Forum: Economic and Financial
Issue: Implementing fiscal policies as a tool to combat economic inequalities
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Introduction

Fiscal policies incorporate fundamental instruments used to influence a country’s economy at the minimum cost. Thus, these policies can be implemented to positively redistribute government’s tax and spending. Economic inequality has been rising rapidly in recent decades. The degree of redistribution is up to member nation discretion, but fiscal redistribution policy designs can be universal and constructed by the United Nations.

On average, inequality is associated with lower growth in an economy. Thus fiscal redistribution can help support growth because it reduces inequality. There is increasing diversity in the design structure of fiscal distribution. Inequality trends demonstrate, under the International Monetary Fund’s (IMF) reports, that redistributive fiscal policies reduces inequality by one-third in advanced economies, especially through spending. In developing economies, tax revenues and redistributive expenditure are much lower creating higher inequality, leaving less capacity for fiscal redistribution policies. There is a positive correlation between fiscal policy and reducing inequality if consistent with a country’s macroeconomic policy.

Definition of Key Terms

Fiscal policy
Fiscal policy refers to the use of government spending and tax policies to influence economic conditions, including demand for goods and services, employment, inflation, and economic growth.

Economic Inequality
Economic inequality is the unequal distribution of income and opportunity between different groups in society.

Discretionary fiscal policy
Fiscal policy that requires an action by a government to occur; for example, if a government has to pass a law to change government spending or taxes.

Expansionary fiscal policy
The use of fiscal policy to expand the economy by increasing aggregate demand, which leads to increased output, decreased unemployment, and a higher price level. Expansionary fiscal policy is used to fix recessions.

Contradictory fiscal policy
The use of fiscal policy to contract the economy by decreasing aggregate demand, which will lead to lower output, higher unemployment, and a lower price level. Contractionary fiscal policy is used to fix booms.

**Decision Lag**

The delay in fiscal policy caused by the time that it takes to decide on a course of action.

**Recognition Lag**

The delay in fiscal policy caused by the time that it takes to realise that there is a problem to be corrected.

**Background Information**

**History of economic inequality**

Today's global inequality is the consequence of two centuries of unequal economic progress. In 1800, few countries had achieved any sort of economic growth. The majority of the world lived in poverty with an income similar to the poorest countries today. At the beginning of the 19th century, more than 80% of the world lived in material conditions that we would refer to as extreme poverty today. 175 years later, the world income distribution was 'bimodal', with one half of the world below the international poverty line and the other half at considerably higher incomes. The world had divided into a poor developing world and a developed world that was more than 10 times richer. Over the following four decades, there has been a convergence in incomes. In many poorer countries, especially in South-East Asia, incomes have grown faster than they have in rich countries, yet enormous income differences remain. Starting with industrialisation in North-Western Europe, incomes in this part of the world started to increase while material prosperity in the rest of the world remained low. While some countries followed the European industrialisation, like America and Oceana, other countries in Asia and Africa remained poor. As a consequence of this, global inequality increased over a long period of time. Even under a very optimistic scenario it will take several decades for the poor to reach the income level of the global top 10%. 2% is roughly the growth rate that the richest countries of today experienced over the last decades. We have seen that poorer countries can achieve faster growth, but we have not seen growth rates of more than 6% over a time frame as long as necessary to reach the level of the global 10% in such a short time.

**Fiscal theory**

Following the ‘Great Depression”, British economist John Maynard Keynes, whose Keynesian economics indicated that government changes in the levels of taxation and government spending influences aggregate demand and the level of economic activity. This theory resulted in what's now called fiscal policy. Fiscal policy deals with taxation and government spending and is generally administered by a government department. Fiscal policy has a significant stimulative impact on a less than fully employed economy.
Types of fiscal policy

There are two main types of fiscal policy: expansionary and contractionary. Expansionary fiscal policy, designed to stimulate the economy, is most often used during a recession, times of high unemployment or other low periods of the business cycle. It entails the government spending more money, lowering taxes or both. The goal is to put more money in the hands of consumers so they spend more and circulate the economy. Contractionary fiscal policy is used to slow economic growth, such as when inflation is growing too rapidly. Examples include less government spending, increasing taxes or both.

Fiscal policy vs Monetary policy

Both monetary and fiscal policy are tools a government can access to support and stimulate the economy. Monetary policy addresses interest rates and the supply of money in circulation, and it is generally managed by a central bank. Fiscal policy addresses taxation and government spending, and it is generally determined by legislation. Monetary policy and fiscal policy together have great influence over a nation's economy, its businesses, and its consumers. Monetary policy seeks to spark economic activity, while fiscal policy seeks to address either total spending, the total composition of spending, or both.

Advantages of fiscal policy

Unemployment Reduction — When unemployment is high, the government can employ an expansionary fiscal policy. This involves increasing spending or purchases and lowering taxes. Tax cuts, for example, can mean people have more disposable income, which should lead to increased demand for goods and services. To meet the growing demand, the private sector will increase production, creating more job opportunities in the process.

Budget Deficit Reduction — A country has a budget deficit when its expenditures exceeds revenue. Since the economic effects of this deficit include increased public debt, the country can pursue contraction in its fiscal policy. It will, therefore, reduce public spending and increase tax rates to raise more revenue and ultimately lower the budget deficit.

Disadvantages of fiscal policy

Conflict of Objectives — When the government uses a mix of expansionary and contractionary fiscal policy, a conflict of objectives can occur. If the national government wants to raise more money to increase its spending and stimulate economic growth, it can issue bonds to the public. Since government bonds offer a range of benefits to buyers, individuals and businesses will buy them heavily. The private sector consequently will have little money left to invest. With reduced investment activity, the economy can slow down.

Inflexibility — There are usually delays in the implementation of fiscal policy, because some proposed measures may have to go through legislative processes. Even when the government increases its spending, it takes some time before the money circulates through the economy into people's pockets.
Major Countries and Organisations Involved

International Monetary Fund (IMF)

The International Monetary Fund (IMF) is an organization of 189 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. While quota subscriptions of member countries are the IMF's main source of financing, the Fund can supplement its quota resources through borrowing if it believes that they might fall short of members' needs.

European Central Bank (ECB)

The European Central Bank is the central bank for the euro and administers monetary policy within the Eurozone, which comprises 19 member states of the European Union and is one of the largest monetary areas in the world. It is relevant to this issue due to the ECB having a significant stake in European economies and how they operate their finances. Monetary policy is the sister policy of fiscal policy.

United States of America

America is the world's largest national economy and leading global trader. It generates over 20% of the world's total income. The Bretton Woods Agreement, the U.S. dollar was officially crowned the world's reserve currency.

African Development Bank (ADB)

The ADB was founded in 1964 and comprises three entities: The African Development Bank, the African Development Fund and the Nigeria Trust Fund. They provide loans and investment at a concessional rate. One of the functions of the ADB is to provide loans and equity investments for the economic and social upgrade of developing member countries.

Timeline of Events

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<thead>
<tr>
<th>Date</th>
<th>Description of event</th>
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<tr>
<td>18th/ early 19th century</td>
<td>Economist Adam Smith wrote about inequality as a central issue of their time and its links with poverty and social harmony</td>
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<tr>
<td>Mid 19th century</td>
<td>Industrialization had advanced and poverty had deepened. Average income of the richest five per cent was still some 80 times greater — income per head</td>
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<tr>
<td>Late 19th century</td>
<td>Economist John Stuart Mill writes damning indictments of the origins of the actual distribution of property in Europe at the time</td>
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1912

The Gini coefficient is developed by Gini Corrado, building on the work of American economist Max Lorenz, who published a hypothetical way to depict total equality.

October 29th, 1929

Great Depression begins— severe worldwide economic depression.

1930

John Maynard Keynes develops his fiscal policy theory.

1939

End of Great Depression.

1970s

ILO’s World Employment Programme in the 1970s highlights the issue of income distribution.

1990s

The World Bank engage with Sub-Saharan African nations for inequality reform.

26th November, 2008

European Commission release European stimulus plan amounting to 200 billion euros to cope with the effects of the global financial crisis on the economies of the member countries including fiscal initiatives.

2008, 2009, 2010

European countries such as United Kingdom, Netherlands, Hungary and Germany undertake fiscal consolidation.

Relevant UN Treaties and Events

- Addressing inequalities and challenges to social inclusion through fiscal, wage and social protection policies, 6 June 2019, (E/2019/26). This resolution recognises the limits of fiscal policies but encourages social protection in a country to all for fiscal expansion.

- Economic inequality, financial crises and human rights, 15 March 2016, (A/HRC/31/60). This resolution highlights how economic inequality contributes to financial crisis and how it can undermine human rights.

- 13th sitting of the European Council, Fighting income inequality: a means of fostering social cohesion and economic development, 25 April 2017, (RES/2158). This resolution outlines inequality as a political priority and the need to develop comprehensive and effective national strategies.

- United Nations Model Double Taxation Convention between Developed and Developing Countries, 11 September, 2017.

- Report of the Secretary-General on “International financial system and development”, 15 July 2019, (A/74/168). This resolution encourages the international financial institutions to align their programmes and policies with the 2030 Agenda for Sustainable Development.

- GA resolution on “International financial system and development”, 20 December 2018, (A/RES/73/220). This resolution mobilises private investment, to provide innovative and integral solutions to multidimensional development problems in respective member nations.
Previous Attempts to solve the Issue

The specific nature of this question is a modern suggestion for a modern world. Previous attempts have promoted general tax reforms in developing nations. Previous attempts have focused solely on income inequality from a social angle. Fiscal policy specifically depends in the capacity of a government to implement it. The General Assembly is yet to see a resolution dedicated to Fiscal implementation as a solution.

Possible Solutions

Fiscal implementation is capacity dependent and unique to every country and nation. An option is the creation of a sub body to calculate levels of fiscal implementation for each individual country facing inequality as well as levels of fiscal implementation for international Union’s. Essentially, a group of UN experts could determine the amount of fiscal alteration for each nation. The sub-body could correlate research and collaborate with existing UN technology bodies to create a database to evaluate levels of inequality and fiscal policies for each member nation. Both MEDCs and LEDCs could avail of this.

Co-operation between MEDCs and LEDCs need to be encouraged as trading greatly impacts inequality levels. Another possibility is the creation of a design mechanism to cater for member nation’s government policy breakdowns. It could be an awareness strategy or sharing of information between MEDCs and LEDCs for better co-operation and to avoid trading exploitation under fiscal policies.

Potentially a new task force could oversee universal fiscal arrangements on a permanent basis until a certain decrease in inequality is achieved. This topic needs to be carefully tackled due to member nations’ right to sovereignty. Levels of tax and expenditure cannot be enforced by the Economic and Financial forum, but advice and encouragement can. Minimum standards could be set under a new treaty or for MEDCs who engage with LEDCs.

Bibliography

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