

The Doon School Model United Nations  
Conference 2019

## Background Guide

# United Nations Economic and Social Council





DSMUN '19

**Secretary General**

Vikram Jain

**President**

Nandil B. Sarma

**Chairperson**

Karthik Subbiah

**Deputy Chairpersons**

Nishiketh Gupta

Aryan Kasera

THE DOON SCHOOL,

Mall Road,

Dehradun-248001,

UK, India

[chair.ecosoc@doonschool.com](mailto:chair.ecosoc@doonschool.com)[www.dsmun.in](http://www.dsmun.in)**Secretary General's Address**

Dear delegates,

As the Secretary General, It is my honour and privilege to welcome you all to the 13th Doon School Model United Nations Conference. DSMUN has been growing exponentially and actively augmenting the level and intensity of crises, debate and co-operation with each passing year. It is a legacy that we hope to continue and reinforce with this year's conference.

In an ever volatile, dynamic and adaptive international status-quo, it becomes increasingly vital for us as students- and thereby potential actors in the same system of compromise- to deliberate, discuss and formulate the groundwork of bi-lateral and multi-lateral ties that are to be established in the future.

With firm precedence, it would not be wrong to say that delegates, having attended this conference in the past, have developed a deeper and a more empirical understanding of diplomacy, compromise and conflict. While the Viceroy's Executive Council strives to ensure the peaceful transfer of power from the British to the Indian Union in 1946, the NATO contemplates the feasibility of occupying Antarctica. From condemning theocracies to enforcing climate laws, DSMUN will be an invigorating amalgamation of resolving and debating dissidence, dispute and disparity.

Besides whiling away my time watching typical Netflix Rom-coms, I find myself engrossed in reading about the framework and history of international and national politics. I am in- charge of the historical and political society and the editor of various publications in school. Having participated in various MUNs in India and abroad, I have had the opportunity to serve DSMUN in various capacities, and subsequently feel privileged to be given the opportunity to be at the organisational apex of the conference this year.

I eagerly await your presence at Chandbagh.

Warm regards,

Vikram Jain



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[chair.ecosoc@doonschool.com](mailto:chair.ecosoc@doonschool.com)[www.dsmun.in](http://www.dsmun.in)**President's Address**

Greetings!

As the President of the Doon School Model United Nations Society, it gives me immense pleasure to invite you to the 13th Session of the Doon School Model United Nations Conference. Being at the pinnacle of a conference that finds itself amidst the top ranks in the country, both in terms of global outreach and quality, has been an absolute honour. However, we at Doon constantly strive to outdo ourselves and promise that this edition of DSMUN will outdo all of its predecessors be it in terms of organizational skill, quality of debate or participation not just from the South Asian region but from around the world. It is with this vision in mind that I extend my heartiest welcome to each one of you to this year's conference.

The scope of this year's DSMUN will not remain confined to conventional committees. Keeping this in mind, we have expanded DSMUN's committee choices incorporating some bold and new ideas. With the introduction of highly challenging committees such as Lincoln's War Cabinet (1864), Viceroy's Executive Council (1946), Union Council of Ministers (1984) and the Rajya Sabha, we aim to pull off a conference not limited to one's imagination. This year's committees are aimed at developing informative deliberations and solutions to issues: both of global and national significance. Discussions pertaining to context of historical events allows one to explore the multitude of possibilities and find answers to the fundamental question of 'what if'. Having said so, the essential Model UN committees still remain intact providing an interesting challenge in terms of debate, wit and diplomacy to one and all.

As for myself, I am currently surviving the ISC curriculum and hold a keen interest in Politics and History. I deeply enjoy playing sports be it athletics or football. If not on the sports field, you can probably catch me commenting on Tottenham Hotspurs bleak chances of clinching a trophy. I also serve as the School Captain of the Doon School and the Editor-in-Chief of the Yearbook, one of the school's flagship publications.

Looking forward to seeing you all in August.

Warm Regards,

Nandil B. Sarma

## Introduction to the committee

The Economic and Social Council is at the core of the United Nations framework to achieve the three components of sustainable development – economic growth, social inclusion and environmental protection. It is an important platform for discussion, innovation, negotiation, planning, and implementation to accomplish internationally agreed-upon objectives. Additionally, it is in charge of implementing the decisions and recommendations decided upon at UN gatherings and summits in economic, social, environmental and related fields<sup>1</sup>.

ECOSOC was established under the United Nations Charter in 1945 as one of the six principal organs of the United Nations. It is charged with coordinating the economic and social activities of the 14 UN specialised agencies, functional commissions, and five regional commissions. Its mandate is as follows:

- promoting higher standards of living, full employment, and economic and social progress;
- identifying solutions to international economic, social and health problems;
- facilitating international cultural and educational cooperation; and
- encouraging universal respect for human rights and fundamental freedoms<sup>2</sup>.

ECOSOC is the central body for economic and social issues and is an integral forum for the execution and implementation of the United Nations' Internationally Agreed Goals (IAGs). It has the power to expect reports from specialised agencies regarding issues within its purview, and acts as the central body for these specialised agencies.

The ECOSOC may make reports relating to economic and social aspects and suggest issues to the general assembly or special sub-committees to further the investigation of a particular, ongoing issue. ECOSOC also considers human rights issues that are related to economic and social fields.

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<sup>1</sup> UN Economic and Social Council. (2019). *Un.org*. Retrieved 9 May 2019, from <https://www.un.org/en/ecosoc/about/>

<sup>2</sup> About ECOSOC and its subsidiary bodies. (2019). *Csonet.org*. Retrieved 9 May 2019, from <https://csonet.org/?menu=123>

## **Agenda**

Eliminating Shadow Economies in Underdeveloped Nations.



## What are Shadow Economies?

The shadow economy includes all economic activities that are hidden from official authorities for monetary, regulatory, and institutional reasons. Monetary reasons include avoiding paying taxes and all social security contributions, regulatory reasons include avoiding governmental bureaucracy or the burden of the regulatory framework, while institutional reasons include corruption law, the quality of political institutions and weak rule of law. Essentially, the term largely refers to economic and productive activities that would contribute to the GDP<sup>3</sup>. Additionally, shadow economies do include criminal or illegal activities, but the committee will be largely focused around the former.

By definition, shadow economies are unregulated, and by extension, untaxed. This is problematic, especially in underdeveloped nations, because shadow economies account for a large part of the GDP while the government has insufficient funds to deliver basic human rights to its people. It is important to recognise that shadow economies often form under corrupt regimes because citizens feel that tax revenues are not being utilised effectively.

We must understand that informal enterprises are like formal ones except for the fact that they are unable to formalise due to high taxes or a large regulatory burden. Therefore, a huge

amount of potential is locked in the informal sector. The largest source of potential is the informal labour force, which faces an acute lack of 'decent work'. An important rule of thumb to remember is this – decent work deficits are often linked to good governance deficits.

## Why do they exist?

Reasons for the existence of shadow economies can be divided into economic and non-economic ones<sup>4</sup>. Economic motives tend to exist because of an overly formal economy. One example of this is an inflexible labour market. If countries have strict labour laws that make employers reluctant to hire new employees, the unemployed have to look to other channels for employment. Since these channels cannot exist within the formal economy, the formation of an informal economy is encouraged. A second manifestation of this excessive formality is a high tax rate. In addition to the effects outlined earlier, high taxes lead directly to increased tax evasion. Another important factor is the high cost of, or inconvenience caused by formal production. This happens because the factors of production tend to be expensive or over-regulated. Again, the best example of this is a minimum wage for labour. When minimum wages are too high, employees are reluctant to pay the full wage, contributing to unemployment,

<sup>3</sup> *Shadow Economies Around the World: What Did We Learn Over the Last 20 Years?* (2018). *imf.org*. Retrieved 9<sup>th</sup> May, 2019, from <https://www.imf.org/~media/Files/Publications/WP/2018/wp1817.ashx>

<sup>4</sup> Gërzhani, Klarita. "The Informal Sector in Developed and Less Developed Countries: A Literature Survey." *Public Choice*, vol. 120, no. 3/4, 2004, pp. 267–300. JSTOR, [www.jstor.org/stable/30026032](http://www.jstor.org/stable/30026032).

and by extension, the size of the shadow economy. However, the same issue is also caused by quality controls or production limits.

While non-economic motives may be related to increased flexibility and satisfaction, the most important non-economic factor seems to be the state itself. The state must act as a facilitator of economic opportunity to improve efficiency. However, when this doesn't happen due to a lack of infrastructure, unemployed labour is often unable to access jobs in the formal economy due to geographical inaccessibility or even an absence of the requisite skills. Without a considerable improvement in the levels of human capital, the shadow economy will continue to be sizable in the long-run. Additionally, when there is a lack of trust between the people and the government, there is considerable suspicion about the manner in which taxes are spent. This suspicion further eases the shift to a shadow economy.

Again, despite these categorisations, informalisation is primarily a governance issue. It may be a result of ineffective macroeconomic policies, especially in cases where the policies fail to create sufficient jobs. Additionally, without a high rate of economic growth, countries are unable to add the requisite number of jobs, essentially facilitating the process of informalisation. Another problem is the absence of specific policies for job creation, with many policy-makers assuming that job creation will follow in the wake of other economic policies. This is often not the case.

It is important to note that even though these motives are fairly universal, there

are certain ones that are specific to underdeveloped countries. The low rate of industrialisation along with a significant surplus labour force are characteristics that are lacking in more developed countries, and therefore must be dealt with by organisations that have unique expertise. The characteristics of undeclared labour, tax evasion, unregulated enterprises, and criminality are present in shadow economies across countries, but they are differentiated on the basis of 'survival'. Shadow economies in underdeveloped countries tend to provide subsistence to the individuals employed within it. This raises the question of legitimacy - individuals' decision to participate in the shadow economy may be justified because of a lack of choice.

### **Their relation to the Formal Economy**

The relationship between the formal and informal sectors is a subject of much debate and controversy. Many argue that shadow economies detract from the GDP and are inherently harmful to a country's economy, and this argument is not without merit. However, others rightfully suggest that a significant portion of the income being generated in the shadow economy is spent on buying goods and services from the formal economy. If this is true, there are important merits to the shadow economy. Furthermore, research suggests that there is a positive relationship between the informal and formal sectors in developed countries (informal sector contributes to purchasing power in the formal sector), but a negative relationship in underdeveloped countries. The

committee should take this into consideration. Instead of blindly trying to eliminate shadow economies, we should aim to come up with solutions that will account for the benefits of the informal sector.

Despite disagreement and the fact that there are some short-run positive benefits, there is a general consensus that the size of the informal sector should be diminished in the long-run. By extension, scholars agree that the informal sector should gradually be formalised.

### How are they measured?

Despite the fact that they are unregulated, it is important to measure the size of the informal economy. Accurate measurement is important for a number of reasons. This is because it forms the basis for the formulation and evaluation of government policies, is integral to the depiction of global and national unemployment patterns, and is important to help understand the link between growth and employment<sup>5</sup>.

One of the biggest obstacles to accurate measurement is an acute lack of data. In many countries, knowledge and data related to the shadow economy is extremely fragmented. Therefore, the key challenges include promoting an understanding of the statistical concepts of the shadow economy, guiding countries towards the implementation of

these concepts, and the demonstration and reinforcement of best practices for the analysis of informal economy data.

Since the shadow economy can't be straightforwardly estimated, we have to use various methodologies to estimate its size. Some of these are:

#### 1. Monetary Indicators

To hide their activities, individuals participating in the shadow economy activities usually use physical money. To do this, individuals often liquidate their assets to fund their activities. The liquidation allows them to evade taxes by effectively avoiding the formal economy.

#### 2. Labour Market Indicators

Since the informal economy is fairly primitive, the bulk of activities are labour-intensive. Due to this, informal economy data is often collected and analysed in terms of labour. The Labour Participation Rate refers to the proportion of the population between 15 and 60 that is economically active. This presents a relatively accurate estimation of the shadow economy's size, because people who work in the informal sector choose not to mention any source of steady income.

In addition to these, many more comprehensive frameworks exist to assess the size of the shadow economy. The discrepancy method uses production data to arrive at estimates. One Micro approach uses representative surveys to gain micro knowledge about the size of the shadow economy and informal labour

<sup>5</sup> "Measurement of the Informal Economy". (2011). ilo.org. Retrieved 9<sup>th</sup> May, 2019, from [https://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/---emp\\_policy/documents/publication/wcms\\_210443.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_policy/documents/publication/wcms_210443.pdf)



markets. Another Micro approach uses surveys by company managers to measure the size of the shadow economy by combining misreported business income and misreported wages. Finally, there are a set of indirect approaches. While the previous approaches are largely microeconomic in nature, these approaches tend to be more macroeconomic. They include the discrepancy method (between national income and expenditure or between the official and actual labour force), the electricity approach (electricity consumption as a proxy for economic activity), the transaction approach, the currency demand approach, and the multiple indicators, multiple causes (MIMIC) approach that was mentioned earlier<sup>6</sup>. Delegates are expected to understand the various approaches before they enter committee.

## Social Aspects

While eliminating shadow economies, it is important to gradually formalise while ensuring that the opportunities for work and livelihood are not eliminated along with it. The informal economy presents a tricky situation. We know that technology, investment, and trade, often the by-products of economic liberalisation, have benefits, especially in terms of job creation. However, these benefits are not inclusive. By their very nature, their benefits will go to existing entities and individuals in the formal economy, and their impact on the

informal economy will be marginal at best. According to the ILO, The Declaration on Fundamental Principles and Rights at Work should be applied to both formal and informal sector jobs. However, this is largely theoretical, because, as mentioned earlier, the government has no control over the informal sector. Due to the absence of worker unions or any other form of political representation for informal sector workers, there is no way for them to take action over these problems.

Due to the unregulated nature of shadow economies, there is a lack of basic workplace rights like job security, basic safety measures, and insurance policies. A large informally employed population is also reflective of a lack of literacy and basic education, elements that are often necessary for employment in the formal economy. Sustainable Development Goal 8 is Decent Work and Economic Growth. The formalisation of the economy will be instrumental in ensuring that people can access opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organise and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men<sup>7</sup>.

It is difficult, often impossible, for informal enterprises to access the legal and judicial systems to enforce contracts

<sup>6</sup> *Shadow Economies Around the World: What Did We Learn Over the Last 20 Years?* (2018). imf.org. Retrieved 9<sup>th</sup> May, 2019, from <https://www.imf.org/~media/Files/Publications/WP/2018/wp1817.ashx>

<sup>7</sup> "Decent Work." *Ilo.org*. N. p., 2019. Web. 9 May 2019. <https://www.ilo.org/global/topics/decent-work/lang--en/index.htm>

from the formal sector. Additionally, due to the lack of regulation, the incidence of harassment, exploitation, and abuse is much higher. These problems are especially prevalent amongst women, young workers, and migrants. Additionally, child labour or bonded labour are often characteristic of the informal economy.

## Economic Aspects

Many nations around the world experience the repercussions of large shadow economies. They are difficult to detect, but usually account for about 30% of the GDP of an official economy. Gathering important data regarding the frequency and magnitude of shadow economic activities in each area is essential for the allocation of the nation's resources, and certain methodologies, such as the MIMIC method, have been developed to measure the size of shadow economies.

Essentially, Shadow Economies cause two major economic obstacles - a lack of efficiency and an inability to integrate into the world economy. Vulnerable employment leads to a lack of funds to invest in human capital. The latter problem is caused by the fact that the informal sector lacks value added production, therefore hindering its ability to compete with diversified exports in world markets. Therefore, formalisation boosts both economic efficiency and levels of integration into the global economy. The informal sector is also linked to two other important economic variables - trade and growth.

There are three views relating to the informal economy's impact on trade and

growth - the dualistic, structuralist, and legalistic views. Both the dualistic and legalistic schools agree that the informal economy is detrimental to trade and growth in both the short-run and the long-run due to its inability to interact with the formal economy or trade internationally. However, the structuralist school sees the informal economy as a source of relief to the formal sector because it provides the requisite cheap labour and flexibility required to be price-competitive in both domestic and international markets. Despite disagreement about the short-run effects of the informal economy, all three schools agree that in the long-run, formalisation is an effective measure to boost economic growth.

Another conundrum that the informal economy presents is unfair competition. Often, informal enterprises compete with formal enterprises for contracts, but informal enterprises are at an advantage because they don't pay taxes or meet work standards, measures that often firms' cost of production.

The shadow economy may prompt negative consequences for development. However, it can also have positive effects. The negative effects are exacerbated in the event that the shadow economy accounts for a large proportion of the GDP. A major drawback of large shadow economies is the shrinking of the tax base and the subsequent drop in government revenue, often leading to a vicious cycle of hiked tax rates. Due to falling government revenues, the provision of public goods and services is also crippled. In this way, the shadow economy reduces open finance and

investment, which impacts the advancement of the economy.

As mentioned earlier, the presence of a large informal sector causes economic statistics to be extremely warped, something that is detrimental to the monitoring of economic progress and the planning for legislation. This causes the economy to be even more disorganised, since it results in the scarcity of resources for development due to their inefficient use.

The shadow economy acts as a last resort employer in the midst of widespread unemployment. Moreover, the shadow economy has major impacts since the income it generates may be spent in the formal economy. Since it is unregulated, the informal economy tends to cause abnormal levels of pollution and environment damage. Although these variables are not easily assessed, it has been shown that the existence of the shadow economy can cripple social order by increasing corruption and disrespect for authorities. Therefore, the shadow economy may be a marker of low institutional quality and illegitimacy. In addition, most workers and economic units in the informal economy lack basic property rights. This is a major obstacle on the path to formalisation, because without property rights, it is impossible to access capital or credit.

To conclude, it is clear that shadow economies are at the heart of numerous economic and social problems in countries across the world. By eliminating shadow economies in underdeveloped countries, progress towards the

Sustainable Development Goals would be given a major boost. However, merely formalising is not enough – it is also important for governments to deal with corruption and the subsequent lack of service delivery and infrastructure. Bringing informal sector enterprises into an inefficient, corrupt formal economy is pointless. Below are the main goals that committee is expected to work towards. Once again, we look forward to seeing you at DSMUN 2019.