

Research Report

MUNISH '12



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Forum	Special Conference 2 on social responsibility
Issue:	The issue of growing wealth disparity
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Position:	President of Special Conference 2, MUNISH 2012

Introduction

The struggle for power and wealth is as old as human kind itself. History shows that a human being is not afraid to use brutal force or kill a fellow human to gain power and wealth. Thus Einstein's words: "so long as there will be men there will be wars".

In today's free market, we've tried to make the world as fair as possible, with the basic liberal philosophy of giving everyone a fair chance of gaining wealth and/or power. Although this is not applied all the time and everywhere, it's safe to say that we've made progress since our dawn as human kind.

This free market philosophy has a downside: some people could take advantage of the situation and create personal empires of businesses and cooperation's. This makes competition in a specific sector by a new business of the market extremely difficult, seeing as such a corporation can simply compete every other business out. This is an example of a reason to explain the growing wealth disparity the free market faces today: what to do if certain individuals become so powerful with their fair chance that they make it unfair for other people to compete.

Definition of Key Terms

Free market economy

The economical form of liberalism, giving everyone an equal chance to grow in the economy, with as little interferences by instances such as governments as possible. This idea is applied in most parts of the world in order to create an equal, or at least fair disparity of wealth.



The Occupy Movement

“An international protest movement against social and economic inequality”(Wikipedia). The occupy movement is almost a global public up rise as response of the financial and mortgage crisis in the late 2000’s and the Arab Spring ideals (the occupying of Tahrir Square in Cairo, Egypt). Protestors in 82 countries claim that economic power is not divided fairly and benefits of many hard working people only contribute to the wellbeing of a very small group of society (that’s usually very rich). The protestors refer to this small group as “the 1%”, automatically calling everybody else including themselves “the 99%”. The pattern of the protestors is usually to make camp on a significant place or in front of a stock exchange. The Occupy movement is still active, but the most impressive camps such as Occupy Wall Street and Occupy St.Paul’s Cathedral were cleared in February 2012.

Liberalism

The idea that everyone should have the same rights, with no exception in for instance race, religion, gender, political views, choices.

Socialism

The idea that all wealth should be divided equally with no exceptions in for instance race, religion, gender, political views or choices. This also means that no classes exist, whereas in the liberal model, this should still be possible if an individual utilizes his or her choices well.

Organization for Economic Co-operation and Development (OECD)

The OECD mission is, according to themselves “to promote policies that will improve the economic and social well-being of people around the world”. The OECD also looks at worldwide tax rates, incomes GDP’s, school systems and social security. Being part of their research field, the OECD also researches wealth disparity, making their research a major contribution for creating a clear picture of the current situation and comparing it to previous situations.

Global Financial Crisis (2007-2012)

Starting in the fall of 2007, this crisis is believed to be the worst financial crisis since The Great Depression of the 1930s. It is a result of U.S. mortgages sold as obligations losing value as they were sold again and again. Eventually, nobody knew what part of the housing market was covered by his or her obligation and when was discovered that the obligations were mortgages of people who could never afford to repay them, they lost almost all value.

Having never encountered such a difficult dilemma, banks lost trust in each other and stopped lending to other banks. This resulted in several banks collapsing and others in the nick of time being bailed out by their governments. The crisis meanwhile had spread to the rest of the world as well. This initial crisis ended somewhere in the beginning of 2009, but the world still hasn't recovered from the results, not to mention the aftershocks and (in Europe) leading to the sovereign debt crisis.

Gini coefficient

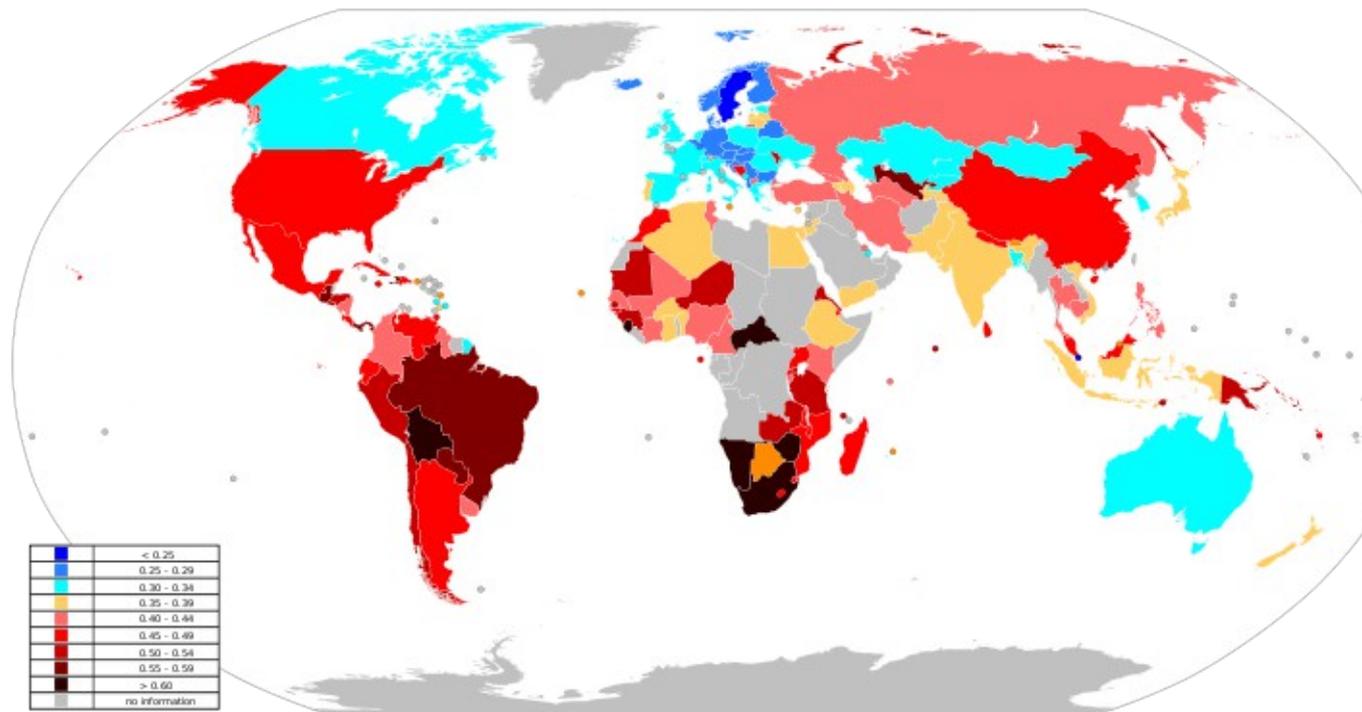
A measurement for indicating how equal wealth is shared in a nation. This measurement varies from 0 to 1, with zero being absolute equality (everyone has the same amount of money) and 1 being absolute inequality (1 person has all the wealth and all the money; the rest has nothing)

General Overview

History of the issue

Seeing as almost the entire history of mankind is all about wealth and power disparity between individuals or groups, only developments that are relevant to the current situation of this issue will be discussed.

The current discussion is a result of several events that have occurred in the last six years, and started with the beginning of the global financial crisis, which commenced in 2007. Before this financial crisis, in 1987, in OECD member states, the average income of the richest 10% of the population was about 7 times the income of the average income of the poorest 10%. In more egalitarian countries, such as Denmark, Germany, and Sweden, the richest made about 5 times more than the poorest. Today, about 4 years after the initial crisis, this gap has become bigger everywhere. The average income of the top 10% became 9 times more than the poorest globally and even in the more egalitarian countries, the richest make even more than the poor than they already did. Though this varies from country to country, don't forget that this happened during a crisis: the rich became richer than the poor in times when it should be the other way around. In the figure below the differences in national income between rich and poor are shown, with the Gini coefficient.



Current situation

This issue can be seen as either an economical or an ethical issue, depending from what perspective you look from. Economical, because modern day wealth can (almost) be set equivalent to money and due to economical events the wealth disparity grows, and ethical, for we are now observing the first downsides of a free market economy in a recession in regards to the rich and poor bringing a new development to the ethical debate on the free market.

Due to, as explained before, a bad economical climate, individuals who work in a position that they can secure their salaries and those of their friends will usually do everything they can to at least save their income in times of crisis. Needless to say, some people do not benefit from this. An explanation for the growing wealth disparity in terms of salary could simply be that the rich still make the same amount of money, its just that the poor (and with them/including? the less wealthy middle class) made even less money than they already did. Add a lowering exchange rate and it seems as if the rich got richer from the crisis, but in fact, they just stayed the same. It's the middle and lower class that are the real victims of the crisis.

A study by the World Institute for Development Economics Research (WIDER) has an interesting conclusion that is worth mentioning: a wealth disparity that is neither too high nor too low. According to the WIDER, too much equality (below Gini coefficient of 0,25) does not

contribute to growth due to “incentive traps, free riding, labour shirking [and] high supervision costs”. To little equality (above a Gini coefficient of 0,40) will also not help for a stable economy, for it creates (according to the WIDER) “incentive traps, erosion of social cohesion, social conflicts [and] uncertain property rights.”

Bearing the last in mind brings us to an ethical discussion. Was it the right decision by the rich to save themselves firstly? Should they have acted differently? Was it a responsible decision? If not, was it an act of instinct? Was it even justifiable? All these questions are one that must bear in mind before trying to create balance in the disparity of wealth in the world. This discussion is not very new though. In fact, it has been around since the idea to create equality came around. Usually, this discussion is between the Liberal side, which pleads not to interfere in the economy because it will stabilize itself, and the socialist side, which pleads to interfere in order to create an orderly balanced economy supported by a government. The perfect solution for these two sides (theses) is something precisely in the middle (the synthesis) in order to produce a UN worthy resolution for the issue of the growing wealth disparity.

Major Parties Involved and Their Views

OECD

As stated above, one of the issues of the OECD is economical equality. However, they approach the issue in a more scientific way, seeing it as an interesting study subject and providing information on similar topics for the United Nations and other organizations. They do not have a specific opinion on issues, except if something improves global wealth and economy. Especially in it's member states.

(United Nations University) World Institute for Development Economics Research ((UNU-)WIDER)

The WIDER is a specific part of the United Nations University, which has its headquarters in Helsinki, Finland. The UNU was founded after the suggestion by Secretary General U Thant in 1969 to establish an international university that would serve to eliminate misunderstanding and mistrust between nations and cultures. After a brainstorming of leading economics which plead for the finding of an organization such as WIDER, Finland offered to host this organization (UNU headquarters were (and still are) in Tokyo. Then, in 1985, by signing a Host country agreement and a Memorandum of Understanding, the rector



of the UNU and the previous foreign minister of Finland found the UNU-WIDER. The WIDER specifically focuses on “undertaking multidisciplinary research and policy analysis on structural changes affecting the living conditions of the world’s poorest people”*. They also oppose as “a forum for professional interaction and the advocacy of policies leading to robust, equitable and environmentally sustainable growth”*.*

Finland, Singapore

Finland and Singapore are the two nations with the lowest Gini coefficient value. The disparity in both nations is the lowest on earth (excluding the nations from which the information on this topic is missing). Their Gini coefficient value is both under 0,25.

Bolivia, Central African Republic, Namibia, South Africa, Zimbabwe, Sierra Leone

These nations are worldwide (excluding the nations from which the information on this topic is missing) the nations with the biggest wealth disparity. Their Gini coefficient value is above 0,60.

United States of America, China

These are the p5 nations with the biggest disparity rate (both between 0,45 and 0,49)

Timeline of Events

Date	Description of event
Oktober/November 2007	Beginning of market collapse and beginning of global financial crisis
January, February 2009	Ending initial Financial Crisis
Early 2012	Intensifying concerns on European Debt Crisis
Date	Description of event
Fk September 17 2011	Beginning of Occupy Wall Street
February 2012	Highest interest rate for Greece recorded in European Debt crisis
February 2012	Clearing of the last high-profile camps of the Occupy movement (Washington DC and St.Pauls Cathedral)

* From: www.wider.unu.edu/aboutus/en_GB/about-us

UN involvement, Relevant Resolutions, Treaties and Events

No resolutions on the issue of growing wealth disparity have been passed in regard to recent developments. A possible explanation for this is the infringement on state and even individual sovereignty, making it very difficult to form a satisfying resolution. The presidency however has utter faith in the delegates of the SPC to come up with a brilliant resolution on this topic.

Of course, the involvement of UNU-WIDER and the OECD are very relevant to this issue during the debate, so it is advisable to check the following articles:

1. <http://www.oecd.org/development/perspectivesonglobaldevelopment/44773119.pdf> a research paper called: GROWTH, INEQUALITY AND POVERTY REDUCTION IN DEVELOPING COUNTRIES: RECENT GLOBAL EVIDENCE. On the wealth inequality between countries.
2. <http://www.oecd.org/site/progresskorea/44109816.pdf> a research paper from 2009 observing the growing wealth disparity up till that moment. Keep in mind that the disparity has meanwhile become bigger.
3. http://www.wider.unu.edu/publications/newsletter/articles/en_GB/10-03-2008-feature-article An Article with some intriguing figures on household wealth in 2009. Keep in mind that most numbers are even higher today.

Possible Solutions

A problem with this issue, which can be proven by the fact that no UN resolution on this topic is passed yet, is the lack of international awareness. Within nations with several political movements and a clear freedom of speech, this is the only topic that is being discussed: rich versus poor; liberalism versus socialism. Internally, nations have enough political awareness on this topic. For this issue, it's necessary for nations to have an international policy on this topic.

A problem with finding a proper resolution for this issue is the fact that it is almost inevitable to infringe a nation's sovereignty in the process. This will most likely be the most prominent obstruction towards a global solution for this issue. A solution for this problem should be found as well, seeing as this issue should be solved internationally.



In regard to the last point, it might even be an idea to submit a review of the rules of procedure of the UN in regard to their rights of infringement of a nations policy in a resolution. However, this will most likely be declined if not very well formulated and with strong restrictions and sanctions if a task is not executed properly.

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Appendix or Appendices

- I. http://en.wikipedia.org/wiki/Economic_inequality
- II. http://www.wider.unu.edu/publications/newsletter/articles/en_GB/10-03-2008-feature-article/
- III. <http://www.oecd.org/site/progresskorea/44109816.pdf>
- IV. <http://www.oecd.org/development/perspectivesonglobaldevelopment/44773119.pdf>