

**Forum:** Middle School Economic and Social Council (MS ECOSOC)

**Issue # 19-01:** Unequal distribution of a nation's budget and its effect on citizens

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### Guiding Questions as you Read

How does your nation balance the economic wealth amongst all social classes?

What does your nation emphasize on their economic spending?

How does the unequal wealth spending affect other areas in their development?

## Introduction

### Key Terms

Unequal  
Distribution  
Subsidies  
Wealth

The distribution of wealth leads to the subsequent unequal distribution of resources. This issue has been a major conflict for many years now. The problem does not revolve around individuals being extremely rich and others that are suffering from extreme poverty but demonstrating how some individuals cannot acquire either food or shelter because of the unequal distribution of wealth within the different realms of society. This problem can be solved but another is created in the aftermath, such as the emergence of subsidies. Subsidies are created when government or a public body attempts to assist an industry or business with goods and services to better supply and sell their product; It is only focused on a specific sector, improving its productivity for the better but also affecting other compartments. This creates disequilibrium, that becomes an actual conflict of wealth and territory, creating a mayor issue regarding economic and social aspects.

The concern begins when nations start focusing more in certain aspects than in others. The opportunity cost is the opportunity loss when an entity such as a country puts its focus on aspects such as the military, rather than education, homes and jobs. This way, certain departments will suffer as the education might decrease because of the lack of importance the nation as a whole is showing its citizens, degrading the nations general progression in the long run. In other words, the distribution of the nation's budget would remain the same, leaving the rich to continue getting richer which in itself does not create adversity, but the poor keep getting poorer, which is where the feud begins.

## Current Situation

### Key Terms

Federal Spending  
Income Inequality

The unequal distribution of a nation's budget is an ongoing issue which nations struggle with. The federal budget refers to the amount of money the government gets to spend each year on the nation's sectors. Before the spending plan goes into account regarding how to even the Discretionary Spending and Mandatory Spending and successfully improve the GDP of the country, certain strategies come into play, such as the Gini Coefficient, in order to measure the development of the distribution or the poverty cycle used to escape poverty. All of these strategies are used to reach the different desires the nation is seeking to achieve, usually concerning the development of the economy creating a positive effect on its citizens. Yet how the budget is spent depends on the nation's stability and their past development on certain sectors.

## Access opportunity

The access to opportunity doesn't only have a big impact on each individual's lifestyle but also on the efficiency of a nation itself. Employment is always a topic which worries all nations worldwide since the lack of jobs nurtures poverty. The unequal distribution of wealth is a major factor of why this happens and why the lack of citizens working occurs. When governments focus on departments such as military or transport, a gap increases surrounding other sectors, such as education and housing, which the government won't invest in due to the limit of federal spending. This does not only affect current generations but future generations as well which will grow up with a limited base of public education from previous years due to the lack of investments, affecting their opportunity to change their life around. This connects with how the rich keep on getting richer and the poor keep getting poorer. As stated before, the limited federal spending only allows nations to specialize in two to three main sectors. In most scenarios, sectors of lesser priority that need development don't receive the necessary attention, leading to the negligence of citizens that use those sectors.

## Poverty Cycle

This issue has been around for many decades now, and has continuously concerned nations and their poverty levels. The Poverty Cycle, also known to be a trap, is an economic system in which a country tries to escape poverty with enough capital by using assets from either organization or public parties which can be acquired and used for a particular purpose. This is known as a trap because a country uses major capital to “escape” poverty and as a consequence, the nation has less capital to spend on its growth and development, contributing to the problem that was trying to be evaded and will continue to plague the country as the cycle continues in the futile hopes of succeeding.

## Gini Coefficient

The Gini Coefficient, also known as the Gini Index, is a tool that some countries use to measure their development of distribution. This Italian tool is used as a gauge by many nations who aim to measure their economic inequality and income distribution in comparison to a totally equal distribution. This measuring tool can assess a nation's budget and how it is being used in respect to the average earnings of each social class. This tool is verified by many of being reliable. This tool helps governments understand their country, allowing them to see where to invest and where to fix certain issues. However, it can also be used by citizens, giving them an idea of how the country's economy and investments in certain sectors. Showing the citizens how the government might use their budget can build transparency and make sure the public is well-informed.

## Corruption

Corruption is an issue which all countries suffer from. It begins when governments start using their power for the wrong reasons such as stealing money and nepotism - favoring relatives and friends for positions of power- conceiving dishonesty and fraudulence. This ties up with the unequal distribution of wealth due to the fact that a government uses its resources not only for the benefit of the country but also for their personal satisfaction. To what extent does corruption in each country influence the investment sectors? This issue benefits those who are involved with the crisis seeing as their usage of illegal ways

help them have more goods and services than they would normally have. The unequal distribution of wealth in some scenarios is created by the country's administrative decisions towards the nation's budget. Citizens pay taxes so the nation has sufficient funds for each sector. However, by having a corrupt administration the federal spending is not distributed adequately and sectors become suffer from a funding shortfall.

**Comprehension Questions:** How does investing in areas more than others, leaving some without any supervision affect the general growth and magnification of a country? Why do nations go back to strategies such as the poverty cycle or Gini Coefficient in search for results which have not worked before?

## Definition of Key Terms

**Distribution:** The way something is divided or shared among recipients or the action of supplying resources within an area.

**Subsidies:** A sum of money granted by a governmental organization or public body to a business or industry so that a commodity or service remains low and/or competitive

**Wealth:** A valuable possession or an abundance of luxury. Plentiful supplies in a particular area.

**Factors of Production:** Known as the inputs needed for supply. Four main factors of production are land, labor, capital, and entrepreneurship. All four are used in the production of goods and services.

**Corruption:** According to Transparency International, corruption is “the abuse of entrusted power for private gain. It can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs.”

## Major Parties Involved and Their Views

### United States

The federal spending of the United States is divided into two major sections: Discretionary Spending and Mandatory Spending. Discretionary spending is the optional portion of spending that Congress implements through an appropriations bill (legislation that allots federal funds to federal government departments, agencies and programs). Some of the areas that are funded by this kind of spending are: national defense, health and human services (HHs), education, veterans affairs, housing and urban development. While the military takes up \$700 billion of the funds, HHs and Education only account for about \$100 - \$50 billion. This allows the nation to be always secure and protected from enemy conflicts while still being able to develop the education for future generations and take care of the veterans. However, this can also be seen through negative lenses, since education is important for progression and only receives less than 15% the amount of funding that the military does. On the other hand, the Mandatory Spending is the portion which Congress doesn't have a say in and consists of Social Security, which uses \$1.041 trillion of the funds and Medical care, which uses \$650 billion.

### France

France's wealth gap has grown significantly over the past years. The richest people in France (top one percent) own twenty percent of France's wealth. One of the approaches the French government has taken to reduce this gap is lowering taxes to France's richest companies and people. According to the government, this will increase investment in the country, make things cheaper and increase salaries for the poorer. However, evidence shows that this has only increased such gap and has decreased the national budget.

### Norway

Norway is considered one of the countries with the lowest wealth inequality gap. This is because it has one of the highest taxes in the world both for the poor and especially the rich. Due to this, Norway has a great amount of wealth which allows it to spend



more than other countries in public programs. Norway spends most of its budget in healthcare, education, and other public programs. The country manages to effectively spend their wealth on public programs as it has strict transparency and corruption laws.

## Timeline of Events

<b>1915</b>	<b>Start of Inequality in the U.S</b> The Gilded Age. The Rockefellers and Carnegies dominated the industry. 1% of Americans owned 18% of the wealth of the nation.
<b>1970</b>	<b>The Great Divergence</b> Income differentiation increased as America's top 1% of households gained about 275% and the bottom 20% grew by only 41%.
<b>1994</b>	<b>Democracy In South Africa</b> South Africa elects its first president. Although democracy is implemented, economic inequality remained. This revealed the corrupt and unfair nature of the government
<b>1995</b>	<b>World Social Summit</b> Conference by the United Nations in Copenhagen regarding the conquest of poverty. Many world leaders attended as well as 117 heads of state and government, which pledged to conquer and minimize poverty globally.
<b>2007-2009</b>	<b>The Great Recession</b> Large-scale economic decline stemming from the collapse of real estate markets in the US causing a global financial crisis. Considered the second worst downturn of all time (after the Great Depression)
<b>January 2016</b>	<b>17 Global Goals: Goal 10 “Reduced Inequalities”</b> The UN published the 17 Global Goals that make up the 2030 Agenda for Sustainable Development. Goal 10, “Reduced Inequalities”, has to do with wealth distribution and economic discrimination

## Past International Action

### **WORLD SUMMIT FOR SOCIAL DEVELOPMENT / 1994**

In 1994, a meeting between world leaders was held in Copenhagen to ensure the constant problem of poverty and its further development was addressed correspondingly. The theme of this meeting was the conquest of poverty. By the end of this first meeting, governments had adopted a Declaration and Programme of Action which each nation who agreed would need to put citizens into centers of development, generating a better future for individuals and the country as a whole.

### **INEQUALITY MATTERS / 2013 / DSPD of UN DESA**

In 2013, a report was published by the Division for Social Policy and Development (DSPD) of UN DESA, named Inequality Matters. In it, they stated: "There is growing evidence and recognition of the powerful and corrosive effects of inequality on economic growth, poverty reduction, social and economic stability and socially-sustainable development". This report not only warns nations of the possible disparities within this issue, but also how to understanding these disparities in order for them to not be a hindrance but an advantage when approaching wealth distribution.

### **GOAL 10 / 2016 / REDUCING INEQUALITY WITHIN AND AMONG COUNTRIES**

The United Nations has been working with various countries for many years now on how to minimize distribution inequality of nations' budgets. On January 1st, 2016, the UN published the 17 Global Goals that make up the 2030 Agenda for Sustainable Development. Goal 10, "Reduced Inequalities", addresses the different types of inequalities, touching base with income inequality and its relation to discrimination based on sex, gender, age, disability and so on. Progress reports are published every year regarding Goal 10. As of 2019, the bottom 40 percent of the population in many countries has experienced positive growth rates. However, inequality still thrives.



## Possible Solutions

This issue doesn't have one correct solution. Many different options could be implemented to help solve the matter at hand. For instance, taxing the rich in order to better level the different social classes. However, with that solved, other problems come along; for example, taking money from the rich to increase the nation's federal spending might infuriate the rich generating more conflicting matters.

Furthermore, refiguring out how the federal budget might be spent would give a chance for nations to rethink the strategy and invest in more education or economic mobility giving the citizens more benefits keeping them content. Another good possibility could be the inclusion of citizens on how the budget might be spent and giving them a chance to speak by letting them vote on how specifically the federal spending might be distributed allowing all social classes to vote, hopefully generating equality.

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## Useful Links for Research

- I. Goal 10: Reduced Inequalities  
<https://www.globalgoals.org/10-reduced-inequalities>
- II. The United Nations: Inequality  
<https://www.un.org/development/desa/socialperspectiveondevelopment/issues/inequality.html>
- III. Intro to Distribution of Wealth  
<https://www.britannica.com/topic/distribution-of-wealth-and-income>
- IV. Report on World Social Situation 2013: Inequality Matters  
<https://www.un.org/en/development/desa/publications/world-social-situation-2013.html>
- V. ISP Library Resources  
(isp.edu.pa > student resources > library)