Forum: Economic and Social Council (ECOSOC)

Issue: Recovering from the world financial and economic crisis

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PERSONAL INTRODUCTION

Dear delegates,

My name is Evangelia Stoikou and it is my honor to be the Deputy President of this conference's Economic and Social Council, the United Nations' central platform for reflection, debate, and innovative thinking on sustainable development. I have never participated in a PSMUN conference before, so I am really excited to be given such an opportunity this year. This will be my sixth conference and I really look forward to this experience.

Currently, I am attending Psychico College (HAEF) and I am in my senior year. Even though I am a science oriented student in the Greek educational system, I am fascinated by international affairs. Living in a country where a financial and economic crisis is evident, I believe that this topic is of utmost importance. Through activities like Model UN we need to ponder over, not only the financial and economic conditions, but the associated social problems as well, and instead of pointing fingers at things that went wrong, find and propose ways to recover.

As the expert Deputy President on this topic, I will provide you with some guidelines in order to enhance your efforts in research and make the most out of this conference. I strongly urge you to find solutions for the financial crisis using not only the web, but also your personal experiences. It is an excellent opportunity to cultivate your critical-thinking and bring new, innovative ideas on the table, representing your countries' policies. Feel free to contact me anytime if any questions arise or if you need my help.

I am looking forward to meeting you at the conference.

Best regards,

Evangelia Stoikou

INTRODUCING THE TOPIC

The current financial and economic crisis is the worst the world has seen since the Great Depression of the 1930s. The effects of the crisis became evident in the middle of 2007 and into 2008, a fact that demonstrates that the problem has deep roots and does not have only temporary causes.

The financial crisis started in 2007 in the United States and involved financial institutions in many countries. The crisis turned into a global economic phenomenon when the developing and emerging-market economies were affected, mainly through the trade channels, and in some cases through workers' decreasing allowances.

Even though there is a misconception that only developed countries were directly affected by the crisis, the economic consequences for developing countries were significantly severe, as well. Consequently, the worldwide recession, the first since the Second World War, led to a reduction of world gross domestic product (GDP) by 0.6 per cent in 2009.

Around the world, ever since that date, stock markets have fallen, large financial institutions have collapsed or have been bought out and the governments of even the wealthiest nations have had to take necessary measures to partially recover from the crisis.

Many people are afraid that those responsible for the financial problems are the ones being bailed out, while at the same time the crisis itself is affecting the livelihoods of almost everyone in an increasingly inter-connected world. Truly, it is difficult to find the exact social group that it is to blame for, because the cause of this world crisis is the way our society and economy is structured.

The problem might have been avoided, if ideologies supporting the current economic models were not so inconsiderate of others' viewpoints and needs. However, since we cannot go back in time, the world needs to focus on the real issue and take systematic measures that will eventually lead to a financial and economic recovery.

Picture 1

KEY TERMS

Financial Crisis

According to its common definition it is a situation that the value of assets or financial institutions drops rapidly. Such a crisis is often correlated with a panic of the banks, in which investors sell off assets or withdraw money from savings accounts, having the fear that the value of those assets will further drop in that period. This situation can be a result of assets being overvalued, and is worsened by inappropriate investor behavior. Rapid sell-offs can further result in lower asset prices or more savings withdrawals. If left unaddressed, the crisis can cause the economy to go into a recession or depression.

Economic Crisis

There is no clear cut distinction between a financial crisis and an economic crisis, as the terms are closely interconnected. However, as the financial crisis, which refers to the problems in the financial sector, becomes broader it affects the entire economy. It is this fall in GDP and in the economic output that turn a financial crisis into an economic crisis.

Sell off

Intensified selling of securities, such as stocks, bonds and commodities in a declining market, caused by the fear that prices will decline further.

Gross Domestic Product (GDP)

The value of a country's overall output of goods and services, typically during one fiscal year, at market prices, excluding net income from abroad.

Recession

Period of general economic decline, defined usually as a contraction in the GDP for six months or longer. That period is marked by stagnant wages, high unemployment, and fall in retail sales. Theoretically it does not last longer than one year and is much milder than a depression.

Depression

Lowest point in an economic cycle that causes a drop in all economic activity and is characterized by:

- reduced purchasing or buying power
- high unemployment rates
- excess of supply over demand
- falling prices, or prices rising slower than normal
- falling wages, or wages rising slower than normal
- general lack of confidence in the market and its future

Inflation

A sustained, rapid increase in prices over months or years, and mirrored in the correspondingly decreasing purchasing power of the currency.

Purchasing power

Extent to which a person, firm, or group has available funds to make purchases. The definition in economics refers to money and credit available for spending and consumption of goods and services. Demand and prices cannot rise beyond the available purchasing power.

HISTORICAL INFORMATION

Several phases of the world financial and economic crisis that took hold in September 2008 can be identified and they are frequently attributed to the collapse of the US investment bank, Lehman Brothers, although many other financial markets were malfunctioning before that time. For this reason one should study the whole series of events that took place before 2007-2008 in order to understand the evolution of the current crisis.

Major financial crises in history

- **Wall Street crash and Great Depression**

In 1929, the speculative boom of the roaring 20s came to an end. Shareholders and businesses lost millions of dollars, industrial production dropped by 45 per cent, 5,000 banks went out of business and 13 million people were unemployed.

- **Oil crisis**

The collapse of the Bretton Woods system in 1973-1974 (the first example of a fully negotiated monetary system intended to govern monetary relations among independent nation-state), combined with an embargo imposed by Arab oil exporters, caused a slump across the Western World.

- **Black Monday**

It refers to Monday October 19th of 1987, when a fall in share prices was amplified by automated trading systems and portfolio-insurance schemes, causing markets around the world to plummet.

- **Asian crisis**

In 1997, investors poured money into several emerging Asian economies, driving up asset prices to unsustainable levels and eventually causing a crash.

- **Dotcom crash**

In 2001, shares in telecoms and internet firms boomed amid euphoria over the wonders of the web. Eventually investors realized that there was no profit.

- **Sub-prime crisis**

In 2008, elaborate mortgage-related securities designed to reduce risk encouraged investors to become involved in the American housing market, which then crashed.

The housing market in the United States suffered greatly because many home owners had taken loans and they were unable to meet their mortgage repayments. As a result, the value of homes plummeted and the borrowers found themselves with negative equity. Having a large number of borrowers defaulting on loans, banks were faced with a situation where the repossessed house and land was worth less than what the bank had originally loaned it out. This is commonly referred to as the credit crunch.

Picture 2

Before Lehman Brothers collapsed, the effects of the revaluations in the prices of lower quality US mortgage-backed securities began to be evident in other countries and specifically in Europe. The shortage of working capital caused desperate firms to liquidate stocks, cut purchases, and fire staff. Trade finance became scarce and decreasing purchases by firms and consumers international trade began to plummet.

This, in turn, resulted in the US Federal Bank injecting a large amount of capital into the financial markets and by September 2008, the crisis had worsened as stock markets around the globe crashed and became highly volatile. Consumer confidence was absent as everyone was living in fear of what could lie ahead.

Countries claiming that they had learned the lessons of the 1930s, took aggressive steps to stabilize their economies. The stabilization phase commenced in the beginning of 2008 and continued through to the end of 2009. However, from 2010 and on, tax increases and government spending cuts were introduced. Those measures were highly controversial because the public believed that a full recovery was not yet achieved.

In the countries of Europe, concerns about the situation added another dimension to the global financial crisis. The governments of Greece, Ireland, Italy, Spain, Malta, and Portugal were not able to borrow money from the financial markets and sought bailouts from the European Commission, the Troika, the International Monetary Fund, and the European Central Banks.

Generally, although the collapse of the housing market in the United States is commonly said to be the trigger for the global financial crisis, some experts, including US politicians, who have observed the events over the past 20 years believe that the financial system needed better regulation to discourage unscrupulous lending from the beginning.

Actions taken by the UN

Resolution No.	Topic
A/RES/63/277	Organization of the United Nations conference at the highest level for the world financial and economic crisis and its impact on development
A/RES/63/228	Groups of countries in special situations: specific actions related to the particular needs and problems of landlocked developing countries: Outcome of the International Ministerial Conference of Landlocked and Transit Developing Countries and Donor Countries and International Financial and Development Institutions on Transit Transport Cooperation
A/RES/63/205	International financial system and development
A/RES/2011/37	Recovering from the world financial and economic crisis: a Global Jobs Pact

TIMELINE OF EVENTS

Year	Event	Description
1929	*Wall Street crash and Great Depression*	Drop of industrial production and great loss of money
1973-1974	*Oil crisis*	Embargo imposed by Arab oil exporters, caused a slump across the Western World
1987	*Black Monday*	A fall in share prices
1991	*India's economic crisis*	India's government was close to default, its central bank had refused new credit and foreign exchange reserves were reduced.
1994	*Economic crisis in Mexico*	The Mexican peso crisis was a currency crisis sparked by the Mexican government's sudden devaluation of the peso against the U.S. dollar
1997	*Asian crisis*	Investors poured money into several emerging Asian economies which later crashed
1998	*Russian financial crisis*	It resulted in the Russian government and the Russian Central Bank defaulting on its debt.
1998	*Argentine great depression*	Caused widespread unemployment, riots, the fall of the government, a default on the country's foreign debt, the rise of alternative currencies and the end of the peso's fixed exchange rate to the US dollar

2001	*Dotcom crash*	Increasing shares in telecoms and internet firms with no profit
2008	*Sub-prime crisis*	The housing market in the United States suffers greatly

MAJOR PARTIES INVOLVED IN THE ISSUE

U.S.A.

The housing market collapse in the United States is commonly referred to as the trigger for the global financial crisis. The U.S. government proposed a $700 billion rescue plan, which failed to pass because some members of US Congress objected to the use of such a massive amount of taxpayer money being spent to bail out Wall Street investment bankers, who were thought to be one of the causes of the global financial crisis.

Australia

Australia delivered its first budget in response to the global financial crisis, with the main objective being to fight inflation, a major problem in the local economy at the time. Many experts have stated that the Australian economy was more protected than other countries from the world financial and economic crisis. Consequently the people did not suffer as much as people from other nations.

Greece

Greek government needed and received several bailout packages, the last of which saw a large portion of its government debt written off.

Spain and Italy

In July 2012 Spain agreed to a €100 billion deal with the European Central Bank to bailout out that country's banks. On 26 July, 2012 the President of the European Central Bank threatened to intervene as aggressively as necessary in Spain's and Italy's affairs. Since then, the interest rates on Italy's and Spain's government debts have fluctuated in a relatively stable range.

Pakistan

A recent report by UNICEF states the financial crisis has had a direct and devastating effect on the already impoverished population of Pakistan. Food prices have risen, with basic products like flour and milk now triple the price of what it was last year, making it unaffordable to many people. Additionally, the constant inner conflict within the country in conjunction with the crisis, has forced over two million people to leave their homes and live in refugee camps.

Brazil

Brazil, along with many other Latin American countries such as Argentina, Bolivia, Colombia, Mexico, and Peru has been greatly affected by the crisis. Since the crash, Brazil's once high-riding currency has lost 53 percent of its value against the dollar.

The United Nations Non-Governmental Liaison Service (UN-NGLS)

An inter-agency programme of the United Nations mandated to promote and develop constructive relations between the United Nations and civil society organizations.

UN Department of Economic and Social Affairs (DESA)

Generating high quality estimates of economic performance has become an essential output of DESA during the crisis and as a consequence, there is a need to develop additional indicators on the performance of the economy and the financial markets.

World Bank

The main goal is to increase the understanding of development policies and programs by providing intellectual leadership and analytical services to the Bank and the development community.

POSSIBLE SOLUTIONS

The first fundamental step to recover from the financial and economic crisis is to restore consumer and investor confidence in the market. Policymakers have to recognize the need for global oversight of the banking industry, either by strengthening existing institutions or by creating new international authorities. Governments, in general, should focus on designing regulations that encourage responsibility and a long-term outlook, promoting sustainability in a local but also global level.

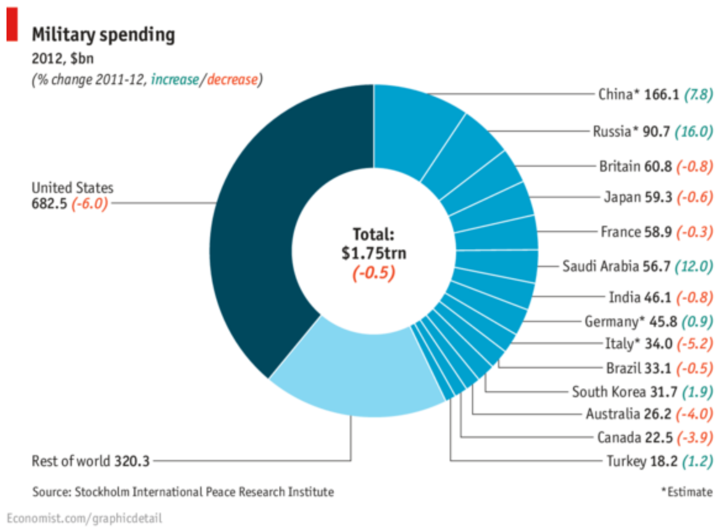
First of all, the reformation of international banking and finance is a solution that could potentially have positive results on the world's economy. The following measures could attribute to the achievement of this goal:

1. The introduction of a country bankruptcy code that will enable orderly sovereign debt restructuring.
2. Stricter regulations of tax havens and private equity funds, which have greatly increased the opacity in the financial market.
3. Introducing some kind of currency exchange tax. A very minimal one could avoid the incredibly damaging aspects of currency speculation and financial volatility that exists today.

Less economically developed countries (LEDCs) need more policy space for macroeconomic policy-making, for monetary, as well as, fiscal and exchange rate policy. Their development strategies have to be better adjusted to their specific needs, and should go beyond simply ensuring price stability and budgetary discipline. In this regard, LEDCs such as African countries should prepare themselves to take advantage of the potential opportunities that might arise from the world financial crisis by investing in:

1. local and national infrastructure development
2. strengthening efforts to increase human capital
3. maintaining political and macroeconomic stability

Additionally, reduction in military spending could give an opportunity to other fields to be enhanced. Even though war and militarism is rarely seen as connected to the global economic crisis, history shows these are inter-connected. In the following graph, the countries that spend the most on military are shown.



Picture 3:
Military spending chart

Moreover, each country needs to take advantage of its topography and location. For instance, the exploitation of renewable resources such as the solar, wind, biomass and geothermal energy can promote sustainability. These substitutes of coal and oil cost less and maximize the efficiency. Therefore, the economy of a country can benefit in the long-term.

Picture 4:
Wind turbines in California

Picture 5:
Fernando de Noronha in Brazil

A second example that illustrates the importance of a country's topography is ecotourism. This form of tourism is available in many locations, where the communities largely base their economy on ecotourism-related activities. In contrast to standard commercial tourism, ecotourism requires less money from the host-country's side, has a low-impact on the environment and directly benefits the economic development and political empowerment of local communities.

There is one certainty for this crisis: there are no localized solutions for a problem that extends throughout the world.

RELATED QUOTES

"We have an historic opportunity —and a collective responsibility— to bring new stability and sustainability to the international economic financial order."

Miguel d'Escoto Brockmann
President, 63rd Session of the General Assembly

"The financial crisis should not become an excuse to raise taxes, which would only undermine the economic growth required to regain our strength."

George W. Bush

"The financial crisis is a stark reminder that transparency and disclosure are essential in today's marketplace."

Jack Reed
Journalist, poet, and socialist activist

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MULTIMEDIA RESOURCES

Picture 1:
http://www.businessinsider.com/korea-lifts-short-selling-financials-ban-2013-11

Picture 2:
http://www.usatoday.com/story/money/business/2013/09/08/chronology-2008-financial-crisis-lehman/2779515/

Picture 3:
http://www.washingtonpost.com/blogs/wonkblog/wp/2013/04/15/look-at-this-graph-and-then-tell-me-we-cant-afford-defense-cuts/

Picture 4:
http://oag.ca.gov/environment/green-energy/renewable

Picture 5:
http://en.wikipedia.org/wiki/File:Fernando_noronha.jpg