ECOSOC

Topic: Tackling the hyperinflation due to its sustaining effect on the global economy
Committee: Economical and Social Council (ECOSOC)

A. Introduction to the Committee

The United Nations Economic and Social Council (ECOSOC) is one of the six principal organs of the United Nations. The ECOSOC has represented the international cooperation of 54 Member States and over 1,600 nongovernmental organizations since 1971 and is concerned with different tasks in the economic and social areas. ECOSOC is involved in conducting research on international affairs related to economic, welfare, cultural, educational, and health matters. It makes reports of those tasks and is authorized with drafting recommendations aimed at enhancing the promotion and implementation of human rights. Moreover, the ECOSOC is the principal body for coordination, policy review, policy dialogue, and recommendations on economic, social, and environmental issues and for implementation of the internationally agreed development goals.

With the second agenda item, the ECOSOC committee will be focusing on tackling hyperinflation. The committee's main aim is to regulate governments that are not committed or capable of eliminating hyperinflation in their countries, to mitigate its negative outward impact on the global economy.

B. Introduction to the Agenda Item

There are many definitions of hyperinflation, however, essentially hyperinflation is a condition where the price of everything in a national economy goes out of control and increases very quickly. While there can be other reasons, most of the time hyperinflation is caused by governments that try to close the national budget deficit by uncontrollably increasing the money supply. It quickly erodes the real value of the local currency, as the prices of all goods increase and this causes people to minimize their holdings in that currency as they usually switch to more stable foreign currencies.

Hyperinflation sees a rapid and continuing increase in price levels, the nominal cost of goods, and the supply of currency. Typically, however, the general price level rises even more rapidly than the money supply as people try to rid themselves of the devaluing currency as quickly as possible. As this happens, the real stock of money (the amount of circulating money divided by the price levels) decreases considerably.

Hyperinflation is often a conclusion of a certain shock to the national government budget in a country. These shocks are exemplified as wars or their aftermath, sociopolitical upheavals, a drastic decrease in the real income of the general population, or one in export prices, etc. A sharp decrease in real tax revenue coupled with a strong need to maintain government spending, together with an inability or unwillingness to borrow, can lead a country into hyperinflation.

Globally, hyperinflation may have serious effects. High inflation leads to a significant decrease in total supply and demand in a country, decreasing exports and imports would also shrink the global economy in total. To stabilize their currency, countries might sell their foreign exchange reserves, inflating global currency markets. Most importantly, hyperinflation can lead to poverty, causing migration, political instability, and geopolitical tensions.

Effective capital controls and currency substitution ("dollarization") are the orthodox solutions to short-term hyperinflation; however, there are significant social and economic costs to these policies. Ineffective implementations of these solutions often worsen the situation.

C. Key Terms

BUDGET DEFICIT: A situation which occurs due to the difference between a government’s spending and income amounts.

CAPITAL CONTROLS: Any measure to limit the flow of foreign capital aiming to reach a more stable economy.

CIRCULATING MONEY: The amount of money that is in physical form, coins or banknotes, and used for transactions between individuals and businesses.

CONSUMER RECESSION: The act of spending less and shifting the consumption by consumers during or even before period of recession, a negative growth in economy.

DOLLARIZATION: The usage of US dollar instead of the domestic currency of the relevant country which lost its function as a medium of exchange often caused by hyperinflation and instability.

HYPERINFLATION: A condition that appears where the prices of goods and services increase uncontrollably, extreme rapid inflation.

PRICE ELASTICITY: A measure that indicates responsiveness of consumers to good or service after a change in the price. If there is a drop/rise on the consumption amount of the good/service, it is named price elastic good or service.

SUPPLY CHAIN: The network of all elements - individuals, organizations, businesses, resources and activities- associated with the creation and sale of a product.

VALUE CHAIN: The periods of material sourcing, production, consumption and recycling, any kind of process a product goes through in its lifecycle.

D. General Overview

a. Understanding Hyperinflation

Hyperinflation is an economic term that describes a period of extremely high and typically accelerating inflation, eroding the real value of the local currency, and causing the population to minimize their holdings of the currency. It's generally defined as a monthly inflation rate of more than 50%. This rapid increase in prices means the cost of goods and services can double in a very short time, often leading to significant economic instability.

The causes of hyperinflation are complex and multifaceted, but they generally involve a combination of several factors:

Excessive Money Supply: Central banks might print money to pay for government spending. This increase in money supply without a corresponding increase in goods and services can lead to hyperinflation.

Loss of Confidence: If people lose confidence in a currency, they may spend it more quickly, which can increase the velocity of money and contribute to hyperinflation.

Demand-Pull Inflation: If the costs of production increase (for example, due to wage increases or rising raw material prices), producers may pass these costs onto consumers, leading to inflation. In extreme cases, this can contribute to hyperinflation.

Economic Shocks: Events such as war, severe changes in the exchange rate, or extreme economic mismanagement can also trigger hyperinflation.

It's important to note that hyperinflation is generally considered a rare event, typically associated with some sort of economic collapse. Tackling hyperinflation often involves a combination of fiscal and monetary policy measures, including reducing the money supply and restoring public confidence in the economy.

b. Hyperinflation and its effects on the global economy

Impact on Trade: Hyperinflation can drastically affect international trade. As the value of the currency plummets in foreign exchange markets, the cost of foreign goods skyrockets, making imports more expensive. This often leads to a decrease in trade between the hyperinflating country and its trade partners, causing a ripple effect on the global economy.

Global Supply Chain Disruptions: Countries often rely on each other for specific goods and services. If a country experiencing hyperinflation is a major producer of a certain good, hyperinflation could disrupt the supply of that good, leading to price increases on a global scale.

Financial Markets: Hyperinflation can create instability in global financial markets. Investors may lose confidence in the hyperinflating country, leading to a withdrawal of investment. This can cause global market volatility

Socio-Political Impact: The socio-political unrest that often accompanies hyperinflation can have international implications. For instance, it can lead to increased immigration, which can put pressure on neighboring countries and potentially lead to geopolitical tensions.

Global Inflation: In some cases, hyperinflation in one country can contribute to inflationary pressures in other countries. This can happen when central banks around the world are forced to adjust their monetary policies in response to hyperinflation.

c. Recent Trends

Recent trends in global inflation have been influenced by a variety of factors, including the COVID-19 pandemic and its associated economic disruptions, supply chain issues, and changes in monetary policy.

In the early stages of the COVID-19 pandemic in 2020, many businesses shuttered, and consumers spent less and saved more. As a result, median global inflation fell from 2.2 percent to 1.9 percent. However, in 2021 and 2022, consumer demand recovered far more rapidly than supply, which was limited by labor shortages, supply-chain interruptions, and geopolitical events such as the Russian invasion of Ukraine. This led to a surge in inflation, with median global inflation soaring from 1.9 percent to 8.8 percent between the third quarters of 2020 and 2022.

Looking forward, the International Monetary Fund (IMF) expects global headline inflation to fall to 5.8 percent in 2024 and to 4.4 percent in 2025. This forecast is based on the assumption that supply-side issues will unwind and monetary policy will become more restrictive.

It’s important to note that inflation rates can vary significantly from country to country, and even within different sectors of the same economy. For example, food prices are notoriously volatile, owing in particular to shocks caused by extreme weather.

Recent trends in global inflation have been marked by significant volatility, driven by unprecedented economic disruptions and changes in both supply and demand. Policymakers around the world continue to monitor these trends closely, as they have significant implications for economic stability and growth.

d. The Impacts of Hyperinflation

Hyperinflation, by definition, quickly erodes the real value of the local currency, as the prices of all goods increase, creating a situation where the general price level within an economy increases rapidly and excessively. This leads to people minimizing their holdings of the currency due to its loss of value.

Hyperinflation leads to a rapid decrease in the value of a country’s currency. As the prices of goods and services increase at an accelerated rate, the purchasing power of the currency diminishes. This means that more units of the currency are needed to purchase the same amount of goods or services. In extreme cases, the currency may become so devalued that it is no longer accepted as a medium of exchange, leading to the use of alternative currencies or barter systems

One of the most noticeable effects of hyperinflation is rapidly rising prices. As the value of the currency falls, the cost of goods and services in that currency rises. This can lead to a situation where prices are increasing multiple times within a single day, making it difficult for businesses to set prices and for consumers to plan their spending. The unpredictability of prices can lead to hoarding of goods and can disrupt normal economic activities.

Hyperinflation can also lead to higher unemployment rates. As businesses struggle to cope with rapidly changing costs and prices, they may need to cut back on production or even shut down, leading to job losses. Additionally, the economic instability caused by hyperinflation can deter investment, further leading to a decrease in employment opportunities.

In addition to these effects, hyperinflation can also lead to a host of other economic problems, including shortages of goods, reduced economic output, and increased poverty rates. It can also have significant social and political impacts, leading to social unrest and political instability.

e. Social and Political Implications

Social Implications: Hyperinflation erodes the purchasing power of a country's currency, which can lead to a decrease in living standards as the cost of goods and services become prohibitively high. This can lead to increased poverty and inequality, as well as social unrest. In some cases, hyperinflation can lead to a breakdown in social cohesion and an increase in crime rates. In addition, hyperinflation can lead to a phenomenon known as 'brain drain', where educated and trained workers leave the country in search of better economic opportunities. This can have long-term effects on a country's human capital and potential for economic growth

Political Implications: The economic instability caused by hyperinflation can lead to political upheaval. Governments may lose credibility and legitimacy if they are unable to control inflation, leading to political instability and changes in government. In some cases, hyperinflation has paved the way for authoritarian regimes. Furthermore, hyperinflation can erode trust in institutions, as people lose faith in the government's ability to manage the economy. This can lead to a decrease in social capital, which is crucial for the functioning of a healthy democracy.

E. Major Parties Involved

a. IMF

The International Monetary Fund (IMF) is a major financial agency of the United Nations, and an international financial institution funded by 190 member countries, with headquarters in Washington, D.C. It is regarded as the global lender of last resort to national governments, and a leading supporter of exchange-rate stability. Its stated mission is "working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world."

According to the IMF itself, it works to foster global growth and economic stability by providing policy advice and financing to its members. It also works with developing countries to help them achieve macroeconomic stability and reduce poverty.

b. UNCTAD

UN Trade and Development (UNCTAD) is an intergovernmental organization within the United Nations Secretariat that promotes the interests of developing countries in world trade. It was established in 1964 by the United Nations General Assembly (UNGA) as the United Nations Conference on Trade and Development but rebranded to its current name on the occasion of its 60th anniversary in 2024. It reports to both the General Assembly and the United Nations Economic and Social Council (ECOSOC). UNCTAD is composed of 195 member states and works with non-governmental organizations worldwide.

The primary objective of UNCTAD is to formulate policies relating to all aspects of development, including trade, aid, transport, finance and technology. It was created in response to concerns among developing countries that existing international institutions like the International Monetary Fund (IMF), and the World Bank were not properly organized to handle the particular problems of developing countries; UNCTAD would provide a forum where developing nations could discuss and address problems relating to their economic development.

F. Previous Attempts to Resolve the Issue

Financial cooperation policy discussions and the advancement of sustainable development have all been used in the UN and other respectable organizations' attempts to address the problem of hyperinflation and its impact on the world economy. Economic stabilization financial crisis management and equitable growth are the goals of these initiatives. During the 1996 meeting of the Economic and Social Council (ECOSOC) the United Nations Trade and Development (UNCTAD), Secretary-General brought attention to one important initiative by stating the significance of developing countries' contributions to global economic growth. In addition to aggravating hyperinflationary pressures, the talk focused on the dangers of highly unstable financial markets currency speculation, and large fluctuations in exchange rates. The Secretary-General demanded more symmetry in the International Monetary Fund’s (IMF) surveillance efforts between developed and developing nations broadened coordination of macroeconomic policy and improved coordination among monetary and financial institutions. By improving the stability and predictability of the global financial system this strategy seeks to reduce the likelihood of hyperinflation. In addition, as was mentioned at the same ECOSOC meeting the World Bank's participation underscored the significance of alliances and cooperation between the Bretton Woods institutions and the UN system. A wider approach to addressing economic issues including those connected to hyperinflation is reflected in the World Bank's emphasis on fostering greater cooperation and the formation of a consensus on a framework for growth in developing nations that is based on investing in people. The bank's initiatives to improve its monitoring practices and provide standard data to help members disseminate financial information also help to foster a more stable and open international economy. Furthermore, the idea of forming an early warning system run in concert by the World Trade Organization (WTO) the Bretton Woods institutions, and the UN was put forth. Such a system might be able to stop major financial crises and lessen financial volatility two things that are major causes of hyperinflation. This initiative highlights these organizations' shared accountability to keep an eye on and react to global economic trends and crises.

G. Possible Solutions

There are several ways to deal with the issue of hyperinflation and its continuing effects on the global economy. Together these remedies involve adjustments to monetary policy, fiscal policy and international cooperation.

Changes to Monetary Policy: Central banks bear the primary responsibility for managing inflation. In order to slow down the economy and raise borrowing costs while reducing spending interest rates can be adjusted. This could reduce the inflation pressure. Central banks can engage in open-market operations by buying or selling government bonds in order to influence the quantity of money in circulation within the economy. The purchase of bonds increases the money supply while the sale of bonds decreases it. The money supply needs to be carefully controlled to prevent hyperinflation. By putting fiscal reforms into place governments can reduce inflation. For the purpose of lowering the amount of money in circulation, this means either cutting back on public spending increasing taxes, or doing both. Reduced budget deficits are also necessary to prevent hyperinflation and maintain economic stability.

Currency Reform: In order to keep the economy stable during periods of severe hyperinflation such as those that happened in Venezuela or Yugoslavia currency reform has been put in place. This involves replacing the current currency with a new one that is frequently backed by a foreign currency or currencies in order to restore confidence in the currency and stabilize prices. The end of hyperinflation has been achieved despite the seemingly drastic nature of currency reform. When fighting hyperinflation international cooperation is usually crucial especially when it affects global trade. International Monetary Fund (IMF) and other global financial organizations can provide financial support and advice to countries that are experiencing hyperinflation. Collaboration and multilateral agreements can also help prevent speculative attacks on currencies and manage the unbalanced global economy.

Consolidating Financial Systems: By strengthening the financial systems one can help prevent hyperinflation. This strategy includes among other things tightening banking regulations and improving oversight processes that ensure financial transaction transparency. Strong financial structures withstand shocks better.

Promoting Sustainable Development: Providing backing for inclusive economic growth is a means of preventing hyperinflation in multiple dimensions. Policies that adapt income equality job creation and environmental protection can help create a more resilient and stable economy. Such laws have a framework provided by the Sustainable Development Goals (SDGs) of the United Nations. Adopting these solutions requires taking into account both the general economic situation and the particular circumstances of each country. It is imperative to bear in mind that even though these measures can aid in curbing and controlling hyperinflation a more comprehensive strategy involving structural modifications and social justice initiatives is necessary to attain sustained economic stability and prosperity.

H. Further Reading

Weak Global Economy, High Inflation, and Rising ...

Hyperinflation Explained: Signs, Causes and Mitigation

Hyperinflation potential in commodity-currency trading ...

How Do Governments Fight Inflation?

DEVELOPING COUNTRIES' CONTRIBUTION TO GROWTH …

I. Bibliography

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- *UN ECOSOC Calls for International Cooperation and Joint Efforts to*. (n.d.). https://www.cepal.org/en/pressreleases/un-ecosoc-calls-international-cooperation-and-joint-efforts-foster-decent-work-and