Forum: Economic and Social Council

Issue: The financial aftermath of debt crises and stock market crashes

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Position: Deputy President

PERSONAL INTRODUCTION

Dear Delegates,

My name is Eirini Sotiropoulou and I am very happy to have been appointed as Deputy President of the Economic and Social Council (ECOSOC), one of the six main organs of the UN, in the sixth session of the Platon School Model United Nations conference. I am currently attending the 10th grade at the German School of Athens, and this will be my second time serving as the Deputy President of the ECOSOC, but my first PS-MUN conference.

The Economic and Social Council is responsible for providing solutions to problems with financial aspects and their sociopolitical consequences. Although we may sometimes not realize this, the dominant factor in all modern day social and political developments is almost always the economy. We have reached an era in which, due to globalization and the worldwide free market, every major development can be traced back to a chain of interdependent financial factors and interests: The entirety of the global economy was severely shaken, still affecting the lives of millions of people, when the US stock market crashed in 2008 another major international player, the Eurozone, was significantly destabilized (financially and politically) due to the debt crises in a few countries within it, millions of people are living in extreme conditions because numerous nations have been trapped in poverty and can't develop financially to repay their debts, and it is speculated that the most efficient way to defeat large terrorist organizations is to isolate them from their financial resources.

This is why I am so intrigued by economics and the topic of debt crises and stock market crashes, as it so directly affects our everyday lives. The aim of this study guide will be to explore the financial, and in turn sociopolitical, aftermath of these not so rare modern-day phenomena. Its aim is to assist you in understanding fundamental economic terms and to lay out the main causes and reverberations of this complex topic. Of course, you should not only rely on this study guide and extend your research further. Don't be intimidated by the amount of financial terminology included, as it is essential for the topic and in fact essential to your understanding of the modern world and I have made an attempt to explain it as simply as I could. You can always use the links in the bibliography for further information and do not hesitate to contact me if you need anything. I hope this study guide will prove to be helpful to you.

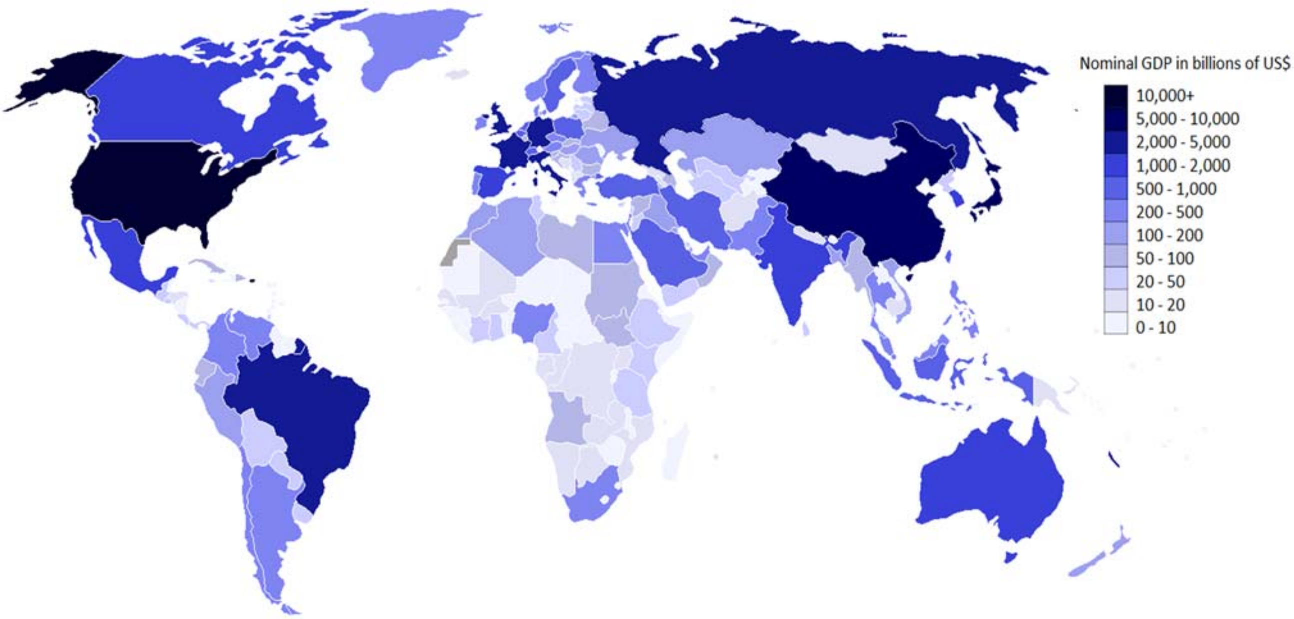
Best regards,

Eirini Sotiropoulou

DEFINITION OF KEY TERMS

Gross Domestic Product

Gross Domestic Product (GDP) is how we generally measure a nation's economic growth and productivity. GDP is defined as "the monetary value of final goods and services in a given period of time" by the IMF. This means that to calculate a nation's GDP one must add up the price of all goods and services produced in a specific period of time (usually in a year) within a country.



Per Capita Income

Per Capita income is used to measure the average income of a person in a specified area (in this case nation) in a specific period of time. It is simply calculated by dividing the nation's GDP by its population. This means that nations with a relatively small population but relatively high GDP (for example Singapore, Luxembourg and Norway) tend to have a higher per capita income than e.g. the USA, even though the latter has a massive GDP, because it also has a large population.

N°	Country (or territory)	2010	2011	2012	2013	2014	2015	2016	2017
130	Qatar	88,292	98,948	102,769	105,080	107,682	111,825	116,474	122,684
97	Luxembourg	78,907	80,559	80,679	80,985	82,190	83,930	86,108	88,620
147	Singapore	56,709	59,710	60,883	62,400	64,447	66,786	69,394	72,379
71	Hong Kong	46,463	49,417	50,709	52,721	55,291	58,127	61,267	64,734
120	Norway	52,179	53,396	55,264	56,694	58,011	59,483	61,155	63,001
177	United States	46,811	48,328	49,802	51,056	52,805	54,952	57,339	59,916
24	Brunei	48,622	49,536	50,526	50,927	53,056	54,529	56,573	58,523
175	United Arab Emirates	45,759	47,729	48,992	49,429	50,185	51,161	52,495	53,990
78	Ireland	40,397	40,838	41,739	43,298	45,334	47,722	50,197	52,930
160	Switzerland	43,157	44,452	45,286	46,233	47,474	48,875	50,425	52,167
8	Australia	39,545	40,847	42,354	43,661	45,160	46,840	48,633	50,588
159	Sweden	38,474	40,705	41,750	42,973	44,551	46,295	48,140	50,172
162	Taiwan	35,595	37,716	38,486	40,146	42,163	44,473	47,050	49,970
9	Austria	39,777	41,556	42,477	43,322	44,642	46,128	47,693	49,268
89	Kuwait	38,803	41,701	43,847	44,040	44,876	46,095	47,461	48,990
115	Netherlands	40,888	42,023	42,322	42,942	44,039	45,476	47,090	48,885
30	Canada	39,155	40,519	41,507	42,303	43,343	44,626	46,082	47,656
73	Iceland	36,535	38,060	39,380	40,523	41,882	43,586	45,461	47,567
61	Germany	36,173	38,077	39,059	39,997	41,209	42,552	44,009	45,595
43	Denmark	36,166	37,048	37,738	38,607	39,771	41,046	42,423	43,513
176	United Kingdom	35,731	36,522	36,728	37,384	38,492	39,869	41,372	43,094
56	Finland	34,456	35,981	36,458	37,261	38,395	39,628	40,950	42,396
83	Japan	34,241	34,748	36,179	37,193	38,216	39,396	40,683	42,133
16	Belgium	36,717	37,781	38,089	38,414	39,023	39,871	40,898	42,053
152	South Korea	29,717	31,220	32,431	33,898	35,577	37,419	39,440	41,671

Budget Deficit

It is of utmost importance that the difference between budget deficits and debt be fully understood. A budget deficit is created simply when a government spends more than it earns over a specific period of time. The budget deficit is measured by the difference of government spending and income. As a consequence of budget deficit, governments have to borrow money in order to cover this gap and be able to make their necessary expenditures.

Debt

A country's debt is defined as the accumulation of budget deficit over the years. Debt is not necessarily a bad thing: For example the USA, which has the world's largest debt, also has the world's largest GDP and a gigantic, (at least relatively) growing economy. This is why it is crucial to look at a country's debt as a percentage of its GDP and not at the monetary value of the debt alone. It is also important to monitor each nation's ability to make annual debt payments in time, which usually depends on its growth rate, in order to judge whether the nation is suffering from a debt crisis.

Stocks and assets

In economics, assets are described as economic resources or resources with a certain financial value owned or controlled by an individual, institution, corporation or nation, with the hope that they will be financially beneficial in the future. In the case of corporations, assets are the items on their balance sheet which represent what they own. Equipment, land, facilities or stocks are some examples of assets.

Stocks are the securities that show someone has ownership in a company and proportional claim to this company's profit and assets. Anyone who owns stocks (which are also known as shares) is a stockholder, whether that is a government or an individual. The stock market is where such companies issue stocks and their value and trade them, thus exchanging the right to ownership in the company for capital with investors.

Interest rates and credibility

When an individual or entity lends money or assets, they are doing this with the aim of gaining profit from the whole procedure. They achieve this by demanding that the borrower pay a certain amount of interest, which is an amount charged for the borrowing itself. The interest is expressed as a percentage of any possible sum that might be borrowed. This percentage is called the interest rate, and it is measured on an annual basis.

When lenders believe that the chance their money will not be returned is fairly small, so the borrower is a low-risk party, they keep the interest rates fairly low: In this case the borrower has high credibility and is likely to attract many lenders. If the borrower is a high-risk party, the interest rates proposed by lenders will be higher, making it even unlikelier that the borrower will be able to pay back the debts. Countries with strong economies have high credibility, whereas those with economies in crisis that show no signs of growth have low credibility.

Fiscal policy

The fiscal policy of a nation controls the amount of tax revenue a country gains on an annual basis and how much of that money is spent.

INTRODUCING TOPIC

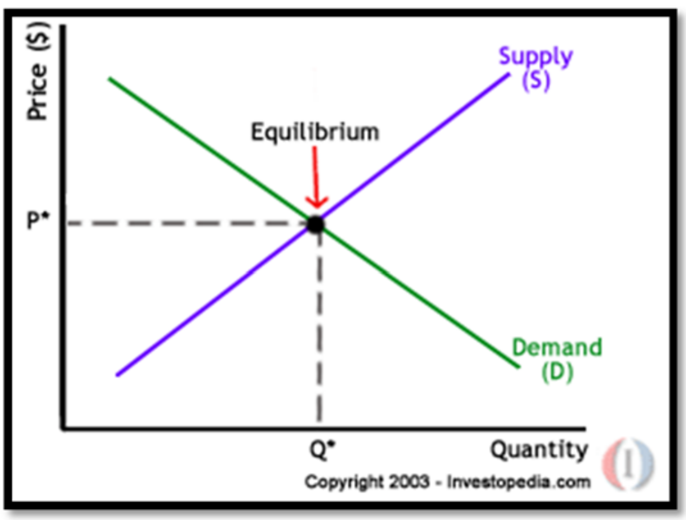
What is a debt crisis?

A phrase heard unusually often nowadays, since it describes a phenomenon which has occurred too often in the past and with massive implications to the global economy, is "national external debt crisis". But what does this mean and why are its consequences so severe in all fields of everyday life? When a country's debt accumulates to dangerously high levels and at the same time the country is characterized by relatively low levels of economic growth, it is unable to pay back its debts. This is what we call a debt crisis and it has different effects on different countries, depending on their fiscal policies, whether they are part of a monetary system and if they have the means and resources to stimulate economic growth.

Nations facing debt crises often see their economies shrink rapidly and need to borrow money in order to repay their previous debts and finance the public sector: Unfortunately, the debt crisis turns the country into a high-risk borrowing party in the eyes of investors, and its low credibility results in it having to borrow money with very high interest rates, which makes it even harder for the nation to pay back these loans in the future. Asset and stock values drop, and so does the value of the country's currency (with the exception of Eurozone countries, which we will analyze later on). Investors are more hesitant to bring business to the country, as the likely increase of taxes that the citizens will face will mean that they will cut back on spending and the business will not be very profitable. At the same time, local businesses tend to shut down for the same reasons and unemployment rises rapidly, further contributing to the shrinking of the economy.

What is a stock market crash?

A stock market crash happens when stock prices plummet rapidly and often unexpectedly. In order to comprehend the financial aftermath of a stock market crash and possible ways to prevent it, we must first elaborate on the basics of how the free market operates and why stock market crashes occur. In general, the prices of goods and assets in the global free market are created by the balance of supply and demand. These can be affected by a number of reasons, including natural catastrophes, government laws about product safety and most of all, false perceptions of market



participants. Generally speaking, stock market crashes tend to happen when there is a surplus in supply that is not met by demand, which is a result of false perceptions of the market participants: Investors put demand on a stock far higher than its rationally calculated value, which is dependent on the financial performance of its underlying company. It may seem to investors as though these prices will continue to grow indefinitely, but because they are based on speculations and not sustainable growth,(they would be based on sustainable growth, had consumer demand and purchasing power been taken into accountability)they create bubbles that tend to "pop" and take with them billions of the investors' money which is lost. This is why they are called speculative bubbles and they can occur in many fields. The result of this pop is the sudden drop in stock prices, which fuels a sudden selling frenzy: Panicked investors try to sell their declining stocks all at once, which further lowers the value of stocks, and the entire stock market crashes. This, of course, characteristically demonstrates the large extent to which the entire economy is dependent on the incredibly unstable factor of human psychology, expectations, and the amount of confidence consumers have concerning the economy.

HISTORICAL INFORMATION

The 2008 U.S. stock market crash

This event is crucial in shaping the global economy as it is today, as the worst recession of U.S. economy in 80 years shook the economies of many countries and triggered the euro crisis (but was not its only cause), so we must elaborate on why it happened and its aftermath. Due to globalization, different economies today are deeply interconnected and interdependent. The ups and downs of the large ones in particular affect the rest of the world greatly, and that is why the unprecedented collapse of a particularly large and long standing American bank, Lehman Brothers, and the crash of the stock market, created the shockwaves that destabilized the entire global economy.

<u>Causes:</u>

The crisis in the U.S. was created by the collapse of a bubble in the U.S. housing market. So how did the decisions of U.S. citizens to buy expensive houses result in events such as the Greek referendum of 2015?

This is an extremely complex issue that is still being argued over by experts in finance, so we will not analyze it in depth, but if you want to read a good and detailed summary, read this article http://www.economist.com/news/schoolsbrief/21584534-effects-financial-crisis-are-still-being-felt-five-years-article

and/or watch this video: https://www.youtube.com/watch?v=GPOv72Awo68

Basically, in the mid-2000s investors in the US and abroad were looking for investments with guaranteed high return and low risk, and they temporarily found that in mortgages. Mortgages are the loans banks give to people so that they can buy houses. If the borrowers «default» on their loans, meaning that they are unable to pay them back, the banks or whatever institution holds the mortgage gets the house.The people have to repay their loans plus interest over a specific period of time and the banks hold the mortgage as an asset which they can then sell to other financial institutions. This happened a lot during that period of time, as investors from all over the world wanted to buy mortgages from the US housing market, especially as house prices were rising. The banks started making "bundles" of mortgages (called mortgage backed securities) and selling shares of these to investors, which proved very profitable, so naturally they wanted to increase the number available. It is important to note that banks normally don't give mortgages to everyone, they only give them to people with relatively high credibility . But because banks wanted to provide investors with more and more mortgages, they started giving out loans to people with low credibility, or sometimes didn't even check the credibility of the interested party. They thought that because house prices were going up, even if people defaulted on their loans the institutions holding the mortgages could just sell the houses for a good price. But because they were lending to more and more people who couldn't pay their loans, they had more and more houses on their hands to sell, and people couldn't afford them anymore: Supply was very high, demand was very low, house prices collapsed and the housing bubble burst, with dramatic results.(Take note that this is only a very simplified explanation of the backbone of the situation)

Aftermath:

The aftermath of this was disastrous for financial institutions: Lehman Brothers, which used to be the fourth largest investment bank in the US and had existed since 1850, declared bankruptcy. Trillions of dollars were lost, belonging not only to Americans, but to investors, corporations and governments all over the world, and the global economy nearly collapsed. Nearly 8.5 million jobs were lost in the U.S. alone over the period of 2008-9, and a global "credit crunch" ensued: Because banks all over the world had to write off huge losses, they were very hesitant to lend money after that and the markets dried up. In order to prevent the economy from falling completely apart, the US government basically had to pour billions of dollars into bailing out American banks so that they wouldn't go bankrupt.

The Euro zone crisis

Something we constantly hear about on the news, which has had enormous political aftermath for the European Union and worldwide, is the Euro crisis. We will cast a brief glance on how it occurred and analyze its sociopolitical repercussions, as it has caused unexpected destabilization to one of the world's most prosperous regions.

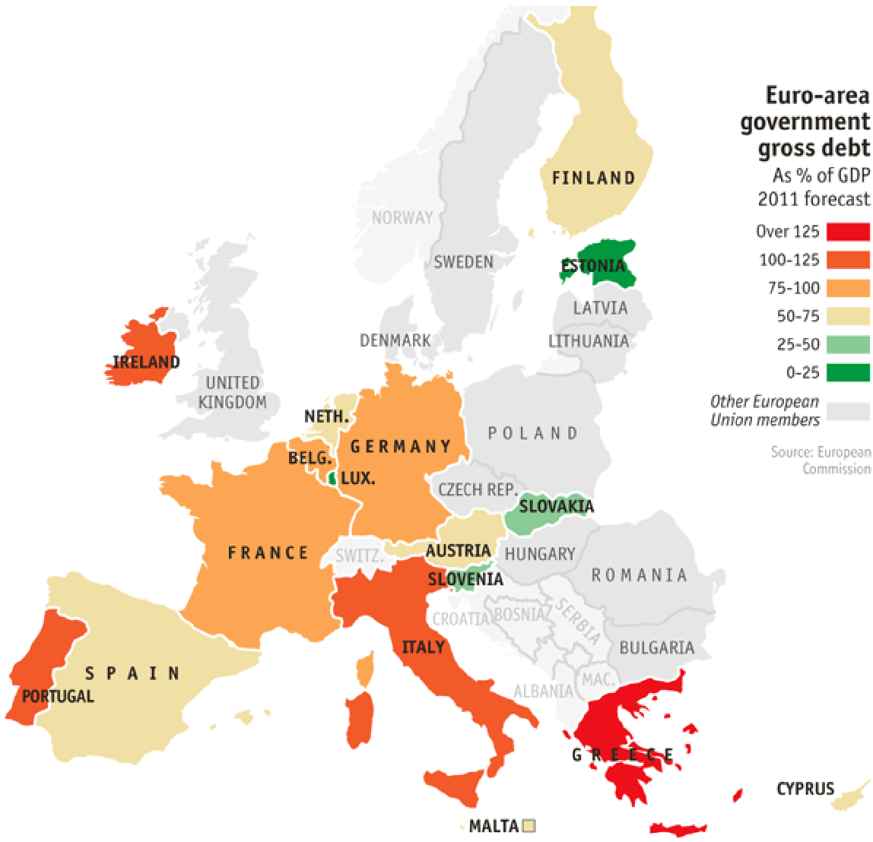
Causes:

The Euro crisis was triggered by the 2008 global financial crisis and the bursting of the US housing bubble, but its roots lie within some insufficiencies and problems of the structure of the Eurozone system. It must be noted that according to the Maastricht criteria for entering the Eurozone, the sovereign debt of member nations had to be under 60% of GDP. The biggest problems appeared in Ireland, Spain, Portugal, Italy and most of all, Greece. Before 2008, Eurozone countries were all considered low-risk parties by investors due to the fact that it was unlikely that they would default on loans, being backed by countries such as Germany and France and having a powerful currency. This meant that they could borrow large amounts of money with low interest rates, even if they had high public debt (e.g. Greece, Italy). After the 2008 global credit crunch, skepticism rose and investors started looking at debts, judging that some were too high, so they started selling government bonds of countries with large debts which caused their interest rates to rise (for an explanation of the relationship between bonds and interest rates, read this article:

http://www.economicshelp.org/blog/1396/economics/bond-yields-and-price-of-bonds/). The EU had, at the time, no appropriate response to this.

Bonds were also being sold because countries with high public debt also had high labor costs, so exports were more expensive and there was no demand for them, which further stifled economic growth. Usually when this happens, nations undervalue their currency in comparison to other currencies, so that exports will become attractive again, but countries belonging to the Euro could obviously not do this. Thus, because of the combination of uncompetitive economies and exacerbated public debt triggered by the 2008 global financial crisis, the aforementioned nations entered debt crises.

(2011 estimates)



Summaries of the problem in individual countries:

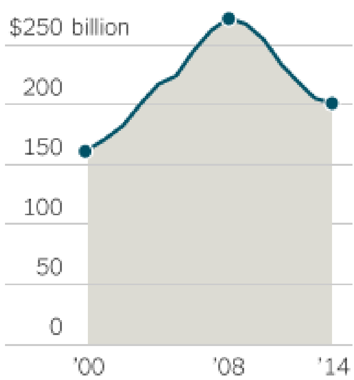
Ireland: Ireland entered a season of high economic growth from 1995 to 2002, with unemployment at the extremely low rate of 4%. However, after 2002 the rise in Irish GDP became more and more related to the housing market(which, as we can conclude from the example of the US, is not a good thing) and Ireland continued to increase public spending, turning the growth boom into a bubble. The Irish economy was by now largely based on short-term borrowing, whose availability fell drastically after the 2008 credit crunch and the rise in skepticism. The government decided to "bail out" Irish banks suffering from the burst of the housing bubble, which further increased budget deficit leading to a debt crisis.

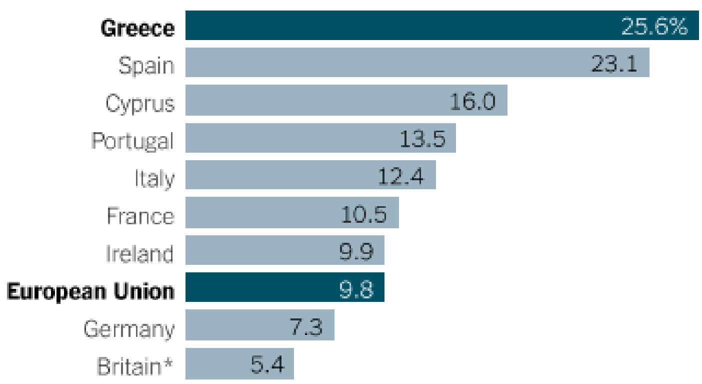
Italy: Italy has not suffered from a bubble, or engaged in unreasonable excessive borrowing. So why has it been in the headlines? The reason is its increasingly weak economy: The country's annual economic growth rate average has been at a disastrous 0.75%. It is suffering from an ageing population, poor regulation and weak investment. The 0.75% growth rate is much lower than the interest rates Italy pays for its public debt, which means that the accumulated debt grows more quickly than the Italian government can support.

Spain: Spain's borrowing was fully under control, but its entering in the Eurozone fuelled a housing bubble due to cheap loans to builders and home buyers. House prices rose by 44% from 2004 to 2008 and then fell by a third after the burst of the bubble. Spain had to borrow excessively to deal with the effects of this and with extremely high unemployment rates, and its economy has been shrinking by approximately 1% annually ever since.

Portugal: Portugal's economy was declining, but this was worsened by investor anxiety and pessimistic market speculations, which caused the excessive selling of Portuguese government bond yields, which in turn led to a debt crisis.

Greece: Greece is a characteristic example of a nation using the high-credibility it gained by being a member of the Eurozone for excessive borrowing. Greece used this to provide unsustainable over-the-top salaries and pensions, thus increasing the state debt, without really making any efforts to increase the growth rates of the economy, in order to be able to sustain this debt. Furthermore, the Greek economy was never really up-to-date with the racing competitive global economy and had a long-standing tradition of tax evasion, which increased the annual budget deficits. Greece announced in October 2009 that it had been understating its deficit figures





for years, which further enhanced investor skepticism and the selling of Greek government bonds. It needed to take drastic measures to decrease government spending and boost the economy to be able to repay its national debt of about 115% of GDP.

GreekGDP and unemployment rates over the years

So, So, the key problem is that the 19 nations of the Eurozone have a joint monetary policy that the European Central Bank oversees, but no joint fiscal policy, which means that many nations choose to run high budget deficits and accumulate debt for internal sociopolitical reasons.

Response:

Had these nations not been part of an intergovernmental monetary system, they would have simply been let to go bankrupt, experiencing massive inflation (the government would print more money with no real value so prices would immediately surge to sky-high levels) and a lack of imported goods. But they are members of the Euro system, so there are mechanisms to support them and bail them out so that the entire system doesn't collapse. This is exactly what happened, first and most importantly with Greece and then with Ireland and Portugal. First, the EU urged the heavily indebted nations to make cuts in spending, as the euro was continuously falling against the pound and the dollar. After that the Eurozone members and the International Monetary Fund (IMF) stepped in and agreed to give Greece its first bailout loan of 110bn euros (80bn from the EU countries and 30bn from the IMF) in order to prevent it from defaulting on its loan: They did this with the condition that Greece would make major cuts on government spending (e.g. salaries and pensions), an increase in taxes such as the Value Added Tax from 21% to 23% and a strict deficit ceiling. In 2011 the European Stability Mechanism was created, which is a bailout fund worth 500bn euros. The ESM is essentially the base of a long-term firewall that was created in order to prevent the negative effects of one country defaulting on its debt from rippling through the entire Eurozone. After that, Portugal was given its first bailout loan, worth 78bn euros. Meanwhile, interest rates for Italian and Spanish government bonds were rising, so Spain implemented a deficit ceiling and Italy passed a 50bn euro austerity budget, but neither of the two requested or received a bailout loan from the IMF, the European Commission and the European Central Bank(ECB). The Greek debt was restructured in 2012, and it achieved a debt relief amounting to 66% of GDP. Several pro-austerity Greek governments continued to receive bail-out loans

and implement austerity packages, until the government posted a primary budget surplus of 1.5% of GDP for the financial year 2013 in 2014 and reentered financial markets. In January 2015, a new anti-austerity coalition government was elected by the Greeks, which brokered an agreement with the Eurogroup for a four month loan extension. After the Greek referendum of July 2015, Greece postponed paying its loans (it was the first MEDC in history to fail to make an IMF loan repayment) and the IMF announced that the Greek debt dynamics were unsustainable. Greece closed its banks for a while and reopened them with capital controls, which were imposed because panic created by the possibility of Greece exiting the Eurozone as a result of the referendum caused millions of people to start quickly withdrawing their money from banks, which caused a liquidity crisis enhanced by the fact that there was no deal made yet and the ECB stopped pouring money into Greek banks. The withdrawal ceiling was at 60 euros/day and most foreign transfers of money and assets were banned, which was a serious problem for importing companies. When the Greek stock exchange reopened, it had lost an average of 16% with bank stocks losing nearly 30% of their value in just one day. Meanwhile, the Greek government negotiated a third big bailout package and its respective austerity measures, which are of course even stricter due to the crash of the Greek economy in July and the loss of billions of euros.

Debt and LEDCs

One of the main reasons why LEDCs remain economically weak even if they show signs of a quickly growing economy is because much of the profit obtained from this growth must be used to pay debts and cannot be invested in the public sector and the local economy. Furthermore, this debt is not balanced because they do not own large assets and do not have debts owed to them, as EU countries and the USA do. This is why, after pressures form the international community, the IMF, the World Bank and the G8 abolished billions of dollars of LEDC debts. They did this through the IMF and World bank Heavily Indebted Poor Countries (HIPC) initiative which was enhanced by the G8's Multilateral Debt Relief Initiative(MDRI), as both eliminated large chunks of the debts of 32 LEDCs mostly in Sub-Saharan Africa. But countries in Asia, the Caribbean and Latin America (e.g. Jamaica and El Salvador) did not have their debts cancelled either because their per capita income was too high(obviously due to small populations and not high GDP) or because the criteria of the IMF and the World Bank concluded that their debts were sustainable, as in the case of Bangladesh. Despite the cancellations, the debts of LEDCs are unfortunately on the rise again, even though this can go unnoticed due to their increasing growth rates, but debt crises can be easily triggered by expenses caused by natural catastrophes such as droughts and floods, which increase public expenditures. Unfortunately, since the debt cancellations were recent, we have a lack of relevant data. The IMF predicts that 12 countries face a high-risk of not being able to repay their debts: Afghanistan, Burkina Faso, Burundi, the Democratic Republic of the Congo, Djibouti, Gambia, Grenada, Haiti, Kiribati, Laos, Maldives, São Tomé and Príncipe, Tajikistan, Tonga and Yemen. (Check this interactive graphic with data on the debt to GDP ratio of every nation in the world:

http://www.theguardian.com/global-development/datablog/interactive/2012/may/15/debt-developing-world-interactive)

TIMELINE OF IMPORTANT INCIDENTS

1996	Launching of the HIPC initiative
1999	Euro comes into existence
2005	Launching of the MDRI initiative
2007	The Inter-American Development Bank (IaDB) decides to provide additional debt relief to the five HIPCs in the Western Hemisphere.
2008	US stock market crash and Lehman Brothers bankruptcy triggers global financial crisis
2009	Greece reveals that it has been understating its deficit figures
2009	The EU orders France, Ireland, Greece and Spain to lower their budget deficits
2010	Eurozone members and IMF agree on a 110bn euro bailout package to rescue Greece and a bailout package of 85bn euros for Ireland, but ask for the implementation of austerity
2011	Eurozone finance ministers create the European Stability Mechanism
2011	78bn euro bailout for Portugal is approved, 109bn euro package is approved for Greece
2012	Second large Greek bailout of 130bn euros, Greek debt write-off
2015	Greek referendum, imposition of capital controls , bank liquidity crisis, third large bailout package provided for Greece

MAJOR PARTIES INVOLVED IN THE ISSUE

World Bank

The World Bank is an international financial institution whose aim is to provide loans to developing nations to stimulate growth, and it is a part of the United Nations system. The World Bank, in order to achieve its goal of minimizing extreme poverty, attempts to help low-income countries with achieving developmental goals without increasing their debts: They do this through the Dept Sustainability Framework (DSF), whose main goal is to ensure that the nations they provide debt relief to are following a plan for long-term sustainable development. In order to assess the situation of each country's debt, the experts of the World Bank use a tool called Debt Sustainability Analysis which can prove very useful as a model for individual countries to keep their debts in check.

The International Monetary Fund (IMF)

The International Monetary Fund (IMF) is an organization involving 188 nations that was co-created with the World Bank, and its main aim is ensuring that the international monetary system is stable and fostering sustainable economic growth. The IMF works together with the World Bank to achieve its aims and offers debt relief to low-income countries: Based on certain criteria, it has up until now provided debt reduction packages to 36 countries, 30 of which are in Africa, providing $76 billion in total, through the HIPC initiative. However, the IMF's biggest borrowers are Portugal, Greece, Ireland and Ukraine, not the LEDCs, due to the money it has provided as aid for the European debt crisis.

Organization for Economic Cooperation and Development (OECD)

The Organization for Economic Cooperation and Development (OECD) is an organization comprised of 34 member states with the purpose of researching and promoting policies about the improvement of global economic and financial welfare. It is mostly comprised of More Economically Developed Countries (MEDCs) and it focuses on promoting intergovernmental cooperation and discussions on important global financial issues, as well as continuously providing research reports and statistics on various aspects of its member states' economies, which can help the experts of each country in their efforts to assess and improve the situation greatly. It has published many studies on the European sovereign debt crisis and on stock market scrutiny in general, which provide critical information concerning the developments in the global economy.

China

China is the world's second largest economy (by GDP), and is therefore directly involved in the rises and downfalls of the global economy. The Industrial and Commercial Bank of China (which is, of course, state-controlled due to China's communist regime), is the world's largest bank by total assets and according to *Forbes,* five out of the world's ten largest public companies are Chinese(2014 estimates). Furthermore, the Chinese state owns a very large part of the US foreign debt. The Chinese debt rose to 228% of GDP and even though China has had no trouble with repaying its debt so far, due to the economy's excessive growth rate, this growth is now the slowest it has been in 25 years. To describe this with a financial market cliché, when China sneezes the rest of the world catches a cold.

The United States of America

The United States of America is the world's largest economy by GDP and also accounts for 23% of global GDP, profiting from abundant natural resources and high worker productivity. It is not only the leading economic power but also the leading military power and a dominant political profile: It pressured the Eurogroup to prevent a possible exit of Greece from the euro, along with France and other countries supporting this position for humanitarian, ethical and cultural reasons. However, USA's motives for doing this have been analyzed differently: Greece is the eastern-most politically stable (at least compared to Israel) USA ally of the western world, with the US having a military missile base in the Greek island of Crete. Greece exiting the euro would cause it to plunge into financial and political chaos, making it unsuitable for this.

The European Union

The European Union is a political and economic Union of 28 countries in the continent of Europe. It constitutes approximately 24% of global GDP and has developed a single market between its member nations, whether they be Eurozone nations or not. The 19 members of the Eurozone have been plunged into a debt crisis that affected the entirety of the Union and was dealt with by fundamental institutions of the EU: The European Central Bank, which controls the euro, the European Commission, the EU Parliament and the Eurogroup, comprised of the finance ministers of the 19 eurozone countries. Apart from that, the European Union has made significant contributions to research concerning the economies and debt statuses of developing countries in collaboration with the UN and other organizations, as well as financial contributions to the nations themselves.

POSSIBLE SOLUTIONS

a) Preventing stock market crashes

Each nation has the capacity to deal with stock market crashes differently, but there are some general guidelines that everyone can follow in order to prevent stock market crashes from happening in the future.

1) One way to limit stock price volatility would be to impose a small tax on stock market transactions, no more than 1%. This will reduce wasteful and thoughtless stock trading and make the public and the stock market less prone to panic induced by trading frenzies. It is, of course, not a perfect solution and many oppose it, but 11 European governments are willing to implement it. On the contrary, US policymakers are slow and since the US stock market is the most important one in the world, this is where it should be implemented. However, the currently republican US congress is not likely to implement this despite US government efforts, so pressure needs to be applied by the international community.

2) Another tactic which has been suggested is government restrictions for the stock market which will solely aim to reduce panic and peculations: Governments can pass legislations that will call for a stock transparency system in order to avoid confusion when the market becomes overcrowded with stocks, and implement policies concerning the shutting down of the market for a while, e.g. when there has been a major terrorist attack or natural catastrophe.

b) Implementing transparency for LEDC debts and renegotiating the debt write-off criteria

1) Nations need to be urged to follow the principles promoting responsible sovereign lending and borrowing published by the United Nations Conference on Trade and Development (UNCTAD): According to these, MEDCs that have lent money to LEDCs should conduct and publish transparent debt audits to check if the debts owed to them abide by the current lending principles, and if not, they should be encouraged to cancel some of the illegitimate debts to relieve LEDCs from unmanageable debt burdens. However, LEDC governments also need to be urged to abide by the principles for responsible borrowing and publish

transparent reports concerning their loans so that their citizens are informed (These are the draft principles: http://unctad.org/en/Docs/gdsddf2011misc1_en.pdf)

2) Delegates can also research the IMF and World Bank criteria for debt cancellations and make propositions about changing them so that burdened nations that did not meet the criteria during the HIPC initiative because of e.g. high per capita income can meet them and have partial debt write offs during the next similar initiative. They can also propose the publication of a UN report on how the 34 nations that had their debts cancelled are advancing towards sustainable developments to make improvements for future such cases and a thorough report on current LEDC debts, which we are lacking information on.

c) Attempts at a decongestion of the European debt crisis

It is, at the moment, impossible to solve the European debt crisis through a series of measures, but there are some long term plans which EU member states and the international community should begin to discuss:

1) Although most economists agree that a lack of austerity measures and bailout agreements would lead indebted nations to defaulting on their loans, it has been generally acknowledged that more weight needs to be put on investment and growth-friendly legislations and taxes. This could be done, for example, by increasing the capital base of the European Investment Bank (EIB), which could then invest more in private companies and startup companies in the nations suffering from a debt crisis to boost economic growth. Austerity itself is not enough to do this, especially in countries had pro-crisis low economic growth. This of course a long term scenario which can be implemented once these nations have been financially and politically stabilized (at least relatively).
2) Another aspect which is being discussed but can only be seen as a long term scenario, is a European fiscal and political union. This would solve the problem created by the joint monetary but different fiscal policy and increase investor confidence, making the EU a major player in the global economy once again, but large portions of EU citizens will oppose this.

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