and Asia failed to match the speedy progress of their global counterparts.

In more recent history, there has been a generally positive trend as the income inequality gap has decreased in the past 25 years. This can be attributed to significant economic growth in China and other Asian countries, leading to more rapidly increasing incomes for individuals in poorer countries. According to the UN, between 2010 and 2016, the incomes of the poorest 40 percent of the population grew faster than the rest of the population in 64 percent of countries with data. This affirms the idea that income inequality is not necessarily irreversible.

Although there is a clear trend of international income inequality decreasing in recent history, it's crucial to note that recent growth spurts in developing countries have coincided with rising levels of inequality domestically, making a truly effective solution to international income inequality difficult to achieve. However, the UN has made various efforts to address the issue, including the tenth goal of the United Nations Sustainable Development Goals. In its entirety, the UN Sustainable Development Goals were established as a blueprint to achieve a better and more sustainable future for all. They address some of the most pressing global challenges, including those related to poverty, inequality, climate change, environmental degradation, peace and justice. To be specific, the tenth goal vows to "reduce inequalities and ensure no one is left behind." the UN has made closing income gaps a priority, but are yet to achieve this goal entirely.

Current Situation:

Currently, one of the most notable ways the world measures income inequality is through the Gini Coefficient. Represented by a fraction, the Gini Coefficient quantifies the amount of income inequality a country faces, and allows for nations to compare existing inequalities amongst themselves. Calculated by taking the average income levels in quintiles of varying income brackets, then determining the difference between these variances with a line of "perfect income equality", economists are able to gauge the level of financial equality in a country using the Gini Coefficient. The higher the Gini Coefficient is in a nation, the more drastic the income inequality is. A Gini Coefficient equal to 0 means that the country in question has perfect income equality, and every individual receives the same amount of income. A Coefficient equal to 1 indicates perfect income *inequality*, meaning one person owns all the money in the economy. Through the use of the Gini Coefficient, economists and government officials are able to identify the variance in income distribution within domestic boundaries.

To compare income inequality transnationally, however, analysts typically take the mean incomes of each country, then use these averages to calculate a global Gini Coefficient. In doing so, the level of international income inequality can be observed. Additionally, by making note of the mean incomes of each country, it becomes much easier to see whether changes in the upper and lower ends of the income spectrum are diverging or converging, indicating either an upwards, downwards, or stagnant trend of the income gap. In current day, according to the most recent set of data regarding global income inequality, the world's Gini Coefficient rests at approximately 64.9%, or 0.649. This is alarmingly close to 1, bringing attention to the fact that although income inequality may be travelling in a downwards trend, it is nowhere near being adequately resolved. For example, according to the Seven Pillars Institute, nearly half of all global wealth was owned by one percent of the global population. With such a large amount of money concentrated within such a small fraction of the population, it's become crystal clear that the scale of income equality is in dire need of being rebalanced.

Additionally, it is crucial to note the implicit consequences of income inequality. For example, income inequality is closely related to issues regarding gender equity. According to UN data, up to 30% of income inequality is due to inequality within households, specifically between women and men. Because women are more likely than men to live below 50% of the median income, the link between income inequality and gender inequality is undeniable. Furthermore, income inequality also holds grave connections to issues regarding health. Evidence from developing countries shows that children in the poorest 20% of the world's population are up to

three times more likely to die before their fifth birthday than children in the richer quintiles. Inequalities are disproportionately harmful for vulnerable populations in countries with weaker health systems and existing humanitarian crises. Refugees, migrants, indigenous peoples, older persons, people with disabilities and children are some of the more vulnerable groups that are at heightened risk as a result of international income inequality.

In light of the COVID-19 pandemic, the globe was introduced to many unforeseen circumstances that exacerbated a number of issues regarding international income inequality. With the poorest and most vulnerable communities being hit the hardest, the pandemic has hindered the world's ability to fight income inequality. However, with the global attention COVID-19 has received, it has also brought to light the impact of economic inequalities and the fragility of the world's social systems. It has spotlighted the shortcomings of the world's economic resilience, which ultimately left vulnerable communities to bear the brunt of the crisis. To expand on the economic implications of the pandemic, COVID-19 has significantly increased global unemployment and dramatically slashed workers' incomes, further aggravating the negative impacts of the virus. In response to this, the UN Secretary General has called for the world to turn its focus on offering aid to the poorest, most vulnerable members of the international community. To ensure that people everywhere have access to essential services and social protection, the UN has amassed international support and political commitment, like funding through the UN COVID-19 Response and Recovery Fund which offers low- and middle-income countries and vulnerable groups necessary aid during the pandemic.

Despite the disheartening state of the world's income inequality levels right now, recent trends that suggest a decreasing gap, as well as a notable count of countries with decreasing

domestic income inequality serve as a ray of hope to the rest of the world. Because of these positive trends and observations, the World Economic Forum has deemed income inequality to be an issue that is *not* ubiquitous, nor inevitable in the face of globalization. With that, it can be duly noted that a solution is entirely possible, but requires the cooperation and uninterrupted dedication of all nations.

Potential Blocs/ Country Positions:

North America/Europe: Considering the vast majority of North American and European countries are among the richest in the world, many are found within or close to the wealthiest quintile. With this in mind, these countries primarily hold a significant amount of resources and power, as well as the influence necessary to aid the less-wealthy nations, or the remaining poorer four quintiles. Without losing sight of unique country policies, countries of North America and Europe may find that their influence and resources could be of great use for many other members of the international community.

Middle East: In 2018, the Middle East led the world in the highest income inequality. This means that the countries within this region struggled with the largest income disparity, which questions how Middle Eastern countries can take their experiences of income inequality, and contribute to a solution that addresses the disparity for their *own* region, as well as for the rest of the world. Some Middle Eastern countries may find that cooperation between countries of varying economic statuses will allow them to broaden horizons and arrive at a coherent solution.

Africa: According to the UN, 10 of the 19 most unequal countries are located in Sub-Saharan Africa. Considering the drastic economic inequalities existing in this region, as well as the fact that many African countries make up the lower quintiles of global wealth, some countries in this

region may be compelled to work both with each other, as well as with other richer countries to seek an applicable solution for the income inequality faced within ther region, as well as between themselves and the rest of the world.

Asia: Perhaps one of the most diverse in economic disparity are the countries in Asia. Considering the fact that this region is home to some of the richest *and* poorest countries in the world, Asia has been at the center of international income inequality. With its rapid economic and technological growth in the twentieth century, Asia's population has grown incredibly unbalanced in terms of their received income. For places like east Asia (South Korea, Japan, etc.), the technological advancements and relative political stability has brought an influx of notable income. Some south Asian countries, on the other hand, have remained underdeveloped in some parts, causing a detrimental lag in economic growth when compared to other countries of the region.

Questions to Consider:

1. What is the income inequality like in your

country?

2. What makes a nation more susceptible to severe income inequality?

3. On a global scale, what can nations do to resolve international income inequality?
    - What are the causes and effects of certain economic, social, and political situations between nations?

4. Are there any patterns that can assist in identifying and resolving the issue of international income inequality?

5. What other issues does income inequality create?

Resources for Further Research:

https://www.weforum.org/agenda/2018/11/is-income-inequality-rising-around-the-world https://sevenpillarsinstitute.org/consequences-economic-inequality/ https://www.un.org/en /chronicle/article/goal-10-why-addressing-inequality-matters

https://ourworldindata.org/global-economic-inequality#the-history-of-global-economic-in equality

https://www.un.org/development/desa/socialperspectiveondevelopment/2018/11/08/inco me-inequality-data/

https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf

https://monthlyreview.org/2016/11/01/measuring-global-inequality/

Topic B: International Measures for Preventing Future Global Economic Crises

Committee Background:

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Topic History:

The general weaknesses of the global financial system have been debt-fuelled growth and the "too big to fail" approach by larger global banks. For example, the 1997 Asian Financial Crisis began when the Thai government decided they were no longer going to peg their local currency, the Thai Baht, to the U.S. dollar. Previously, foreign investment had been flooding into the "Asian tiger" economies, including Thailand, but this led to an overextension of credit. These countries began to accumulate debt to the point where confident investors began to reduce their stake in these economies. The devaluation of the Baht began a sequence of currency devaluations in other East Asian countries; a large portion of East Asian currencies fell by up to 38% and international stocks also declined by 60%. As the Asian economies began to slump, their trading partners in the U.S., Russia, and Europe began to feel the effects. The panic of the possibility of bankruptcies in East Asia reversed billions of dollars of foreign investments in the region. The financial instability was brought to the attention of the UN, to which they intervened through the International Monetary Fund and the World Bank. To stimulate economic reform and address the lack of foreign currency resources in Thailand and surrounding nations, a bailout fund of $40 billion dollars was set in place. To further stabilize the economy, $110 billion dollars in short term loans were given to East Asian countries under strict conditions including higher tax rates. This intervention was highly controversial as the conditions on the loans caused the consumer spending to plummet and magnified the economic downturns. The higher tax and interest rates did not stop the flight of investors as they did not believe the high rates were sustainable. The region began to show signs of recovery by 1999. This series of events depicts the danger of over-borrowing and accumulating debt from investors who unrealistically expect miracle returns.

Many of the same issues that rooted the Asian Financial Crisis are reflected in the Great Recession that followed barely a decade later. The Great Recession began with the Subprime Mortgage Crisis, where borrowers who would usually have had a difficult time acquiring mortgages, were given mortgage credit. Borrowers with mediocre credit histories were given small sized mortgaged, which increased homeownership during the time by over 60%. Due to the increasing number of first-time homeowners, the price of real estate skyrocketed, especially in areas where housing was tight. Predictably, high-risk borrowers were unable to pay back the loans and would sell their houses to pay off the mortgage. After house prices peaked and many lenders were suffering from losses, they stopped giving mortgage loans to high risk borrowers. The real estate prices plummeted to the point where the existing borrowers could not pay off their mortgage even after selling their house. The housing crisis triggered financial issues that would surface during the following years. Larger, “too big to fail”, enterprises had been holding onto worthless investments as many of the securities they sold to the high-risk borrowers had a low rate of return. When these banks and insurance firms declared bankruptcy, the stock market experienced one of the largest drops in history. The U.S. government had to establish multiple bailout funds, including TARP , ARRA , and the Economic Stimulus Plan to prevent a second Great Depression. On an international level, European banks that had heavily invested in American mortgage-backed securities were experiencing recessions as well. Spain, Greece, Ireland, Italy, and Portugal all sunk into debt and to the UN for assistance. Iceland experienced both an economic and political crisis as three of the nation's largest banks were nationalized. The European Union and the International Monetary Fund intervened with a set of economic policies for the countries to kickstart recovery. Austerity measures, which include tax increases and spending cuts, were put in place to prevent governments from spending beyond their necessary expenditures. The debt crisis that was present in both the Asian Financial Crisis and the Great Recession stemmed from the overconfident investors and lenders, resulted in some sort of stock market crash or bank failures, and consequently led to bailouts from UN organizations.

The committee should thoroughly discuss the pattern of mistakes present in the global economy that lead to these financial crises, before developing a resolution.

Current Situation:

The COVID-19 pandemic has delivered a global economic shock for both developed and developing countries. While the global GDP is estimated to take a 5.2% downturn- the largest contraction in decades- per capita incomes in all countries will take a hit. ECOFIN's involvement becomes increasingly important as urgent policy action is needed to provide a cushion for the consequences that this recession can have on all levels-from the global economy to more vulnerable populations.

Due to the nature of the virus, many governments mandated a shutdown of all social and non essential business activity. With billions of people staying home, the shutdown has brought the tourism, travel, hospitality, and other industries to the brink of bankruptcy. In the first few weeks of the shutdown, nearly 22 million Americans filed for unemployment benefits. The issue that arises as months of shutdown continue, however, is the uncertainty of the situation at hand. It becomes increasingly difficult for countries to predict the period of shutdown as they experiment with opening up their economies and loosening restrictions. While some countries have successfully moved into reopening nonessential businesses, others have seen cases spike and have had to slow their economy.

The coronavirus pandemic presents the economies of all nations with a unique issue; the workforce cannot operate against the virus. The government would typically invest in resources that a workforce could put together, such as ventilators, but given the necessary precautions, the global productive capacity is nowhere near what it should be. While these industrial needs are the short term effects of the virus, many countries have taken on massive amounts of government debts. The Chinese government, for example, is extending another $80 billion dollars to struggling businesses and cutting interest rates in future months. Even with a resilient economy like China's, it is becoming increasingly difficult to maintain "normal" monetary policy.

The International Monetary Fund has set aside $100 billion dollars for emerging economies, which must be allocated among the 90 countries that have requested bailout. World

Bank Group President David Malpass announced a $150 billion dollar fund to counter the pandemic and causes that directly relate to the virus. The EU Council of Ministers of ECOFIN have discussed the flow of bank loans to households and small- to medium businesses, allocating up to 500-billion-euros for emergency lending. The EU plans to set up another 750 billion euros in bonds from the European Central Bank to further assist member countries.

Despite these multiple relief packages and bailout funds, ECOFIN must also assess the long term effects of the crumbling economies. Business failures, rising unemployment rates, and the consequences for the unprecedented amounts of money being pumped out of the economies are all aspects of the global crisis that should be considered when drafting policies that mitigate future crises.

Potential Blocs/ Country Positions:

United States/Europe

The United States and the European Union have some of the largest economies in the world by GDP. These countries are heavily involved with trade and have economic ties to countries in other parts of the world. These relationships should be analyzed as an economic crisis in this region could have a ripple effect in other areas.

Middle East/Africa

The African Continent, with many developing countries and emerging economies, has a general population that is extremely vulnerable to a financial crisis. Social issues such as poverty and education as well as health-related issues that can stem from a global economic crisis should be noted. Additionally, delegates should research trade relations with developed countries as an economic crisis can have a domino effect.

Asia

The continent of Asia is home to many powerhouse economies including China, India, Japan, and South Korea. While China is known for their manufacturing ability, Japan and South Korea lead in technological advancements. Delegates should research the economic ties that these countries have with other nations. Delegates should also research further the Asian Financial Crisis of 1997 to understand the causes of the crisis and its long term effects on Asia.

Questions to Consider:

1. What makes a nation more vulnerable to a financial crisis?

2. How can nations assist each other in picking up possible warning signs about a looming financial crisis without

infringing on their sovereignty?

3. Is there an identifiable pattern in the causes of previous global economic crises?

4. What are common goals or policies that nations can set in order to mitigate future crises?

5. How will countries work to form a cohesive policy if many economies are in a different stage of development?

6. How can developed economies aid developing economies to prevent them from suffering an economic crisis?

Resources for Further Research:

https://www.globalpolicy.org/social-and-economic-policy/the-world-economic-crisis.html

https://www.epi.org/publication/bp243/

https://www.federalreservehistory.org/essays/asian_financial_crisis

https://www.frbsf.org/economic-research/files/Panel_Heng.pdf

https://yaleglobal.yale.edu/global-economic-crisis

https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-may-2020-briefing-no-137/