Forum: Economic and Social Council Commission (ECOSOC II)

Issue: Mitigating the Impacts of Global Debt Crises (SDG 8)

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Introduction

Debt has plagued the global economy for the larger part of the past century. Borrowing money is a vital financial asset and tool that is used by not only individuals and the public, but also major political parties like the government to achieve sustainable development. The debt system further facilitates the global economy, and along with recognition of its value, loans and debt are extremely common in today's society. Although the benefits of having the debt system in our economy is apparent, there are several repercussions that arise when the debt stacks up.

Furthermore, as the gap in the financial status of countries gets bigger, most of the developing nations and other countries seem to have become reliant on the debt system. As there are no economic or social improvements in developing countries, the gap between developed countries and developing countries is growing, creating a dangerous and unstable economy. In order to decrease the gap in economic expansion, alternate solutions related to equal social developments are also needed.

The debt crisis on an international scale is critical in the global economy because the international debt cannot be secured by any collateral, indicating that countries can print out their currencies as an immediate solution to pay their debt. However, doing so simply calls up for inflation and creates an uneven cycle, with the Greek debt crisis, the printing of more Euros, and the huge slow-down of the EU due to it. Additionally, Spain's recent debt crisis was also caused because of the creation of large private sectors creating an imbalance in the overall economy and therefore increasing unemployment rates. Although countries that went through debt crisis are in the stage of perfect recovery, the scars left due to the crisis is still unremovable.

On a macro scale, the global debt crisis damages the economic activities of individuals and companies. Especially, heavy indebtedness works as a signal to the world financial community that the country is in an investment risk, unable to pay back the debts, which impacts the credibility of companies. Furthermore, economic recessions brought to a country due to the global debt crisis can even impact individuals' finances, the health of individuals due to immense stress caused by economic circumstances, relationships with people, and more. For these reasons, the debt must be mitigated and managed as while it is a great tool, it can also lead to the peril of the world economy. Overall, high debt can amount to prevent progress in the economy and sustainable development.

Recently, the total global debt has reached over $257 trillion USD due to loose financial conditions and failing policies and solutions. In TASMUN 2020 ECOSOC II, we are looking forward to create and draft a resolution that may combat the impacts of the global debt crisis. Considering the scale of the global debt crisis, the importance of mitigation of drastic impacts is greater than ever and will be one of the greatest challenges to face in the coming century.

Definition of Key Terms

Collateral

An item that is pledged as security for the repayment of a loan.

Mortgage

A legal agreement where a bank or credible loaner lends money with an interest with a condition that allows them to hold the title of your property until the lent money is paid back.

Down Payment

An initial payment that's made when an item is bought on credit.

Bankruptcy

When a company, organization, or person are no longer able to pay back outstanding debt and therefore have their property taken and disposed for the benefit of the creditors.

Debt

Something, typically money, that is owed or due.

Debt Crisis

A situation in which a country is unable to pay back its government debt. A country can enter into a debt crisis when the tax revenues of its government are less than its expenditures for a prolonged period.

Financial Crisis

In a financial crisis, asset prices see a steep decline in value, businesses and consumers are unable to pay their debts, and financial institutions experience liquidity shortages. It is often associated with a panic or a bank run during which investors sell off assets or withdraw money from savings accounts because they fear that the value of those assets will drop if they remain in a financial institution. Other situations that may be labeled a financial crisis include the bursting of a speculative financial bubble, a stock market crash, a sovereign default, or a currency crisis. A financial crisis may be limited to banks or spread throughout a single economy, the economy of a region, or economies worldwide.

Sustainable development

Economic development that is conducted without depletion of natural resources. The United Nations currently has 17 sustainable development goals which are urgent calls for action by all countries (both developing and developed nations).

Developing Countries

A country having a standard of living or level of industrial production well below that possible with financial or technical aid; a country that is not yet highly industrialized.

Developed Countries

A country that has a standard of living or level of industrial production that is extremely advanced relative to other less industrialized nations; a country that is highly industrialized.

Background Information

The Great Recession

The Great Recession was a period of economic decline in the late 2000s (2006-2008). It's said to be the "most significant downturn since the Great Depression" (Investopedia). The word recession itself means a decline or stagnation in economic growth. This term is used to describe both the U.S. recession (2006-2009) and the consequent international global decline in 2009. It started with the downfall of the housing market in the United States and in response, ended up as the biggest downfall of economy in the world. It is relevant in this situation as it is a major example in identifying past actions and happenings in a devastating global debt crisis.

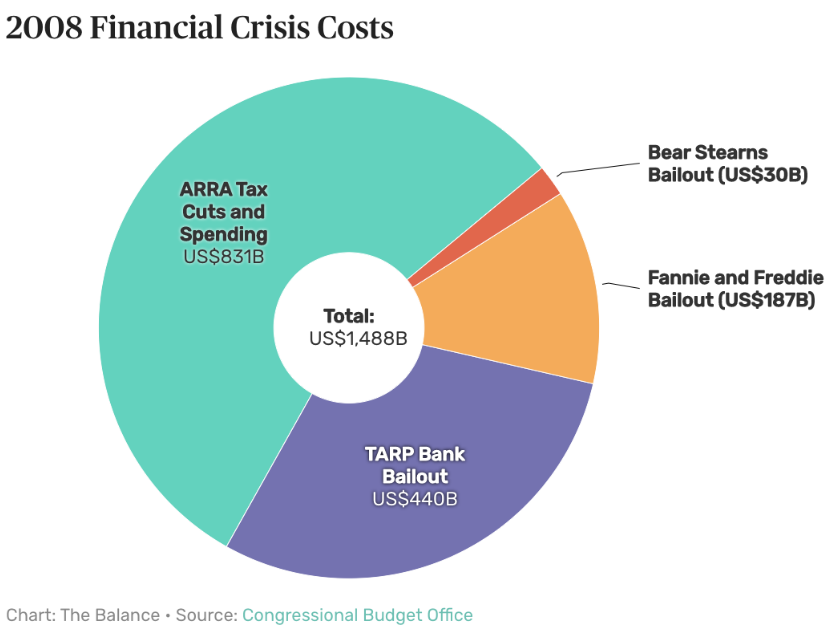

Figure #1: Cost of the 2008 FInancial Crisis (USA)

The Subprime Mortgage Crisis

In late 2006, American banks were selling too many mortgages to the public in an attempt to meet the high demand for mortgage-backed securities that were being processed through secondary parties. As the number of mortgages started getting out of control, the mortgages started becoming subprime (granted to borrowers with impaired credit history) who had no business receiving those mortgages. However, in 2006 house prices in the US started to suddenly drop. As the house prices dropped, borrowers realized that their houses were now worth less than the mortgages they had taken so they couldn't refinance or sell their homes as assets. Consequently, the economy reacted negatively as defaults were reached and banks started to realize the severity of the invalid loans they had been giving out. Once the issue had been discovered, subprime mortgages and the housing market had been too deeply embedded into the economy, ending up in a massive blow-up and disaster called the Great Recession of 2008. This was the start of the biggest recent financial crisis of America, showing repercussions all over the world afterwards.

The 2007 Banking Crisis

The 2007 financial crisis was the output of the breakdown of the relationship between the banks in the United States. Major names like Lehman Brothers went bankrupt. Others like Merrill Lynch, AIG, Freddie Mac, Fannie Mae, HBOS, Royal Bank of Scotland, Bradford & Bingley, Fortis, Hypo and Alliance & Leicester all came dangerously close to bankruptcy and had to be rescued by outside groups from doing so. The crisis was caused by the 2006 subprime mortgage crisis and was also consequently part of the reason why the Great Recession happened. The leaders of the world had to spend over trillions of dollars to save the international banking world from collapsing and those impacts will be felt for decades to come.

The Global Great Recession

After the crisis of the American economic downfall, global crisis closely followed. Immediately after the fall of the United States, the Asian market was directly impacted. Asian powerhouses like Japan, China, and Hong Kong were immediately impacted by the subprime crisis and went into peril. Shortly after, the European Recession came, with the downfall of the European banking system. All in all, this came to create what many economists call the worst economic recession in history.

The Great Recession was the most recent example of a global debt crisis that can be used to model future plans for the mitigation of future crises. It is the exact reason why a global debt crisis is so daunting for the entire world and why efforts should be made to evade another disaster of this scale.

Continued Struggles to Revitalize the Economy

United Nations

The United Nations member nations also take part in the global debt cycle. Even inside the United Nations, countries are failing to pay the regular budget or other costs that are created, creating debt. The uncooperative members are creating trouble for both the United Nations itself and the world. According to chief Antonio Guterres, while 152 members paid their budgets in 2018, more than $528 million remained unpaid. This is becoming problematic since the cycle of debt is becoming unsustainable for both the United Nations itself and those that need the United Nations. Guterres stated, “Current cash balances cover less than two months of operations, compared to four months last year,” and this is increasingly alarming as the $2 billion downfall in 2018 is increasing even now. The United Nations will progressively encounter more problems similar to this as time passes, but the lack of cooperation from member states is making it even more difficult for the world.

Developed Countries

Even today, developed countries all over the world are still struggling with debt. The United States of America have a total of $22 trillion USD of debt, the highest ever. The United Kingdom are also sitting in a surprising 85.9% of their GDP as government debt, which is unbelievably risky. Even as we progress through life today, due to the high level of debt and unstable economies of the developed countries, the risk of another Global Debt Crisis is imminent all over the world, including the developed economic powerhouses of the world.

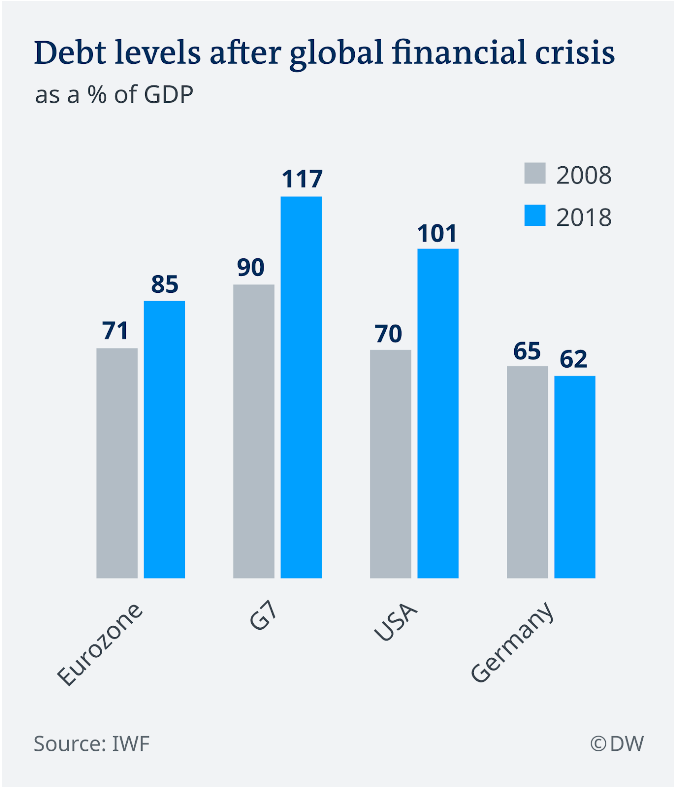

Figure #2: Debt levels after global financial crisis showing the impacts from the 2008 global crisis.

Developing Countries

For developing countries on the other side of the spectrum, debt is an even more imminent issue. Countries in 2020 are still struggling to regain their previously prosperous economies. Countries like Mozambique, the Republic of Congo, and other third world countries who suffered extreme financial losses in 2008 are still struggling to find consistent sources of economic growth. Additionally, even countries in the EU are still struggling to pay back debt, with countries like Greece having a debt to GDP ratio of an astounding 181.2%.

Third World Debt is also an extremely big problem today. Third World Debt is any debt that third world countries owe to developed countries and multilateral lending institutions. The debt began to become truly problematic when the countries started to become unable of generating sufficient funds to meet the repayments. Many third world countries are already in debt crises due to this. According to a World Bank study, third world countries had a total stock of $4 trillion dollars of external debt in 2010, with that number spiking up even more in the last 10 years.

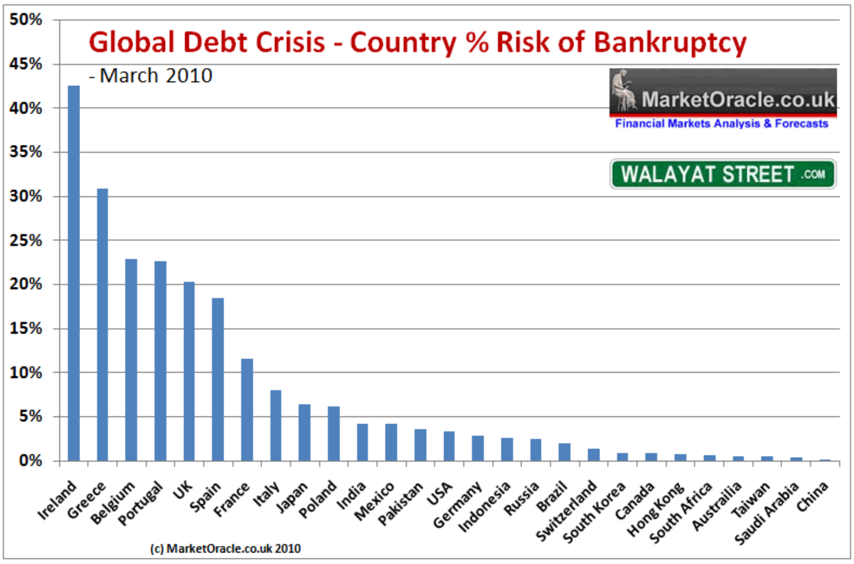

Figure #3: Countries in the risk of Bankruptcy in 2010 after Great Recession

A solution to the everlasting debt in the world will have to be found before another recession happens to the entire world as we can see that the recession is coming closer every passing second.

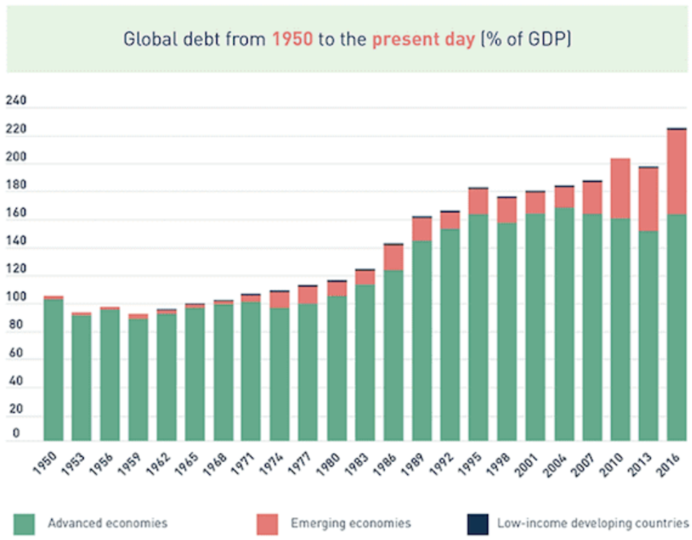

Figure #4: Global debt from 1950 to the present day (% of GDP)

Major Countries and Organizations Involved

International Monetary Fund

The International Monetary Fund is an international organization working to secure financial stability of the global economy. The IMF supports countries in monetary crisis with loans and repayment schedules. They have recently presented a new update of the IMF's Global Debt Database that the total global debt reached $188 trillion USD in 2018 which is a dramatic increase compared to that in 2017.

The IMF are constantly showing their concern based on the increase of public debt ratio. The International Monetary Fund is one of the few non-governmental organizations with resources sufficient to help countries in financial situations, making it vital for the mitigation of global debt.

The World Bank

The World Bank is an international financial institution that provides loans and grants to developing nations to resolve the issues of poverty and hunger. Based on their mission to tackle poverty, they have been nativaging the trends of the global economy; recently, the World Bank has warned about the risk of a potential global debt crisis due to low interest rates that encourage developing nations to take loans and increase their debts. They stated that policy improvements are highly needed in order to have less countries taking in these amounts of debt. The World Bank, like the IMF is one of the few non-governmental organizations with resources sufficient to help countries in financial situations, making it vital to the mitigation of global debt.

The World Trade Organization (WTO)

The World Trade Organization is an intergovernmental organization that regulates the trades within each of the nations. The initial purpose of the creation of the WTO was to grow trade liberalization for developing nations, and they are currently in a stage of controlling trade-financing and trade barriers. The WTO is particularly important in the mitigation of debt as trade is the primary source of economic growth and economic growth is vital in the restabilization of a country and its economy. With the help of the World Trade Organization, a country’s economy can either flourish or crash in little to no time.

United States of America

As the largest economic powerhouse in the world, the United States of America plays a big role in the global economy and the mitigation of global debt. In 2007, the Global Recession also has a history of stemming from the housing market crash in the United States and it was visible then how big of an impact it played on the rest of the world. Additionally, despite being the largest economy in the world, the United States is also currently the country that is still in the most debt from the debt crisis. With its long history with debt and its large impact on the rest of the world, the actions of the United States of America will have to be closely observed in terms of mitigation of impacts of a global debt crisis.

China

Like the United States, China has become one of the world’s undeniable powerhouses. With its high level of industrialism and economic power, China has become one of the largest economies of the world with an unbelievable GDP growth ratio for the past years. However, China is related to global debt in other senses. China has recently been giving out loans to third world countries in what is called a “debt trap” by offering cheap infrastructure loans but taking advantage with defaults when the poor economies are unable to pay back, with some even calling this "modern day Imperialism". Some countries that have suffered due to this are Djibouti, Tajikistan, Kyrgyzstan, Laos, etc. Countries in the world are therefore calling for China to work to spread the debt more equally and adopt more transparency and stricter standards when giving out loans, which are qualities that must be taken in mind when creating future solutions. It is unrightful that there are third world countries in the worfrom these problems and there must be a solution to this before we see the peril of a number of countries because of debt.

EU

The European Union as a whole is yet another victim of the deadly Great Recession of the 2000s. The domino effect of events that led to the European debt crisis have created impacts that are still felt by member states to this day. Countries like Greece are still on the top of rankings of international debt, with debt to GDP ratios of over 180%. The European Union, as powerful as it is, will play a big role in the mitigation of global debt and its impacts as its has not only the history, but the preparation to stop another one of those devastating crises that it suffered years ago.

United Kingdom

The UK is responsible for a majority of the money loaned towards the global south. Although 90% of the loans are given publicly which means they must follow English law, loans that are given privately or vulture funds, can be used in court to sue for major profit. The United Kingdom has recently experienced difficulty with growing their economy efficiently due to the discussion of Brexit. In 2018, their economy grew as much as 1.4%, the lowest rate it's grown since 2009. Additionally, the United Kingdom's current debt to GDP ratio is 85.9%, which is alarmingly large. Even though it's a global powerhouse, the United Kingdom has the chance of ending up in any side of the spectrum. It is crucial that action is taken as soon as possible to prevent the worst from coming.

Developing (Third World) Countries

Developing countries, also known as third world countries, are experiencing difficulty to repay debts due to rapid growth in debt of developing countries. As previously mentioned, some countries have fallen for detrimental loans that ended up harming the economic growth of the country, like Djibouti, Tajikistan, Kyrgyzstan, Laos, etc. These third world countries obviously are in dire need of help, but proper actions will have to be taken to take the proper direction towards economic prosperity and escape from poverty. For that, a solution will have to be found to mitigate the imminent debt crises that these countries face today.

United Nations

Currently, UN member states even owe $2 billion in debt under the purpose of peacekeeping. Although it is true that most of the debt is owed by U.S., having United Nations suffering in debt contradicts its initial purpose of the creation; global debt crisis is one of the largest threats to global economy while the United Nations is an international organization for world peace. Even more, the Charter of the United Nations (UN Charter) states that one of the four main purposes of the UN is "fostering cooperation between nations in order to solve economic, social, cultural, or humanitarian international problems." This insinuates that the debt of the United Nations should be solved for a better future and world peace.

Timeline of Events

Date	Description of event
1971-1973	Beginning of financial globalization
October 24, 1929	The United States' stock market crashed and that was the beginning of the Great Depression.
September 1, 1939	Debt increased steeply as countries began to borrow to finance for World War II expenses.
1970-1990	Suddenly, the recession of the 1980s created a Latin American debt crisis. Countries like Mexico and Brazil were incapable of paying debt and it only started stacking up.
December 2007	The bursting of the housing market's bubble led to the United States' biggest recession after the Great Depression and consequently an international global debt crisis (the biggest recent one).
2018	The world levels of debt increased by a whooping $3.3 trillion in the year 2018 to amount to a total of $243 trillion.

Relevant International Laws and Treaties

- Universal Declaration of Human Rights, 10 December 1948 (**A/RES/3/217)**
- The Arab Financing for Development Scorecard, 16 August 2017 **(E/ESCWA/EDID/2017/IG.2/5)**
- Enhancing international cooperation towards a durable solution to the external debt problems of developing countries, 31 January 2002 **(A/RES/56/184)**
- External debt sustainability and development, 12 February 2013 **(A/RES/67/198)**
- The Addis Ababa Action Agenda (AAAA), 15 July 2015
- Basel III, November 2010

Possible Solutions

The issue of global debt crisis involves all nations and organizations with economic power to mitigate the global debt crisis. Although getting to the solutions may be difficult due to the complex systems of economy and relations created due to dept arrangement, there are several possible solutions to at least alleviate the global debt crisis.

One possible solution to combat this issue is encouraging member nations currently suffering from debt to send monetary reports to organizations such as the International Monetary Fund (IMF), World Trade Organization (WTO), and World Bank, for analysis. This will allow more efficient trade and economic decisions to be made between nations and boost their own economies. Asking member nations would meet with these organizations annually for their analysis. Encouraging beneficial trade and possible reformations of banking systems will help create beneficiary relationships between different member nations and decrease debt. This could also include more guided and efficient negotiations between China and the United States to end their trade war in a more efficient way.

Another solution would be urging member states to lower their central banks interest rates. Lowering interest rates will encourage civilians to borrow money for investments, or other ways to gain more profit, which will ultimately help them pay off their own individual debt. This may seem harmful to banks, however they would not be losing any profit either. By lowering interest rates, when a deposit is made, the bank doesn't have to pay as much interest rate either. With more people loaning money, and less interest being paid by the bank, they will ultimately gain more profit. One issue with this solution is that it's not possible to ensure it will completely help people in debt. There is no indefinite way to guarantee the money being borrowed is being used beneficially and not being wasted. One way to combat this would be having a prerequisite to apply for loans, for example, a plan for what the money will be used for, or any form of written proof. Implementing required monetary reports for the banks to oversee where the money is being used could also be helpful, however, it would be difficult to implement and impose onto civilians; it could also act as an incentive to not borrow money. However, even without these systems in place, the solution will most likely be helpful towards the economy.

One final solution would be asking for the reconstruction of the debt system. This would include urging banks to agree to extending payment terms for those in debt if requested and encouraging alternatives to debt. Often times when someone in debt is unable to pay back their debt in full after the agreed upon time, then banks take away their property as collateral, however, if the person in debt doesn't have collateral, the bank targets them. Asking banks to actually agree to extending debt payment terms would be much more beneficial. However, seeing as there is a possibility of the individual being unable to pay back their debt again, or using the time given inefficiently, there should be penalties put in place. First, there should be a limit on how much more time can be given, considering their financial position and debt. Second, there should be strict requirements the individual must follow in order to continue having the benefit of this extension, such as required monetary reports. Finally, each individual should only be allowed one agreed upon extension to encourage the person in debt to find more efficient ways to gain profit. Another way to reconstruct the debt system would be encouraging the use of alternatives for debt. For example, giving up stock to replace debt would make debt payment much more efficient. However, because giving up stock for debt only works if both parties agree upon it, encouraging banks and companies to actively take in stock from those in debt would be beneficial.

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