Forum: Economic and Social Council

Issue: The question of reduction of wealth disparities in developing economies

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Introduction

One of the United Nations millennium goals was to eradicate extreme poverty and although they put up a great fight improving millions of lives, they have only affected our society from the bottom up. Reducing wealth disparities however is a battle that must also be issued from above, we must consider the richest people as well. The richest 8 percent of the global population earn half of the total world income, while the other 92 percent share the next fifty.

Through means of answering this question there are two major viewpoints we come across which the United Nations now combines as intertwined. They are the debate on inequality of outcomes and inequality of opportunity, both pertaining to the well-being of a humans however the first concerts itself with matter for human-well being meaning the level of education or income. While the other concerns itself with the equity of that education and income. The argument over which comes first outcomes of opportunities has been demolished as they are interdependent. As equal outcomes are achieved with equal opportunities and vice versa. Which is why inequality plays such a large role in human's well-being. It is necessary that developmental policies adhere to aiding both sides of the equation as without one the other becomes pointless.

Recent trends have shown that MEDCs' income inequality has risen by 9 percent in the past twenty years and LEDCs' has rise by an average of 11 percent. These trends have also provided us with possible insights to devise policies that can slow down this growing gap.

Definition of Key Terms

Wealth

Interchangeable with "net worth" the sum total of your assets minus liabilities. Assets can include everything from an owned personal residence and cash in savings accounts to investments in stocks and bonds, real estate, and retirement accounts. Liabilities cover what a household owes: a car loan, credit card balance, student loan, mortgage, or any other bill yet to be paid.

Wealth Inequality/disparities

The unequal distribution of assets within a population.

Gross National Income (GNI)

The total value of all goods and services produced within a country together with the balance of income and payments from or to other countries.

Remittances

Transfer of money and or goods by foreign workers to their home countries.

Economic Development

The changes occurring in a country that are enabling it to advance.

Inclusive Growth (Economic Growth)

This means sharing the benefits of economic growth more equitably, in particular to increase the capabilities, opportunities, and incomes of households and groups that are consistently on the margins of economic, social and political life.

Background Information

In the 1960's our glob began to study and recognize "undeveloped", "backwards" nations, though their titles were inaccurate as they did not acknowledge forms other than economic development. Thus after years of debate and studying we have come up with the term developing, mainly focused on their economic status. As stated by Paul Streeten, *"In investigating the priorities of poor people, one discovers that what matters most to them differs from what outsiders assume. More income is only one of the things poor people desire. Adequate nutrition, safe water at hand, better medical services, more and better schooling for their children, cheap transport, adequate shelter, continuing employment and secure livelihoods and productive, remunerating, satisfying jobs do not show up in higher income per head, at least not for some time….good and safe working conditions, freedom to choose jobs and livelihoods, freedom of movement and speech, liberation from oppression, violence and exploitation, security from persecution and arbitrary arrest, a satisfying family life..."* Thus logically globally we have strived to attain both the material and nonmaterial needs people have. We have created quantitative measurements in order to evaluate how far we have come such as the GNI per capita and GDP per capita. However these values can not express the full picture one significant shortcoming is the inability for the numbers to express distribution of wealth within a country.

Wealth inequity is a severe issue in our world today, originating due to, marginalization and locational differences. In a single nation two provinces or districts can have radical wealth disparities between them. For instance in Kazakhstan the GDP per capita ($US PPP) is $8,285 in Mangistau however in Zhambyl it is only $1,650. In LEDC's the distinction typically lies between rural and urban areas, such as China's contrast between Guizhou province and Beijing. A typical reason for this disparity is due to the investment in cities such as infrastructure and transportation is urban areas is densely populated.

Another blame, according to many economists, for the great span in wealth inequality was the large belief in the 'trickle-down' effect; where economic policies benefiting rich businesses or individuals such as tax cuts will indirectly lead to benefiting the greater populations.

Key Issues

Economic Inefficiency

In many capitalist nations the effect of a slight gap is beneficial, as it rewards entrepreneurs, endorsing risk taking and innovation. However once the gap has exceeded what economists would call motivational it becomes damaging to the economy. This distinction is relative to the country in discussion. Once economic growth no longer benefits the majority of the population the limit for a positive outcome has been reached. Decreasing the spread of wealth decreases demand in general, impacting the economy. An example is if three people each have a thousand dollars and they each want to buy a motorbike the producer can sell three motorbikes. On the other hand if only one person had three thousand dollars they would still only buy one motorbike, this decreases the span of consumers the market has. Thus slowing the flow of money in the economy and not adding to growth. "The top 100 billionaires added $240 billion to their wealth in 2012 - enough to end world poverty four times over" (Billionaires Gain as Living Standards Fall; Global Research)

If the economy grows in a generally balanced country it has a higher chance of reducing poverty, as more people increase their spending power, not simply those with millions.

Political Erosion

Seen quite predominantly in the United States, wealth gaps can be politically influential. With money comes power and the more money the more the threat it poses on society, especially in a democracy. Continuing with the example of the US, millions are spent swaying politicians, corrupting campaigns, or purchasing votes. The Koch brothers are prepared to spend a billion dollars on the republican nominee's campaign. Politics in many nations across the globe are leveled heavily on donations, seeping corruption into democratic governmental structures. The issue with money leading to power is that the voice of those who cannot afford as much are muffled and blocked.

Socially Divisive

For years the world has strived to eradicate social barriers, to open playing fields and allow all to strive. Tearing down structures such as the Caste system, the apartheid, and segregation of races; global society has developed. However with the increasing forms of inequity in wealth the outcomes are similar to all those above. Though your wealth is not definitively dependent on what you look the lack of money decreases social mobility; closing doors of opportunity before people can even begin to think about them. If a person is born in a low income family they are likely to stay in the same social standing and continue in poverty. With wealth at such divergent levels people have intrinsically unfair advantages.

The Last Two Decades

Over the past twenty years (1990 - 2010) there has been a rapid increase in inequality, on average in LEDCs it has grown by 11 percent. This vast separation was largely driven by globalization. Trade has weakened the position of immobile labor.

Major Parties Involved and Their Views

United States

A prime example of a country with a severe wealth inequality is the United States. They currently have the largest gap between the poorest and the richest people in their territory.

South Africa

A country with deep history of separation is no stranger to wealth disparities; the South African inequality of wealth is greater now than it was in times of the apartheid. Some say it is the largest gap in the world, however due to different readings this cannot be confirmed. Due to their history many barriers were placed on people of different races, this distinction limited access to education and land. Without being able to attain either before the 1990s their economy was completely dependent on the British and the Afrikaans. Once the barriers were lifted oppressed citizens flocked to urban areas causing a tumult in the job flow. As of 2013 South Africa has a 25.2% unemployment rate. Without the access to stability and limited opportunities available breaking the poverty trap is nearly impossible.

A clear distinction is still prevalent in the society today as Blacks make up the poorest section of the population. The Black Economic Empowerment (BEE) has made an effort to amend this. However due to the lack of statistical evidence and information they have only benefited a minute minority of the Black population.

However many people are affected by the situation overall more than 50 percent of the population in seven of the nine provinces live in poverty. Between 1995 and 2002 the amount of people living in extreme poverty increased from 9.5 percent of the population to 10.5. On the other hand 2.2 percent of the population's income is US$50,000 or more.

Saudi Arabia

Elected as an example of a nation with large access to natural resources, Saudi Arabia an oil producing nation has an ever growing wealth disparity issue. Though many are blinded by the country's riches their population in poverty is increasing. Poor citizens have resorted to lining up in order to obtain water while the richest live life in luxury. Due to the current surging oil prices inflation has occurred and many of the citizens are unable afford an average lifestyle.

Timeline of Relevant Resolutions, Treaties, and Events

Action Timeline

Date	Description of event
1601	Begins the primary relief program for the poor; the Elizabethan Poor Law in England
1750 - 1850	The Western world commences in the Industrial Revolution reducing poverty in many nations but also increasing the disparity of income in the United Kingdom, United States, and other nations
1944	Word Bank initiates their goal to reduce poverty around the world
1945	IMF
1958	The "Great Leap Forward" campaign from Mao Zedong is launched as a route to development
1960	International Development Association is established to reduce extreme poverty in developing nations
1965	The United Nations Development Program (UNDP) is created
1976	Bangladesh begins microfinance operations through the Grameen Bank

1988	Mexico’s first attempt to alleviate poverty, Pronasol
1997	The United Nations Microcredit Summit takes place
2000	The United Nations Millennium Declaration establishes the eight Millennium Development Goals; with primary focus on eradicating extreme poverty
2001	Poverty Reduction Strategy Papers are drawn up
2003	Utilizing popular media Football players from across the globe compete in the Match Against Poverty (only one example of many attempts and organizations to reach the goal)
2005	Tajikistan fulfils MDGs by completing a National Development Strategy
2006	UN Sub-Commission for the Promotion and Protection of Human Rights
2010	UNDP developed eight-point action plan to reduce poverty

Mentality Timeline

Down below a chart of economic thought surrounding the issue of wealth disparities can be found. Over the course of 60 years methods to combat this growing problem have taken many forms.

School of Thought	Time Period	Main Ideas	Real World Strategies
Structural Change	1940s to 1960s	• Progressive stages of economic growth • Economic structural change • Trickle-down economics	• Investment • Technology transfer • Large-scale industrialisation projects
Dependency	1970s	• Emphasis on human welfare • Core-periphery model • Circular and cumulative causation • Neo-colonialism • Bottom-up economics	• Small scale and rural enterprises • Import substitution • Appropriate technology •Nationalisation
Neo-Liberal Counter-revolution	1980s	• Free market economics	• Privatisation • Foreign direct investment • Reduced role of government • Free global trade • Currency devaluation
Sustainable Development	1990s to 2000s	• Global environmental change • Environmental (green) economics	• Partnerships between LEDCS and MEDCs • Market mechanisms for environmental regulation • Resource conservation • Renewable resources

Figure 1

Evaluation of Previous Attempts to Solve the Issue

Reducing Disparities through Industrialisation, Trade, and Market Access

Seen as a key to economic development nations strive to see industrialisation. In an LEDC it is generally cheaper to higher labour than buy machinery something unheard of in MEDCs. As the industry begins to develop the grandest advantage is import substitution, when the nation can replace imported goods with products made with in the nation's borders. This allows for domestic production to rise, however at times they are faced with being unable to compete with the low prices on the global market.

The process of industrialisation is quite slow in order to develop manufacturers must enter markets that domestic consumers will buy from. One example is agriculture materials, plows, hoes, and spades; as the rest of the population is most likely dependent on commodities for livelihood.

Some nations us export processing zones (EPZs), zones with special regulations that encourage foreign investment in manufacturing goods. Including, low interest loans, cheap labour, and assistance with set up. Currently India, Puerto Rico, and China all use zone-ing, however China's Special Economic Zones (SEzs) are the most successful. In the SEZs capitalism is permitted, a new beneficial one is Pudong (the size of Singapore).

Reducing Disparities through Debt Relief

LEDCs receive loans from all around the world, however some are unable to pay back what they owe. On long-term debts the interest can cost the nation much more than they can afford. Sometimes their total debt can be more than their annual income, thus they are bankrupt.

As LEDCs are mainly producers of primary products and in the past 50 years the income generated in comparison to imports needed has decreased. The terms of trade are not in favor of LEDCs currently. Thus leading them to borrow money from MEDCs and banks, however many countries have found that even with the extra money they were unable to generate a large enough turnover leading them to fall into debt traps as the situation repeats itself. Therefore if they are relieved of their debt they could possibly escape this trap.

Possible Solutions

ECOSOC is unable to do more than urge countries to take actions in response to an issue. Keeping this in mind throughout the debate, a plausible solution would be to eliminate social benefits and welfare in a nation. This is an experiment of sorts that will soon begin in Finland. Each citizen will receive a specific amount of money monthly; this amount is enough to survive and if the individual cares to push himself further they are able to take a job and get more money. However attaining work is not necessary to live. This method evens the playing field, the entire population shall begin at a similar level (or as close to even as possible given the history of humans). As stated in the United Nations report one of the main reasons for the inequality is that people don't start at the same place.

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