**Forum:** Economic and Social Council (ECOSOC)

**Issue:** Measures to prevent future financial crises

**Student Officer:** Mi Na Son and Seung Woo Ham

**Position:** Assistant Presidents

Introduction

For the past few decades, economists and institutions investigated thousands of ways to prevent future financial crises. Since financial crises can potentially cause liquidity shortages, they would not want another financial crisis in the future. However, financial crises occur for unexpected reasons and cause horrendous results. They significantly influence governments, large and small businesses, and individuals. As monetary value decreases continuously, the employment rate will increase, and more goods and services are traded between the customer and the producer, which will eventually lead to the failure of the economic system. The misguided banking system is another crucial factor that leads to financial crises. At the start of the Great Recession in 2007, banks in the United States lent money to everyone who were wishing to purchase their own houses, despite knowing that they will have a hard time paying those debts. As a result, the depositors were not able to pay the money back which resulted in the domino effect of economic failure. The banks’ carelessness and overconfidence in their monetary system finally ended in a severe banking panic in 2008. When the government noticed the errors in the banking system, it was already late for them to resolve the situation. The depositors were already in extreme debt, and the banks could not get their money back. Therefore, it is critical that global institutions and governments work to prevent future financial crises.

Definition of Key Terms

Gross Domestic Product (GDP)

The total monetary value of goods and services produced and sold in a country that is usually measured per capita yearly.

**Loan**

Money borrowed in exchange for repayment of the money and plus interest.

**Mortgage**

A mutual contract between lenders and borrowers guarantees that borrowers alienate their property to the lenders if they fail to repay the money they have borrowed and the added interest.

**Stock Market**

A network of stock exchanges where traders and investors buy and sell shares of publicly traded companies.

**Interest rate**

The cost of borrowing or saving money from the loaner.

**Unemployment**

When the workers are not able to find a proper workplace to earn money or the increase in the number of workers being fired from the job.

**Inflation**

The situation where the general price value increases in goods and services within a given amount of period.

**Fiscal Policy**

A policy governed by the Financial Ministry to regulate a stable economy by lowering taxes and increase spending.

Background

**Pro-21st Century**

Although the credit crisis of 1772 might fall short of the infamous banking crisis of 1763, the need for acknowledging a chain of events in 1772 London to prevent future financial crises is of historical significance. Scholars generally attribute the elemental cause of the crisis to insufficient financial regulations of those times accompanied by the raised interdependence which backfired, perhaps heightening the market volatility. Indeed, the economic ramifications of the incident were huge, which ensued bankruptcies over eminent private banks in Europe. Fortunately, the Bank of England posed the blockage to assist financial recovery of the European financial hearts, impeding economic leakage beyond.

While the global economy coupled with dozens of financial crises every 25 to 30 years over centuries from then, none of them was coiled the “Great” depression before the real watershed event commenced on the United States in 1929. The collapse of Hatry Group deteriorated the precarious economic situations of Wall Street, resulting in the unprecedented Wall Street Crash. The Great depression provoked unbearable aftermath to global citizens in that it plummeted U.S. Gross Domestic Product (GDP) up to 40% and ousted millions of German workers, portion equivalent to 44% of the entire working population, to unemployment, and by ultimate consequences, led the outset of the World War II.

The dotcom bubble is a monumental incident of the world economy given that these internet firms were beloved the most but had the most tragic end in the stock market history. In the late 1990s, rampant investment in the young internet technology ran worldwide. These new century companies were supported by the media outlet and venture capitalists, and it was undoubtable these tech-related stocks are the modern times goose that lays the golden eggs. However, dotcom companies, due to groundless speculation caused by the excitement and euphoria of the new internet age and a lack of accurate valuation models, were in fact overvalued by more than 40% relative to their intrinsic value, leading to unduly optimistic prospects regarding the revenue generation capabilities. Following the rising interest rates of the Federal Reserve and the onset of a recession in Japan in early 2000s, hyperinflated internet stocks began to lose value, and ended up damaging millions of investors in the U.S., Republic of Korea, and Germany.

**The Global Financial Crisis**

Following the dotcom bubble burst and the September 11 terrorist attacks, the Federal Reserve sought to rehabilitate the economy by increasing the money available in the market for businesses and lowered the interest rates by a large margin. As a result, with the extended expansion in the housing sector through the mid 2000s, the US housing market was prosperous with a run-up in the price of the housing units. Because the mortgage rates were so low, even subprime borrowers, borrowers who consider as little viable to repay mortgages, were able to buy their own houses. The crisis happened right after this bubble in home prices bursts. As the price of houses dampens, households who bought house using mortgages from bank were no longer able to refund the subprime mortgages, which meant that Fannie Mae and Freddie Mac, government-run mortgage firms that guarantee the security of the issued Asset-Backed Securities (ABS), was left holding the massive debt (worthless subprime mortgages) and the consequences of bankruptcies, which ended up these two mortgage firms become nationalized. September 2007, interest rate was eventually declined, and it resulted in the Subprime Mortgage Crisis. In the coming months, the world’s biggest investment banks like The Bear Stearns, Lehman Brothers, and Merrill Lynch collapsed like the dominoes, which triggered the economic recession in stock market followed by the collapse of subprime mortgage related firms. Eventually, Wall Street requested a bailout package in October of 2008. Although it is still controversial for whom to attribute for the global financial crisis, general agreement is the collapse of the housing market was caused by subprime mortgage lenders' skewed incentives to package and misrepresent hazardous mortgage-backed securities to other investors in order to earn large origination fees.

**Effects of COVID-19**

The beginning of the coronavirus, the worst disease of the 21st century, that has completely changed people's daily lives, dates to late 2019. It was the most horrific crisis since the last World War, and it is never an exaggeration to say that it has changed every aspect of human life. As of now, more than 630 million people have been afflicted by it and 6,599,811 people have died as a result worldwide. Coronavirus has been troublesome to global citizens not because of its case fatality rate (CFR) but for its detrimental effect to the global economy. Upon the apprehension to the infection of fatal disease, core industries have been affected a lot, facing a massive crash economically with different constraints in global supply chain and domestic production. It is revealed that even the world’s most developed countries like the United States and Japan yielded unexpectedly low economic growth of negative value in the early times of the coronavirus rage. Given that, the Economic and Social Council should come together to the house to delve into the measures to prevent the future financial crises in the result of the disease by all means.

Major Parties Involved

The World Bank

 The World bank (WB) is a subsidiary association of the UN, and it is the biggest financial association in the world that pursues the eradication of world poverty. It conducts long-term loans with strict conditions on a commercial basis. As of 2023, there are 189 member countries, and members of the International Monetary Fund (IMF) are automatically joined. Both the WB and IMF are based in Washington DC, USA, and the two institutions work closely with each other. The World Bank's loan method supports about 50-55% of the total loan amount through a cooperative loan method, and the finance is provided from bilateral and multilateral public loans, as well as export credits and commercial loans from each country.

 The WB was an institution established for the recovery and development of war damage after World War II in each country, but currently, loans are mainly made through IBRD, a sub-organization for industrialization of developing countries. Loan conditions of the WB are very strict, with interest rates of 5% to 6%, and many of the loan targets are in developed and middle-income countries. While the IMF mainly provides short-term loans to countries experiencing difficulties in external settlement, the IBRD is characterized by long-term loans.

International Monetary Fund (IMF)

 The International Monetary Fund or so called the IMF is an international financial institution that provides financial aid for member states in financial instability with a lack of mint liquidity or insufficient holdings of foreign currency (usually USD). There are mainly two types of IMF loan accounts: one is a Stand-by Agreement, which allows borrowing freely within a limited bound, and the other is the Supplemental Reserve Facility with unlimited fund in which the IMF controls one’s economic policy until the debt repayment is completed, such as in the 1998 IMF crisis. Receiving financial support from the IMF not only demolishes the country's credit rating, but it is also terrifying that the country's economic structure itself must be reorganized according to the IMF's instructions. The economic reform is a just cause, however, firms in the country are sometimes sold to foreign countries at a cheaper price.

IMF had taken a crucial role in 1997 Asian financial crisis along with the dotcom bubble incident, fulfilling dollars for financially insecure countries like Thailand, China, and the Republic of Korea. To specify, due to the bankruptcy of foreign exchange reserves on November 21, 1997, South Korea had to comply with intensive requirements that almost reformed the overall domestic economic structure in exchange for foreign currency procurement from IMF. One of the terms desired by IMF was to entrust IMF with the task of economic reform in South Korea, which was agreed as the most influential candidates - Kim Dae-jung, Lee Hoi-chang, and Rhee In-je - in the next presidential election at the time signing a document promising to leave completely up to IMF for the economic reform while receiving a bailout from the IMF if won. Therefore, no matter which of the leading candidates was elected president, Korean economy had no choice but to be reformed into an extreme imbalance of neoliberalism.

Timeline of Events

|  |  |
| --- | --- |
| Date | Description of event |
| October 1973 | 1973 oil crisis in which the OPEC member states proclaimed an oil embargo  |
| October 19, 1987 | Black Monday is the most unexpected stock market crash that led sharp decline in world’s strongest markets  |
| July 1997 | 1997 Asian Financial Crisis involved economically developing countries including Thailand, Indonesia, and South Korea |
| 2000 | Dotcom bubble burst, historic loss of individuals and firms of internet technology related stocks  |
| October 2008 | The Wall Street request a bailout; the commence of dominoes effect to IB worldwide |
| December 2019 | Covid-19 Outbreak  |
| August 2022 | Honor Risk of Elon Musk, projected to be the entrepreneur with the highest net worth loss in history |

**Previous Attempts to Resolve the Issue**

* The International Monetary Fund (IMF) supported and supervised the technological banking system for different countries. IMF supported the Palestine Monetary authority in constructing an online credit registry system, allowing financial institutions to monitor credit more efficiently. As a result, this attempt turned out to be successful by reducing the amount of inactivating loans and increasing the accessibility to credits for both individuals and companies.
* The previous financial crisis was mostly related to the excessive amount of debt for both governments and household sectors. Since 2008, the World Bank and IMF initiated the Dept Management Facility (DMF) to advise and train more than 80 countries globally to stabilize their debt management. In detail, the training program contains technological assistance and analytic studies on how to prevent debt-related vulnerability and debt transparency. With an outstanding number of 350 technical assistants in 74 countries and 18 entities, the attempt at DMF concluded a huge improvement in the global financial system.
* The IMF supported the developing countries, in the Middle East, North Africa, and Central Asia, to have higher inclusive economic growth by activating Governance Reform in 2010. The Governance Reform strengthened the capacity to tax which made revenue collection higher. The Governance Reform in 2010 made mild improvements to the countries but it helped them to understand what they need to investigate further to develop the economy in the Middle East, North Africa, and Central Asia.
* To improve the global economy and financial markets, g-20 leaders gathered to have their first meeting after the economic crisis in 2008. As a result of the Summit, they ensured that IMF and World Bank should have enough resources to support countries affected by the economic crisis in 2008, as well as trade and infrastructure financing. The five common principles to guide financial market reform that they agreed on were making transparency and accountability stronger, having oversights, promising integrity, and enhancing coordination and cooperation for all firms. Lastly, they reformed the international financial institutions (IFI) to pay more attention to emerging markets.

**Possible Solutions**

* Raising awareness to stop the war: Raising a war is a crucial reason for the economic contraction in a country. It does not only influence the nation itself but also gives a negative impact to the surrounding nations. The nation will need to use the money to produce massive military weapons and borrow money to recover the damage after the war ends. Especially in modern days, weapons need rarer and more expensive resources that will cause bigger damage. Although it is hard to stop the conflict between two nations, individuals or smaller organizations could raise awareness to address the severity of having a war. Individuals could encourage others to promote through online or offline resources to demonstrate how war can damage economic systems. This solution might be ineffective to prevent the actual war, but it could cause less damage to the economic system in the countries by advertising how the war could negatively influence the economic system.
* Respond to natural disasters: Natural disasters are also a significant reason why financial crisis happens. It creates huge, unexpected expenses for the government, individuals, and businesses. Especially larger disasters such as earthquakes, hurricanes, and climate change could influence international trade, expensive company equipment, and Gross Domestic Product (GDP). In order to prevent natural disasters that might result in a crucial financial crisis, the government should guarantee a full rescue package for damages from natural disasters. Although some places provide disaster relief assistance, some low economically developed countries (LEDC) can not afford enough money to fully recover the damages. Borrowing money from the bank can make the situation worse by having excessive debt to pay so, all the LEDC should save funds for natural disasters beforehand.
* Debt distress: More than 60 percent of the countries around the world are facing debt distress. Having unsustainable debt does not only make people suffer financially but also mentally. Therefore, the bank needs to improve the framework for debt treatment as soon as possible. The Dept Service Suspension Initiative (DSSI) which expired in December 2019 should reactivate for LEDCs regarding the issue of not being able to pay the debt due to extreme country poverty. The government could also support individuals or businesses that can not afford to pay their debt by signing up a credit counselor for them.
* Technological assistance: As technology improves and more countries have access to the internet, an online banking system is an efficient way to manage individuals' and householders’ budgets. Not only is it easier to manage the finance, but it also reduces safety issues regarding savings. According to International Finance Cooperation (IFC), 59 percent of adults who have no access to online banking system lack of money. In order to solve the issue of inaccessibility of financial services in a low economically developed country (LEDC), institutions could raise funds to support LEDC with technological problems.

* Building confidence to enter emerging markets: After a severe recession in the economy, the numbers of emerging markets will decrease because they do not want to risk their time and money in a low-demand period. However, the fastest way to recover from economic recession is to strengthen the markets. Therefore, institutions could build confidence for the firms to prevent a future financial crisis by providing resources to guide the general overview of emerging markets.

Bibliography

"5 of the World’s Most Devastating Financial Crises." *Encyclopedia Britannica*, www.britannica.com/list/5-of-the-worlds-most-devastating-financial-crises.

Corporate Finance Institute. "Dotcom Bubble." *Corporate Finance Institute*, 27 Oct. 2022, corporatefinanceinstitute.com/resources/equities/dotcom-bubble/.

Gerogieva, Kristalina. “Facing Crisis upon Crisis: How the World Can Respond.” *IMF*, 2022, [www.imf.org/en/News/Articles/2022/04/14/sp041422-curtain-raiser-sm2022](http://www.imf.org/en/News/Articles/2022/04/14/sp041422-curtain-raiser-sm2022).

"In Search of the First Domino: The Credit Crisis of 1772-1773 in a Global History Perspective." *Scottish Centre for Global History*, 12 May 2021, globalhistory.org.uk/2021/05/in-search-of-the-first-domino/#\_ftn3.

Klein, Aaron, and Ember Smith. "Explaining the Economic Impact of COVID-19." *Brookings*, 9 Mar. 2022, [www.brookings.edu/research/explaining-the-economic-impact-of-covid-19-core-industries-and-the-hispanic-workforce/](http://www.brookings.edu/research/explaining-the-economic-impact-of-covid-19-core-industries-and-the-hispanic-workforce/).

Lipton, David. “What Can We Do to Prevent Another Global Financial Crisis?” *World Economic Forum*, 17 Jan. 2019, [www.weforum.org/agenda/2019/01/what-can-we-do-to-prevent-another-global-financial-crisis/](http://www.weforum.org/agenda/2019/01/what-can-we-do-to-prevent-another-global-financial-crisis/).

“Online Banking Boosts Financial Inclusion in Sub-Saharan Africa.” *Ifc.org*, 2017, [www.ifc.org/wps/wcm/connect/news\_ext\_content/ifc\_external\_corporate\_site/news+and+events/news/impact-stories/online-banking-boosts-financial-inclusion](http://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news%2Band%2Bevents/news/impact-stories/online-banking-boosts-financial-inclusion).

**Nixon, Riley. "Why is Finance Important? Here’s What You Need to Know." *Real Business*, 20 Sept. 2022, realbusiness.co.uk/why-is-finance-important-heres-what-you-need-to-know.**

Staff, TheStreet. "What Was the Dot-Com Bubble & Why Did It Burst?" *TheStreet*, 31 May 2022, www.thestreet.com/dictionary/d/dot-com-bubble-and-burst.

**"What Really Caused the Great Recession?" *Institute for Research on Labor and Employment*, 21 July 2020, irle.berkeley.edu/what-really-caused-the-great-recession/.**

"Who We Are." *World Bank*, www.worldbank.org/en/who-we-are.

If you use the websites above, you will be on the right track and even if your citations look slightly different from what is above, they should be okay.