ECOSOC (2008)

SMUN

CHAIRS: HANNES LÜBKE & LUISA GURLIT

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LETTER TO THE DELEGATES

Honorable Delegates,

Welcome to the Economic and Social Council of SMUN 2023, where you'll debate about the 2008 Great Recession and look for ways to protect not only the people of your country but of the world. We know that this is a multifaceted issue, with the roots of the issue not being completely defined until today, but it is exactly to propose this challenge to you that we chose this topic. And with that, let us introduce ourselves: We are Hannes Caspar Lübke and Luisa Pagliara Gurlit, and we will chair you in this year's ECOSOC.

Hey Everyone! I am Hannes, and it will be a pleasure to share this experience with you. I am a Senior/4th EM student at Colégio Suíço-Brasileiro de Curitiba, and I have been participating in MUN since 2019. Throughout the years I have participated in a plethora of councils and committees, but the ECOSOC has since my internal conference, back when I was still in Middle School occupied a large part of my MUN heart. Although I would love to debate this topic alongside you, I am also happy with being able to accompany you through the debate. I know that this topic is a difficult one, so If you have any doubts feel free to contact me!

Hello, my name is Luisa. I'm also a Senior/4th EM student but from the Escola Suíço Brasileira de São Paulo. I've been participating in MUNs since 2020 and I have also participated in many internal and external conferences. I'm very delighted to be chairing a committee about a topic that, as difficult as it is, is also very important and joyful to debate. I'm very happy to help you with any problems you might have, so in case of any questions, contact us. I'm looking forward to our debate!

Your Chairs,

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COMMITTEE DESCRIPTION

The Economic and Social Council (ECOSOC), which was established by the UN charter in 1945, is one of the 6 main bodies of the United Nations. The organization serves as a forum for discussing international social, economic, and environmental issues. The organization is also responsible for monitoring the follow-up of major UN summits and conferences.

The council has 54 member countries, which are reelected yearly, alongside over 1600 consultative non-governmental organizations. These come together annually for 4 weeks in July, and since 1998 have also been meeting with finance ministers of the International Monetary Fund (IMF) and of the World Bank in April. In these sessions, the delegates draft policy recommendations for the member states and the United Nations system, aiming to tackle the developmental issues discussed.

This year's ECOSOC is a historical committee: Instead of happening nowadays, the committee happens at an earlier date, which you will find later in the background guide. When researching you may run into specific events which happened after the date of the committee. Please do not reference these. You may of course reference events that happened earlier. If you are referencing a trend without a specific event linked to it, consider the timespan in which this trend started. If you have any doubts regarding dates, do not hesitate to contact your chairs.

DISCUSSING MEASURES TO MITIGATE INTERNATIONAL IMPACTS OF THE GREAT RECESSION

Historical background

The Great Recession of 2008 was only the culmination of global economic trends, some of which started as early as in the 1980s.

Post- World War II economic expansion

After World War II, OECD members enjoyed an average economic growth of 4-5% for 2 decades from 1950-1970. As a result of the World Wars and the 1928 Economic Crisis, the world also saw a great redistribution of wealth. Low unemployment rates contributed to economic growth, and interest rates lower than inflation (negative real interest rates) led to a natural decrease in indebtedness while also incentivising investment.

1970s Economic crises

This period of widespread economic growth ended in the 1970s with a series of energy crises as a result of changes in the oil market. In 1973, the Organization of Arab Petroleum Exporting Countries (OAPEC) started an oil embargo against nations that had supported Israel in the Yom Kippur War. This, alongside some other global economic restructurings (and the Vietnam War, in the case of the United States) led to a recession that paired the elevated rates of inflation with high unemployment, putting an end to the previous golden economic era.

The 1979 energy crisis, which was caused mostly by a spike in oil prices as a consequence of the Iranian Revolution, led to another large recession, as these price increases led to inflation rates in the double digits even in the world's largest economies, like the United States of America, Japan, Germany and the United Kingdom of Great Britain and Northern Ireland. These high rates of inflation were initially put off by deflationary monetary policies, increasing interest rates and therefore limiting spending, leading to momentary growth, but these were soon followed by another spike of inflation rates followed by an increase in the unemployment rate. Countries were able to exit the recession in 1983, although unemployment rates remained high until 1985 in some countries.

The Great Regression and Great Moderation

The period after the so-called "Early 1980s recession" is called the "Great Regression" by pessimistic economists. As a consequence of the previous decades, as well as increasing political inequality between the rich and poor, during the period from around 1981 to at least 2007, many social security nets around the world were weakened. In the advanced economies of Europe, Japan and the United States of America, these effects showed mainly in the form of stagnating wages and pensions, unemployment insurance and welfare benefits for the lowest earners.

More optimistic economists refer to this period as the "Great Moderation", as during this time volatility of the business cycle decreased largely (crises and growth periods were less intense), giving policy makers the idea that the traditional business cycle had been overcome, and a less volatile economy with low, stable rates of growth had taken its place. During this period, as economic confidence continued to increase throughout the years, price levels started to fall, and price levels along with them. This led to an increase in spending.

Economic overconfidence

Especially in the early 2000s, with very low interest rates in the United States after the burst of the Dotcom bubble and the September 11, 2001 attacks, investors started to become overly confident in continued economic growth, and riskier investments became more and more popular. Due to this confidence, many governments chose to deregulate the markets. In this period taking on excessive debt, in combination with aggressive, high risk investment and leveraging strategies became popular with everyone from bankers to homeowners.

The housing bubble

As becoming a homeowner was part of the American dream, in the United States of America, but also in other countries the local housing markets started to grow rapidly. In order to profit from this, mortgage lenders aimed to approve as many loans as possible. Due to the seeming stability of the economy and deregulated markets, so-called "subprime mortgages" (loans with higher interest rates for lenders with lower probability of being able to pay back the loan) were approved. These subprime lenders previously had no access to the housing market, and the sudden approval of subprime mortgages increased demand in the housing market even more. This led to the formation of a housing bubble, which "popped" in the United States in 2007, and soon after in many other countries.

What contributed to aggravating the consequences of the popping of the housing bubble was risky investment behavior by large banks and corporations. These institutions took the subprime mortgages and repackaged them into large bundles, to be sold to investment banks and firms as Mortgage-backed securities (MBs). These subprime MBs were often repackaged and sold again, making it difficult to track owers.

The Great Recession

Once the housing bubble burst and MBs started losing value (as the lenders had no way of paying the mortgages back), it became impossible to sell these packages, meaning that the banks and hedge funds which held these subprime mortgage packages lost a large part of their value. This led to a loss in investor confidence, and therefore a decrease in its ability to lend money. This resulted in the break-down of the first bank of this crisis: Bear Stearns, which, to avoid bankruptcy, sold itself to JP. Morgan Chase in March 2008.

The bank Lehman Brothers, for example, had a debt of $600 billion two thirds of which were supposed to be covered by securities which lost their value due to the crisis. As a consequence, the bank declared bankruptcy on September 15 2008, and scared banks stopped lending money almost entirely. The global banking system became short of funds and several indices on stock markets around the world started losing value drastically. International trade declined. As consumption decreased due to lower business and consumer confidence, unemployment increased as well. Although this contributed largely to the global recession of 2008, it is not the only cause.

Due to high global economic integration in recent decades, crises have become more and more likely to spread to other nations. Because the USA play a central role in international economics, being one of the largest importers and exporters and having their currency used as a basis for international trade and determining exchange rates, the 2008 financial crisis quickly spread to most other countries in the world.

Due to high global economic integration in recent decades, crises have become more and more likely to spread to other nations. As the USA are central to international economics, being among the top importers and exporters and its currency being key for international trade and exchange rates, the 2008 financial crisis rapidly affected many countries worldwide.

Current situation

In the days immediately following the 2008 financial crash, the international consequences were primarily characterized by a rapid and severe deterioration of global financial markets. Stock markets worldwide experienced sharp declines, erasing trillions of dollars in value. Major financial institutions faced acute liquidity problems, leading to a freeze in credit markets and interbank lending. This credit freeze had a cascading effect on businesses and consumers, causing uncertainty, reduced spending, and decreased economic activity.

Investor confidence plummeted, leading to capital flight from emerging markets and a rush to safe-haven assets like the U.S. Exchange rates became highly volatile, as currencies of many countries experienced significant fluctuations. This volatility further strained international trade and investment, as businesses struggled to secure financing and consumers cut back on spending.

Some governments have already reacted to the crisis. The actions taken by some nations by September 20 are: China decreased in interest rates (for the first time since 2002); Indonesia also decreased interest rates specifically for banks borrowing overnight funds; Australia's reserve bank injected $1.5 billion into its banking system, and added $3.45 billion to the foreign currency interbank market; India's reserve bank injected $1.32 billion into the economy in a refinance operation and Japan's bank added 29.3 billion to the financial system.

In summary, the immediate international consequences of the 2008 crash were marked by a rapid spread of financial turmoil, a severe loss of investor confidence, disruptions in trade and investment flows, and a need for urgent and coordinated policy responses to prevent further economic deterioration.

Timeline of events

1950 - Begin of the Post-World War II economic expansion

1973 - Oil embargo against supporters of Israel in the Yom Kippur War, leading to Crisis ending the period of economic expansion

1979 - Energy crisis resulting from the Iranian revolution, leading to “Early 1980s economic crisis”

1985 - End of “Early 1980s economic crisis” and beginning of the Great Moderation

Early 2000s - With all-around high market confidence, risky investment increases

2004 - Interest rates in the United States of America start rising in fear of an overheating economy

December 2007 - Beginning of the recession in the United States of America

April 2008 - Beginning of the recession in the European Union

August 2008 - The housing bubble burst in the United States of America

September 15, 2008 - The bank Lehman Brothers announces bankruptcy

September 20. 2008 - Date the committee starts

Positions of major nations

USA - USA was highly impacted by the Great Recession, as it was a hub for many of the events that led to the global economic breakdown. The investment bank Lehman Brothers that suffered bankruptcy, was an American bank which was acting for over 150 years at that point. In 2008 alone, around 3.5 Million jobs were lost in the United States due to the recession. By September 20, 2008 the United

States of America wasn't in a recession yet, although the country has already been experiencing negative growth for 9 months (in economic terms, a recession is two consecutive quarters of negative growth of the country's GDP). Before that, the United States had been in a 73-month economic expansion.

China - Due to its immediate and intense efforts, China experienced no recession during this period, although it experienced a short period of economic decline. On the same day Lehman Brothers announced bankruptcy, China cut its interest rates, incentivising spending. Only a month later, the Chinese government announced the largest care package in the world's history, a package of $586 billion to be spent over 27 months. This package consisted of an eighth of the country’s GDP at the time. The country was the first major country to experience economic growth after the global financial crisis.

Russia - It was firstly thought that Russia wouldn’t be as affected, because many thought they weren’t coupled to what happened to the global economy. After some time, Russia’s economy was hardly affected, with collapses in the oil prices. Also, capital was withdrawn from Russia, primarily in case of safety. Russia had a strong impact because of its prior internal fiscal issues.

UK - UK was the country, amongst G7, that took the longest time and was the last to exit the recession. However, it wasn’t the country that suffered from the biggest GDP contractions in the G7. The British government decided to implement tax cuts and increase government spending.

France - In 2008, France had growth and avoided a technical recession. In 2008, however, France was the last developed country to enter the recession. The

French president, Nicolas Sarkozy, announced a 26 billion euro rescue plan, increasing the French public deficit by 4%.

Ukraine - Ukraine entered the recession in the 2nd quarter of 2008, having a negative economic growth for about a year. The country was one of the most affected in the world by the crisis, having the economy shrink about 15% in 2009 and having an inflation of about 16.4%. The country's unemployment tripled in comparison to the year before and the deficit of Ukraine's foreign trade in goods and services from January to September from 2009 was expected to be 1.08 billion dollars. In September that same year the world bank approved a loan of 400 million dollars to Ukraine. One of the measures that the government took to help the economy was investing in national banks, making the state the "de facto" owner of them.

Argentina - Argentina's debt, by the end of 2008, was about 93 billion dollars. Also, the country had reached its unemployment rate at 22.5% and the poverty line at 57.5%. After all these consequences, a large part of the cabinet resigned.

Jamaica - Jamaica overall also suffered from the effects of the global crisis, by having a lower demand for exports, falling commodity prices, decrease in tourism, among other effects. The economy contracted about 0.6 % and unemployment rose about 1% (from 9,9% to 10,9%).

Romania - Romania had high economic growth in the beginning of 2008, however, was highly impacted by the global crisis, having an estimated contraction of about 8%-9%. However, the government couldn't take any anti-crisis measures because a new government was recently set. the country's trade deficit also fell about 60%, but not because of increase in export demand, but because of business bankruptcies and unemployment, which decreased consumption.

Iceland - The Icelandic Economy, alongside Jamaica's, was one of only 2 economies to be in recession in the last quarter of 2007, before the global banking crisis. As a consequence of the already unstable economic situation, when the global financial crisis started, all 3 major privately owned banks defaulted, making it the largest systemic banking collapse in relation to the economy's size in history.

Mexico - The expansion of the country's real GDP was much lower than in the year before. In the Latin American group, Mexico experienced the biggest contraction, 6.5%. This contraction wasn't seen in the country in over 40 years.

Hungary - In September 2008 the country's currency, the Forint, depreciated by 23%. Household debt increased 4%. These effects caused results in the country's election: the far right received 2.6% of the votes in 2006 and in 2010 received 17%. Also, the country was hardly hit because of the amount of foreign debts that the government owed previously to the financial crisis. Lastly, because of the financial crisis, many investors started pulling money out from emerging economies, such as Hungary.

Estonia - previous to the global financial crisis, Estonia was in a long period of very high growth in GDP. However, in 2008, the fall in GDP happened. In 2009, the economy contracted by 15.1%. Lastly, low domestic and foreign demand had depressed the economy's overall output.

Germany - In the early 2000s, Germany went through a labor reform, both introducing more flexible forms of employment and reforming existing pension and social-welfare systems. When the Great Recession reached Germany in 2008, the Government's response was to stabilize the banking system, which was hit first. When the effects of the recession reached the real economy, social-welfare systems such as stimulus packages were used to protect laborers and businesses, protecting private consumption. Although this meant that the German economy remained relatively stable, it did not escape unharmed. The country experienced slight increases in unemployment.

Japan - Although Japan's financial system initially seemed to resist the global financial crisis, this didn't last for long, and most notably the country's Real GDP and exports decreased rapidly throughout late 2008 and early 2009. This happened due to economic reforms the country had gone through in the previous decades, consisting mainly of becoming dependent on exports, and those exports being highly income-volatile goods.

Brazil - The Great Recession had a very big impact in Brazil, although it began later than in other countries, Brazil suffered this recession for 2 consecutive years and had a very hard and slow recovery.

India - The Indian GDP fell from 9% to 7.8%. Also, about 12 billion dollars worth of investments were withdrawn from the country. Lastly, trade and fiscal policy were badly hurt.

Iran - Iran suffered mostly with a decline in oil prices (as a response to the decrease in the global demand for oil) and decrease in the demand for exports.

Also, the financial sector of the country was affected. Lastly, the investment in the country decreased, as in many other countries worldwide during this period.

Portugal - In 2008, the Portuguese economy didn't grow, in fact, next year, the numbers dropped by 3%. Also, the government deficit in 2008 was about 2.6%, but that number rose to 10% in 2009.

Australia - Australia didn't suffer from big impacts from the Great Recession, however, the economic growth pace wasn't accelerating and the unemployment rate increased, creating a time of uncertainty.

Bangladesh, Vietnam and Taiwan - These three countries' economies are highly reliable on exports. With the great recession, the demand for exports decreased overall, affecting these countries' and other export reliable countries' economies negatively, driving them into recession.

Norway - the financial crisis did not impact the country hard. the economy contracted, on average, 1.8% less than in other countries worldwide. Unemployment rate was also very low when the crisis emerged. Norway could feel less effects from the crisis because their industry is different than in other European countries.

South Africa - South Africa was the first country in the African continent that entered the recession. As a result, car sales in South Africa dropped annually 22% due to the higher interest rates that the recession caused.

Panama - Panama was an exception to the rest of the countries. the country did not experience contractions in 2008 and 2009. actually, the country experienced a big economic growth in 2008, of about 9.2%.

Venezuela - In 2008, the inflation reached 30.9%. It was mostly caused by the falling oil prices, a global trend that was caused by the financial crisis. The country also faced negative economic growth at the time.

Guiding questions

- Does your country expect any specific consequences from the Great Recession, apart from high inflation and unemployment rates?
- How can your country counteract inflation and rising unemployment rates in this specific situation on its own?
- Which measures can the international community as a whole take to counteract inflation and rising unemployment rates in this specific situation?
- What measures can your country take to counteract these specific consequences?
- How can global collaboration aid in averting a worsening of the crisis?
- What measures can the international community take to avert a recession that don't involve monetary investment?
- Should any country be allowed to take advantage of the situation individually or should all nations collaborate until the crisis is averted? Why?

- Are there any other country's policies that could be implemented in the delegate's own country that could help relieve the effects of the recession? How?
- Which measures can the international community take to prevent any such crises from happening again in the future? In case such a crisis repeats itself, how can a country prevent spillover effects of that crisis?

Further research

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https://www.youtube.com/watch?v=yM0uonkIoXY

https://www.rba.gov.au/education/resources/explainers/the-global-financial-crisis.html

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You may also look at actual ECOSOC resolutions, although we ask you not to reference/copy them.

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