Economic and Financial Committee (ECOFIN)

Background Guide

LFMUNC I

The Longfellow Model UN Conference

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Introduction

ECOFIN, the Economic and Financial Committee of the United Nations, sometimes referred to as "C2", is the second committee within the United Nations General Assembly, serving as one of the six principle committees, and deals with matters in the sector of economics and global finance. ECOFIN has two annual meetings, one on its own and another as a joint conference held in coordination with the United Nations Economic and Social Council (ECOSOC). In its power, like other committees of the General Assembly, ECOFIN can craft policies and resolutions to publish out to member states but has no legally mandated enforcement mechanisms.

Founded in 1958, with its headquarters today standing in New York City, the committee is especially focused on the key goals in shaping policy worldwide in areas such as international trade, finance, economic growth, and sustainable development with the core of improving the economic well-being of all member states. In pursuit of this goal, ECOFIN works heavily in solving problems such as economic inequality, international finance, development banking, and ensuring citizens around the world have the necessary institutions and support to thrive in a modern economy; with focus being widely casted on working to ensure fiscal stability in our ever-changing world.

In this committee, we invite delegates not only to challenge their creativity in proposing a well-orchestrated resolution, but also to immerse discussion in exploring the contingencies of the global economy. As you consider and discuss these topics, bear in mind the unequivocal necessity for multilateral collaboration and a wide variance of perspectives for effective resolutions to be passed.

Topic A: Global Debt Crisis

In the past century, global debt has risen to a dramatic 277 trillion dollars—365% of the world's Gross Domestic Product (GDP)—and this debt-to-GDP ratio is still rising at an appallingly exponential rate. There are more debts worldwide than there are fiscal resources to reimburse those debts, which will, at some point, inevitably lead to a global economic meltdown.

The COVID-19 pandemic has only exacerbated this situation as nations urgently scramble to stimulate their economies. This pressing issue has risen to the top of ECOFIN's lengthy agenda, with debt still growing at an unprecedented rate.

The debt crisis is actively threatening global stability. The People's Republic of China, for example, owns over a trillion dollars of American debt in the form of US Treasury Bonds under the Chinese Foreign Exchange Reserves. The United States, with its growing debt, will very likely run into a point in which it will no longer be able to pay the interest on its debts. If the US has no means to pay the interest on its debts, China would not be able to receive it's accredited payments. This would instantly provoke massive conflict that could potentially spawn into an international catastrophe.

In addition to threatening global stability, the debt crisis threatens development and growth. Studies have shown that high public debt can negatively impact capital stock accumulation, thus slowing down economic growth. In fact, not only is growth slowed, but economic insufficiencies can even result in higher, disproportionate tax rates, inflation, and a general restriction on fiscal policies. There are several indirect ways where the debt crisis affects economic growth; among them is the growing caution in inventors–specifically concerned by the fact that the global debt crisis affects the debt-service payments made to creditors. This can cause a drastic surge in interest rate, thus leading to financial disorder and slowed economic growth.

Although economists have not determined a fixed date as to when the global debt crisis truly began, it is known that this issue has become increasingly persistent over past decades. Many experts propose that as a result of the globalization of trade and finance caused by the industrial revolution, nations' debt began quicker than their economies could follow, eventually spiraling into an endless hole of charges essentially impossible to reimburse. Most people believe that budget deficits don't matter and governments can overtake spending programs without new taxes.

Another primary factor in the rise of the global debt crisis, as often pointed out by individuals across the field of economics and global finance, was the eradication of the Gold Standard. Originally, as wealth began to grow immensely, American President Franklin Delano Roosevelt began a long process that progressively took the United States off of the Gold Standard with Executive Order 6102[1], eventually making "money" an abstract concept void of any real-life backing. Prior to its eradication, the Gold Standard provided a clear, tangible value for the United States Dollar (USD) and other currencies across the globe. It dramatically slowed inflation and supported economies in sustaining themselves without taking out unpayable loans or being forced to issue bonds.

Why did nations across the world seek to eradicate the gold standard though? Well, for Franklin Roosevelt, the reason lied in a phenomenon known as "gold hoarding", in which richer segments of society would transfer all of their assets to gold in order to shield themselves from economic insecurity. This was especially prevalent at the start of the Great Depression, and would lead to more economic insecurity.

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[1] Executive Order 6102 additionally prohibited all private ownership of gold in a clause effectively repealed by Gerald Ford in 1974. Richard Nixon finalized President Roosevelt's process of eradicating the gold standard and the Bretton Woods System in 1971 in what was known as the "Nixon Shock"

The reason for the abolition of the gold standard and its successor, the Bretton Woods System, is different for other nations though. As global wealth began to grow, nations came to the realization that there simply was not enough gold in the world to back their currencies, and they were in urgent need of a new system before a global economic collapse. They found that giving fiscal value material backing would not be sustainable anymore as economies may have of continued to grow exponentially. This type of currency is referred to as a “fiat currency which is any currency that is intrinsically worthless and is backed upon the economy it serves for.

Fiat currencies, which represent almost all currencies worldwide, pose many issues that fundamentally can lead to the debt crisis. First, due to the lack of any backing, these currencies are subject to a floating exchange rate, which increases foreign exchange volatility. These high levels of volatility especially hurt developing economies, leading to extreme financial fragility and high liability dollarization. Developing nations also face rapid currency depreciation due to the fiat system's implicative effects. According to a report by *The European Economic Review,* nations across the world are increasingly showing aversion to the freely floating fiat system.

A commodity-backed financial system, due to the aforementioned phenomenon of commodity-hoarding, may not be a sufficient alternative either. Additionally, hybrids like the Bretton Woods caused issues that led to a single nation's economic dominance (In this case, the United States).

Even today though, effective under the Smithsonian Agreement of 1971, the United States has the advantage of systematically embedded economic dominance, with most nations in the world backed against the US Dollar, and dozens of nations' currencies pegged directly to the dollar's every movement.

How does this economic apparatus equate to the global debt crisis? Well, the financial system by which our world runs will fundamentally determine how we can take on this crisis. At the moment, the international financial system runs on free floating currencies and is rather debt-based in form due to the bond system used by the grand majority of nations worldwide.

With the economic status of the world in mind, it is clear that simple spending cuts, tax raises, or deficit prevention will not serve justice to this crisis. Now, delegations are tasked with forming an achievable solution to this most pressing disaster, and, as a result, the dais has listed a set of questions to take into consideration below:

Questions to Consider:

1. Should the global financial system be restructured on a non-debt based system? If so, how would such an operation be carried out?
2. How, exactly, can we prevent a conflict occurring from nations not being able to repay their debts? And particularly, in relation to the US-China Treasury Bond Conflict, what actions should be taken?
3. What economic and financial initiatives should be prioritized in seeking action for member states?
4. What is your nation's stance on global economics? How does your nation view fiscal value—as an abstract concept or a hard-backed item?
5. Should the Gold Standard or another commodity standard be reinstated in order to give fiscal resources a concrete backing? Or would representative currency or floating fiat be better? Why so?

Topic B: Maintaining Citizen Prosperity Amidst Economic Growth

"Today, of the 100 wealthiest economic entities in the world, 69 are now corporations and only 31 countries."

This is the stunning reality of our world. Companies own nearly everything. In a report by *The Independent*, it was found that all of the world's top brands can be traced to just ten massive industrial conglomerates—monopolies who collectively have unparalleled potency. In fact, big money has become so powerful, and so able to hurt civilians, that a new term has been created, *"Corporatocracy"*. Economies are now at record highs, but civilian prosperity is at record lows.

It seems like a parity—how is it possible for a nation to do well, but not it's people? As the Gross National Income (GNI) of nations across the world continues to grow at a record-setting pace, we still wonder—why are the middle and working classes so jeapordized? Civilian prosperity, despite economic growth, is undoubtedly under threat.

Well, prosperity, by definition, is a term that carries ambiguous meaning and, in turn, has multiple interpretations. Corporate and government entities though, primarily propelled by the twenty-first century capitalist system, have tended to define prosperity of civilians on par to the value of the national GDP or GNI, or the success of stock exchanges. By the most common assumption of prosperity meaning "human well-being", Gross Domestic Product and Stock Exchange success is rather entirely irrelevant to that interpretation of prosperity.

Renowned Indian economist Bibek Debroy, though, in his writing for the Harvard Business Review, has firmly maintained that GDP and GNI are not even accurate forms of measurement in economic success. Considering that, GDP and GNI certainly cannot be sufficient in the measurement of civilian prosperity. The fact is that, as of now, economic success is the determinative of the success of the top 1% of society, and does not reflect the status of the lower 99%.

With that in consideration, we must fundamentally realize that for a nation's people to be successful, their economy must reflect their population. If the population is controlled by the top 1%, economists point out that the economy will only reflect the status of that top 1%. For example, only days ago, the Dow Jones Industrial Average, a respected American market determinative, closed at all-time highs—yet, American people are still struggling to such a point that the government is forced to provide stimulus checks simply so their people can *survive.*

The fact of the matter is that despite industries, corporations, and financial indexes have been rebounding, the global civilian population has not. And economists believe that this is simply because the global economy is not in the hands of the lower 99%. Extreme poverty is at its highest point in a decade and workers rights still haven't been guaranteed, all despite the sky-rocketing stock international markets. Only days ago, the Dow Jones Industrial Average, a respected market determinative, closed at all-time highs—yet, most nations in the world are struggling to such a point that they are forced to provide stimulus checks simply so their people can *survive*.

Questions to Consider:

1. In addressing wealth disparities, what actions should be considered priorities and how can those actions be implemented without increasing deficits?
2. How should the United Nations strive?
3. What socio-economic system would work best in ensuring citizen prosperity? Capitalism, Democratic Socialism, Communism?
4. As many leading nations, including the United States, Britain, South Korea, and Japan have been labeled corporatocracies by academics, how can the world reduce the power of big money and protect the interests of general society's prosperity ?
5. How should monopolistic corporate conglomerates be handled? In what ways can we stagger the rapid power accumulation of the unregulated private sector over the public domain?

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