H3ZMUN2019

Council of European Union

Topic: Wealth Imbalance among EU Member States

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Letter from the Dais Head

Dear Delegates,

Welcome to the Council of the European Union! As your committee chairs, we are looking forward to meeting you and hearing your ideas for solving international problems.

As a regional body committee, each state in the European Union has unique interest and concerns, it is a challenge to write, negotiate, and pass resolutions. Every Stage of the process demands creativity and diplomacy.

We expect each delegate to participate actively during the conference with an understanding of his or her country's position and a willingness to forge agreements. As the Dais Head of the committee, I admit that the economy topic is too abstruse for you. I hope delegates can focus on discussing future plans rather than arguing the problem pointed out in the Background Guide.

As your secretaries-general and committee chairs, we will work to keep this conference running smoothly. We will do our best to help you understand the rule of procedures and to ensure that the views of all delegates are heard and respected.

I hope this conference will bring you the inspiration and empowerment with Model UN has gifted me. We are excited to embark on this innovative and unique journey with you.

Sincerely,

Lihao Liu,

Secretary-General, H3ZMUN.

Introduction to the Committee

The Council of European Union (often referred to as simply the Council) provides a voice for the twenty-eight member states of the European Union (EU). While the European Parliament and Commission work to advance the interests of the union as a whole, the Council provides members with a forum to express their individual interests. As a result, states use their position in the Council to preserve their own sovereignty, acting as a check on the independent decision-making power of the European Union. Alongside the European Parliament, the Council acts as the legislature of the European Union, forming the laws which direct the world's most powerful supranational institution. Debate exists over whether the Council acts more as a supranational institution or an intergovernmental forum, but those who prefer the latter interpretation often compare the Council to the United Nations (UN) General Assembly (GA). Because of this, our committee will follow the basic structure of a GA committee, but the increased power of the EU means that resolutions in this committee can have the immediate, binding effects more akin to those of the United Nations Security Council.

It is worth noting that the Council of the European Union is often confused with two other institutions: the European Council and the Council of Europe. The European Council is an EU institution that functions similarly to the Council of the European Union. The key difference, however, is that while the Council of the EU brings together ministers from each member state to discuss specialized topics, the European Council brings together each member state's head of government (generally the prime minister or president) in an annual summit to discuss the overall direction of the union. 1 The Council of Europe is a European intergovernmental organization consisting of 47 states. It promotes democracy and human rights in Europe, but does not have the supranational powers of the European Union. 2 However, many of its symbols, like its flag, blue with twelve gold stars, and anthem, "Ode to Joy", were adopted by the European Union.

Introduction to the Topic

"Regional inequality is proving too politically dangerous to ignore"

– The Economist, 17 December 2016

General Introduction

Most Europeans believe their countries are more polarized than 10 years ago, and 47% see their societies as less tolerant, a poll for the BBC suggests. In the online Ipsos

Mori poll spanning 27 countries, 66% of people in Europe felt their nations were "more divided", the highest proportion worldwide. Politics emerged as the main cause of tension globally, being identified by some 44% of all 19,428 respondents.

Inequality among cities and regions in the developed world – after falling in the 1990s from high levels in 1980 – has turned sharply up again since the beginning of the millennium. Many small and medium-sized manufacturing cities and regions have suffered relative employment and income declines. Their surrounding suburban or rural areas have also stagnated. In contrast, many large metropolitan areas, including their suburbs, which had generally witnessed the decline in the 1960s to 1980s, are now among the most dynamic places in terms of incomes and employment creation.

The panorama is complex in Europe. The increasing division persists between dynamic large urban agglomerations and decaying industrialized and remote regions. Many industrial regions have suffered a steady long-term decline and in employment and competitiveness, whereas the core areas of large metropolitan regions have created greater shares of high-wages jobs. Although some capital metro regions have been hit by the crisis while rural areas and intermediate regions have displayed more resilience. And the result is a multi-scale territorial patchwork of diverging real incomes and rates of labor force participation: between states and regions; within states, between core areas and peripheral areas; and between prosperous metropolitan regions and less peripheral ones.[1]

Expanding inter-regional inequality is the result of two forces. The first is identified with the long-cycle of advancement in the economic structure. The significant rush of technological development that started during the 1970s has invigorated the grouping of high-innovation and learning escalated parts in huge metropolitan regions, supporting the versatility of profoundly gifted, non-normal and imaginative employments towards financial centers. The expanding computerization of beforehand predominant assembling businesses has changed exchange costs and brought about the substitution of routinized medium-and low-talented employments in the greater part of the previous modern center points of Europe. Assembling movement has turned out to be all the more topographically scattered – and progressively redistributed to third nations – prompting the death of the more normal industry occupations crosswise over the majority of Europe. The second force is the long-cycle of local transformative highlights, comprising of spot explicit enrichments of individuals and aptitudes, firms and enterprises, formal and casual organizations, capacities for development, and their response to change.

Since the start of the European Monetary Union (EMU), euro area countries have experienced very diverse macroeconomic developments. Some countries saw a

[1] Simona Lammarino, Regional inequality in Europe: Evidence, theory and policy implications, https://voxeu.org/article/regional-inequality-europe

boom in external demand and a significant improvement in their current account balances during the period preceding the 2008 crisis; this was supported by significant competitiveness gains, as reflected, for example, in the sizeable reductions in relative price levels or unit labor cost (ULC) relative to their trading partners. In contrast, other countries experienced a sustained loss of competitiveness, often leading to mounting current account deficits. For most countries, large and persistent competitiveness losses were linked to booms in domestic demand as nominal interest rates declined significantly and consumers, firms, and banks were overly optimistic about future income and profit prospects. This was often accompanied or intensified by insufficient banking regulation or supervision and/or countries' insufficiently tight underlying fiscal stance even where fiscal headline figures (such as the deficit or the debt ratio) were in line with the criteria of the Stability and Growth Pact, such as in Spain and Ireland.

The increasing demand and the associated credit boom led to the build-up of large domestic and external debt in several euro area countries. In some cases, this was associated with unsustainable booms in real estate markets. House prices nearly tripled between 1998 and 2007 in Spain and Ireland, and they more than doubled in Greece.

The heavy reliance on debt financing, rather than on equity-based foreign direct investment, tended to further accentuate the problem of repayment. The lack of ambitious reform efforts to tackle the existing structural rigidities and inefficiencies led to a further weakening of the supply side and made the subsequent adjustment more difficult.

To quit or not to quit?

Countries of the European periphery need to devalue, that is, become cheaper relative to the countries of the core in order to regain competitiveness and reduce their imbalances. The crucial policy question is whether exit from the Eurozone is preferable to regain their competitiveness.

Exiting a currency union is associated with the additional costs relative to abandoning the links between other member states. Exit from the Eurozone requires the redenomination of assets, liabilities, and contrasts into the new currency. Such movement must be unanticipated in a country, leaving a strong currency to adopt a weak one, otherwise, there will be a run on financial assets. If the exit plan is exposed, both financial and non-financial firms' balance sheets will be put under strain, leading inevitably to a loss of employment, output, and export in the short run.

Social divide in Europe

Income inequality has been growing in most wealthy countries in recent decades, raising questions about the stability and sustainability of our social and economic systems. In the 1980s, the average disposable income of the richest 10% was around seven times higher than that of the poorest 10%; today, it is around 9 ½ times higher. Concerns are increasing over what happens when the gap between the rich and the poor widens significantly and economic growth delivers benefits predominantly to those well-off. A widening divide threatens not only the social but also the political stability of our societies.

And the wealth is much more concentrated than income.

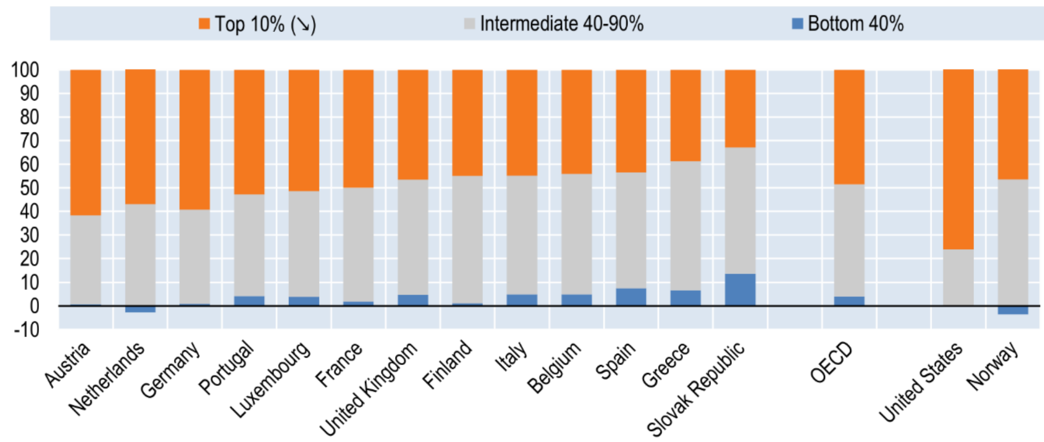

Figure 2.1 Wealth shares of top, middle and bottom of the net wealth distribution, 2010 or latest year

Understanding people's incomes, especially after taxes and benefits, gives a strong sense of whether or not they can meet their bills and are able to make long-term investments in education, housing and so on. Yet there is no doubt that wealth also matters – both in shaping people's individual circumstances by generating capital income and as a wider socio-economic force. Accumulated wealth generates capital income, which, in turn, can deepen income inequalities.

That question goes to the heart of a key issue in economic inequality: If a few people get wealthy, does that hurt – or help – the economic prospects of everyone else and does it make our societies worse places to live? These questions aren't new: In Plato's Republic, written more than 2,300 years ago, the discussion turns to what happens when a society is ruled by its elites: "… such a city should of necessity be not one, but two, a city of the rich and a city of the poor, dwelling together, and always plotting against one another."

The relationship between growth and inequality has long been an important question for economists, and a number of influential theories have emerged over the years. But for most people, the issue boils down to this: is rising inequality good or bad for growth? Those who believe it's good, or at least necessary, argue that it provides incentives to entrepreneurs and a source of overall investment for the economy. Those who believe it's bad to argue that it can prevent poorer people from investing in their education and encourage the rich to grab a bigger slice of the economic pie without making the pie any bigger.

Another key issue is Education. Education can play a powerful role in providing opportunities for people from all sorts of backgrounds, but it can also reinforce existing economic divisions in society. Some countries' education systems do a much better job than others in helping students from poorer families achieve excellence. Inequality has other impacts on societies, too, including reducing mobility and, some argue, fostering crime and harming people's health.

Income Inequality

The income gap between the well-off and the less well-off is generally believed to have narrowed in much of the world for much of the 20th century. In fact, while the poor caught up a little, the wealthy did not get much richer. According to studies based on The World Top Incomes Database, this decrease in inequality started in some developing countries in North America and much of Europe around the 1920s and 1930s and somewhat later, perhaps the 1950s. But then the trend started to reverse in the 1970s and 1980s, and inequality started to increase again.

The rise in inequality in many countries since the 1980s (and even earlier) underlines a significant economic trend. In simple terms, the benefits of economic growth have tended increasingly to go to a smaller segment of society. In the United States, for example, between 1975 and 2012 around 47% of the total growth in pre-tax incomes went to the top 1%. The share was also high in a number of other (mostly) English-speaking countries: 37% in Canada and over 20% in Australia and the United Kingdom.

In many developing countries, traveling from the bustle of a busy city to the quiet of a country village can feel like a journey through time. In some ways, it is. While cities have become increasingly plugged into the globalizing economy, life in many rural areas has often changed little. These differences between urban and rural areas, or between different provinces and regions, reflect what is called spatial inequalities, and they can be a significant contributor to overall inequality in many developing countries.

Income explains only some of these regional inequalities, although in some emerging economies – notably China and India – it's significant, with urban incomes rising faster than rural. But there are also inequalities of opportunity – notable access to healthcare, education, and jobs – that are perhaps more important. For example, in some emerging economies, enrolment in secondary education is much lower in rural areas than in urban, especially for girls. Access to basic healthcare can also vary greatly depending on where people live. In Asia, for example, infant mortality is typically much higher in the countryside than in the cities. And, in many parts of the world women still face many barriers that deprive their families and communities of valuable economic contributions.

Why is Income Inequality Rising?

The rise of the 1% is the most visible face of income inequality, but fissures have opened up elsewhere, such as between a large group of low earners – as much as 40% in some countries – and everyone else. It's important to understand that the factors driving rising inequality in one part of the population, say between the 1% and the 99%, don't always fully explain why inequalities are rising elsewhere. It's important, also, to realize that a whole range of factors – economic, social and the role of the state – are contributing to rising inequality.

One of the most important of these is the impact of globalization or the process through which the global economy has become more integrated through a complex series of "flows", including technology and information, trade and investment. Just as it has in the past, technology is destroying old jobs and creating new ones. This is making high-skilled workers even more valuable and killing off the jobs of some middle and low-skilled workers. It's also helping to shift the balance between labor vs. capital, delivering a larger share of income to the owners of capital, such as entrepreneurs, and a smaller share to the people who work for them.

Inequality has also been affected by changes in our societies, such as the growing tendency for people to marry people from very similar social and educational backgrounds, and by changes in the workplace, such as the rise in part-time working and the decline in union membership. Through the taxes, it collects and the benefits it pays out, the state plays a major role in reducing inequality. But the state's role has been evolving, with a general trend towards policies that redistribute less. Other economic policies, such as a move to reduce regulation, have also probably helped to increase inequality.

Key Term: Globalization

"Globalization" means different things to different people. For

some, the spread of Western-style lifestyle and culture – embracing everything from American coffee chain Starbucks to Korean K-Pop music – is its most visible face. But in the context of income inequality, it's economic globalization that matters – or the way in which the world economy has become increasingly integrated and interconnected through five global "flows":

- Technology and information
- Trade
- Finance and investment (or the ability of capital to flow across borders)
- Production (or the ability of businesses to move operations around the world)
- International migration

Globalization can be a divisive issue, and polls suggest that in many parts of the world there's a perception that its benefits are not being enjoyed equally across societies. In many developed countries, there's also a perception that aspects of globalization, such as outsourcing by businesses, are costing jobs and driving down incomes.

Key Term: European Debt Crisis

In its most basic form, it's just this: Some countries in Europe have way too much debt, and now they risk not being able to pay it all back.

The European debt crisis is the shorthand term for Europe's struggle to pay the debts it has built up in recent decades. Five of the region's countries – Greece, Portugal, Ireland, Italy, and Spain – have, to varying degrees, failed to generate enough economic growth to make their ability to pay back bondholders the guarantee it was intended to be.

The debt crisis began in 2008 with the collapse of Iceland's banking system, then spread primarily to Portugal, Italy, Ireland, Greece, and Spain in 2009. It has led to a loss of confidence in European businesses and economies.

The crisis was eventually controlled by the financial guarantees of European countries, who feared the collapse of the euro and financial contagion, and by the International Monetary Fund (IMF). Rating agencies downgraded several Eurozone countries' debts.

Greece's debt was, at one point, moved to junk status. Countries receiving bailout funds were required to meet austerity measures designed to slow down the growth of public-sector debt as part of the loan agreements.

Although these five were seen as being the countries in immediate danger of a possible default at the peak of the crisis in 2010-2011, the crisis has far-reaching consequences that extend beyond their borders to the world as a whole. In fact, the head of the Bank of England referred to it as "the most serious financial crisis at least since the 1930s, if not ever," in October 2011.

Key Point:

- The European sovereign debt crisis began in 2008 with the collapse of Iceland's banking system.
- Some of the contributing causes included the financial crisis of 2007 to 2008, and the Great Recession of 2008 through 2012.
- The crisis peaked between 2010 and 2012.

The reasons caused the crisis including:

- the Financial Crisis (2007-2008)
- the Great Recession (2008-2012)
- the real estate market crisis
- property bubbles in several countries.

Key Term: Gini Index/Gini Coefficient

The Gini index or Gini coefficient is a statistical measure of distribution developed by the Italian statistician Corrado Gini in 1912. It is often used as a gauge of economic inequality, measuring income distribution or, less commonly, wealth distribution among a population. The coefficient ranges from 0 (or 0%) to 1 (or 100%), with 0 representing perfect equality and 1 representing perfect inequality. Values over 1 are theoretically possible due to negative income or wealth.

A country in which every resident has the same income would have an income Gini coefficient of 0. A country in which one resident earned all the income, while everyone else earned nothing, would have an income Gini coefficient of 1.

The same analysis can be applied to wealth distribution (the "wealth Gini coefficient"), but because wealth is more difficult to measure than income, Gini coefficients usually refer to income and appear simply as "Gini coefficient" or "Gini index," without specifying that they refer to income. Wealth Gini coefficients tend to be much higher than those for income.

The Gini coefficient is an important tool for analyzing income or wealth distribution within a country or region, but it should not be mistaken for absolute measurement of income or wealth. A high-income country and a low-income one can have the same Gini coefficient, as long as incomes are distributed similarly within each: Turkey and the U.S. both had income Gini coefficients around 0.39-0.40 in 2016, according to the OECD, though Turkey's GDP per person was less than half the U.S.'s (in 2010 dollar terms).

Though useful for analyzing economic inequality, the Gini coefficient has some shortcomings. The metric's accuracy is dependent on reliable GDP and income data.

Shadow economies and informal economic activity are present in every country. Informal economic activity tends to represent a larger portion of true economic production in developing countries and at the lower end of the income distribution within countries. In both cases, this means that the Gini index of measured incomes will overstate true income inequality. Accurate wealth data is even more difficult to come by due to the popularity of tax havens.

Another flaw is that very different income distributions can result in identical Gini coefficients. Because the Gini attempts to distill a two-dimensional area (the gap between the Lorenz curve and the equality line) down into a single number, it obscures information about the "shape" of inequality. In everyday terms, this would be similar to describing the contents of a photo solely by its length along one edge, or the simple average brightness value of the pixels. While using the Lorenz curve as a supplement can provide more information in this respect, it also does not show demographic variations among subgroups within the distribution, such as the distribution of incomes across age, race, or social groups. In that vein, understanding demographics can be important for understanding what a given Gini coefficient represents. For example, a large retired population pushes the Gini higher.

Problems Need to be Discussed

The periphery countries need to devalue in order to regain competitiveness and reduce imbalances within the Eurozone. The key policy question is whether they should pursue internal or external devaluation. The answer is not clear. Internal devaluation through inflation in the core may not be available because of resistance in the core and because of the ECB's goal of maintaining price stability through deflation in the periphery. External devaluation, on the other hand, may entail high contagion costs, and also requires the redenomination of assets, liabilities, and contracts prior to exit, which is likely to cause severe disruption in the short run. Given that, for the time being, policymakers have excluded the exit option, the emphasis of economic policy must be on seeking possibilities for internal devaluations despite its difficulties.

The heterogeneity of living standards and employment situations across Europe allows of no simple answer to the question 'How are you doing, Europe?'. On the one hand, social conditions, as well as social imbalances, vary significantly across Europe, among regions and countries as well as between socio-economic groups. On the other hand, the two examples portrayed in this article, as well as the other social imbalances our study identified, show that Europe faces common challenges: all the imbalances affected several member states and were not confined to poorer EU countries.

Taking into account the member states' common social challenges related to employment and living standards, in the coming parliament and commission term as well as in the ongoing debates on Europe's future more focus is needed on how the EU and its members can respond to such challenges. In this context, the question of what role Europe could or should assume in social policy should be integral to the discussion when national and European politicians present and debate their visions for Europe in the weeks and months to come.

Quality of policies, institutions, and reforms matter in shaping the income distribution structure and promoting growth. Win-win measures can deliver stronger growth and greater inclusiveness, but this is the result of a complex policy mix involving policy areas such as economic governance, labor market, education and skills, competition and product market regulation, innovation and entrepreneurship, financial markets, infrastructure and public services, development, and urban governance. As stressed in this note, national fiscal policy is crucial for inclusiveness. Hence, national governments should adopt fiscal policies to avoid distortionary effects on lower-income quintiles and tailor welfare systems to avoid social distress and increase their efficiency.

Bloc Position

The Schengen Member States

The Schengen Area is an area comprising 26 European states that have officially abolished all passport and all other types of border control at their mutual borders. It allows people to move freely around Europe. The Schengen Agreement has made more jobs available than any times before. The Council of European Union hopes the member states of the Schengen Agreement can maximize the benefits brought by transporting between states and states freely and avoid massive unemployment crisis from happening.

"Old Money" Developed European Countries

Unless other countries, Germany, France, Italy and the United Kingdom weren't harmed during the Debt Crisis. In fact, they are the Beneficiaries. As they developed earlier than other countries, they start accumulating capitals and exploits other states. As long as Europe is getting wealthier, it becomes more unequal. Some might point that it is these countries' responsibilities to solve the inequal problem, but that is basically harming their own interest. To be or not to be, it's up to you, delegate.

Developing European Countries

Although the rich-poor gap is widened, it's still the lowest among the world. While Europe has been more successful than most regions in containing income inequality rises seen around the world, inequalities increasing in most of its countries over 1980-2017, according to the World Inequality Lab.

To solve the problem inside their countries, discussing job creating and international cooperation is inevitable. How to eliminate the gap and reach cooperation with other developing countries is the main question delegates need to concern.

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