United Nations Economic and Social Council (ECOSOC)

Addressing the 2008 Economic Crisis

CHAIRS

Manuela Barboza
manuelabarboza0707@gmail.com

Frederico Silveira
frederico.silveira@aluno.chpr.com.br

TABLE OF CONTENTS

1. COMMITTEE DESCRIPTION **3**
1.1. WHAT IS ECOSOC? 3
1.2. RESPONSIBILITIES AND POWERS 3
1.3. FREEZING DATE 4
1.4. NOTE ON PREVIOUS KNOWLEDGE 4
2. HISTORICAL CONTEXT **5**
2.1. LOW INTEREST RATES AND MORTGAGE-BACKED SECURITIES 5
2.2. SUBPRIME MORTGAGE BACKED SECURITIES 6
2.3. RATING AGENCIES 7
2.4. DERIVATIVES AND OTHER PRODUCTS 7
2.5. THE BURST 7
3. CURRENT SITUATION **9**
3.1. POSITION OF CENTRAL COUNTRIES 10
3.1.1. United States of America 10
3.1.2. United Kingdom of Great Britain and Northern Ireland 11
3.1.3. Federal Republic of Germany 11
3.1.4. People's Republic of China 11
3.1.5. State of Japan 11
3.1.6. Federative Republic of Brazil 11
4. GUIDING QUESTIONS **12**
5. REFERENCES **13**

1. COMMITTEE DESCRIPTION

1.1. WHAT IS ECOSOC?

The United Nations Economic and Social Council, commonly known as ECOSOC, is the United Nations segment that tackles globally relevant issues regarding *economic, environmental, and social* concerns to advance these three branches of sustainable development. Founded in 1945, the committee is considered one of the most important organs in the UN. The ECOSOC is one of the main six current units of the UN Body, alongside the United Nations General Assembly, United Nations Security Council, the Trusteeship Council, International Court of Justice, and the United Nations Secretariat.

This committee focuses on creating and suggesting ways and alternatives to advocate for higher standards of living and full employment as well as economic and social development of countries in the United Nations by formulating commissions and international conferences. Likewise it organizes the work of funds and programs, also engaging with Non-Governmental Organizations (NGOs).

Due to its role as one of the most important committees in the UN currently, as mentioned above, the ECOSOC has a high level of interference in the United Nations General Assembly and can suggest governmental actions.

Currently, 54 members, 18 of which are selected every three years, debate one subject each year to improve the standards of living of various populations around the world. In this simulation, the quantity will be adapted to 20 members.

1.2. RESPONSIBILITIES AND POWERS

Alongside dealing with social and economic concerns, ECOSOC also engages (although to a lesser degree) in discussions about human rights, and fundamental freedoms while also coordinating the 15 UN specialized agencies.

ECOSOC, as well as most of the United Nations organs, can only *suggest* governmental alterations, and the documents in general, as stated in the Rules of Procedures Guide, are passed through a simple voting majority. This committee can purely advise amendments, meaning that no decision taken within the debate time will be definitive or mandatory, therefore it is important to maintain a non-authoritarian tone while discussing and formulating resolutions and/or reformations (changes or additions in the original file) for said documents.

1.3. FREEZING DATE

As this is a historical committee, the freezing date for data to be considered will be December 31st, 2010. Any source published after this date will not be considered in the evaluation of the Position Paper as well as in the debate itself if used.

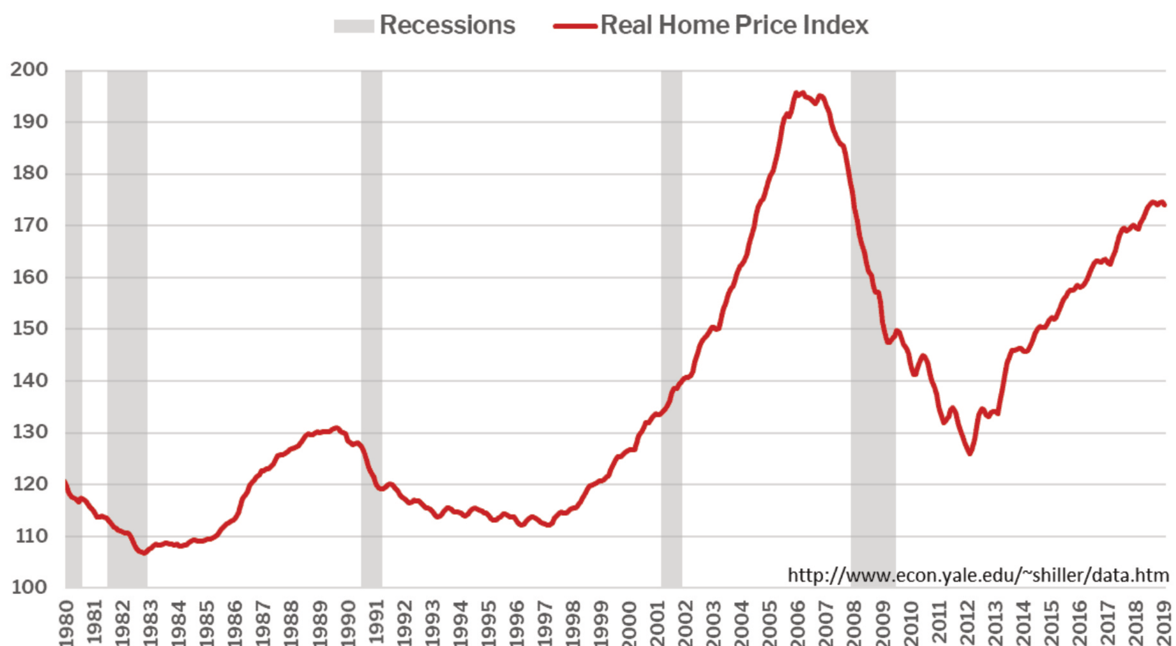
1.4. NOTE ON PREVIOUS KNOWLEDGE

It is important to note that since this committee and its topic involves a discussion on the economical factors of the 2008 crisis, it is expected that delegates approach the guide with *some* previous knowledge on the crisis and basic economics. This guide is *not* introductory.

2. HISTORICAL CONTEXT

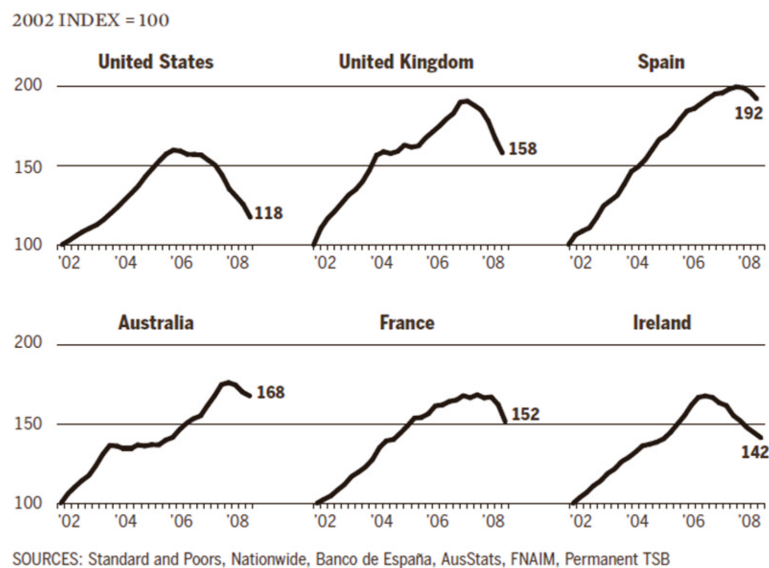
2.1. LOW INTEREST RATES AND MORTGAGE-BACKED SECURITIES

After the burst of the dot-com bubble in 2001, the Federal Reserve Bank ("Fed") decided to drastically reduce interest rates and thus incentivize economical activity in the US. This change in monetary policy deeply heated the real estate market, bringing capital both nationally and internationally. Housing prices were rapidly increasing and it was becoming easier and easier to buy a house through a mortgage with very low interest, evidenced by the graph below which shows the sharp growth of residential real estate prices.



With the increase in economic activity, the offering of mortgage backed securities ("MBS") by banks only grew. Mortgage backed securities are financial products banks created that allow investors to buy a share of a pool of mortgage loans of thousands of people. The investors who buy MBS receive payments of those loans based on the size of the share they bought, while the bank receives a cut off of the MBS as a source of revenue.

This effect of higher house market prices that heat the economy and prompt the offering of MBS was not restricted to the US – the housing market was seeing a global boom, as shown in the graph below.



2.2. SUBPRIME MORTGAGE BACKED SECURITIES

At first, these MBS were made of investment-grade mortgages (i.e. usually rated higher than BBB) and were being advertised to investors as the secure investments they were. However, because of the extremely heated market, banks were running out of high quality mortgages to create these securities and sell to investors. Thus, large banks started to introduce an increasing number of subprime mortgages into these MBS and sell to the investors as if they were as safe as the previous MBS, although they arguably were not. Subprime mortgages are mortgages given to borrowers with a bad or limited credit history, delayed payments, low credit score, high interest rates, etc. The inclusion of subprime mortgages into these MBS pools made the investment much riskier.

2.3. RATING AGENCIES

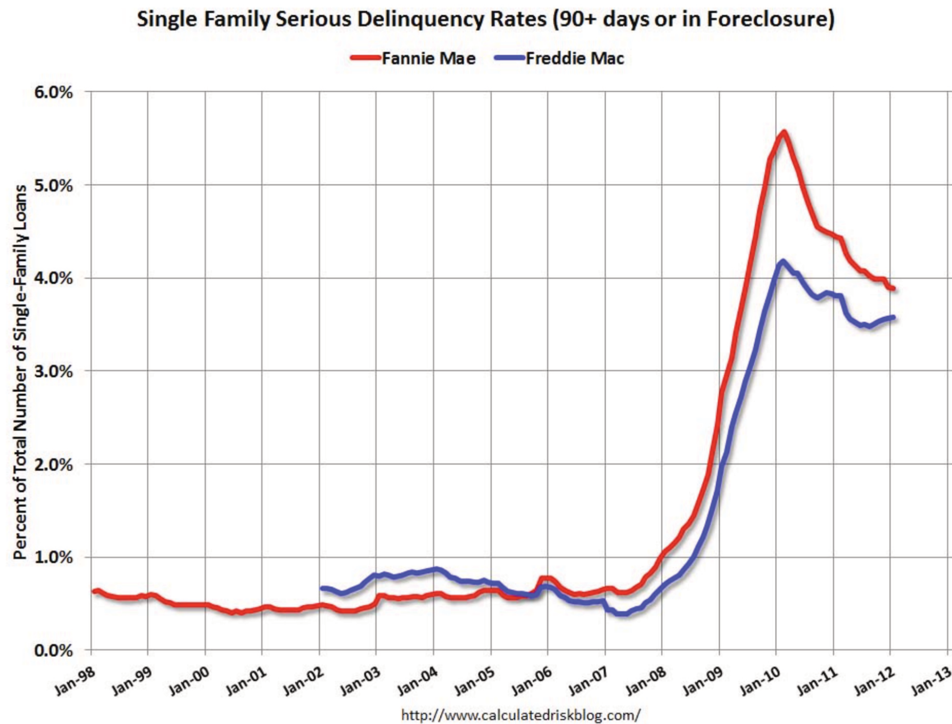
Investors mostly believed the claims by the banks in regard to their MBS because of rating agencies. Rating agencies like Moody and Standard & Poors (S&P), were responsible for, among other things, providing ratings to all sorts of investment products, including MBS. These agencies, however, benefited when they rated larger amounts of securities. With that in mind, several agencies started to provide higher ratings to subprime MBS then they truly believed in so as to attract more and more securities. Thus, investors allocated incredibly high amounts of capital into not-so-safe investments.

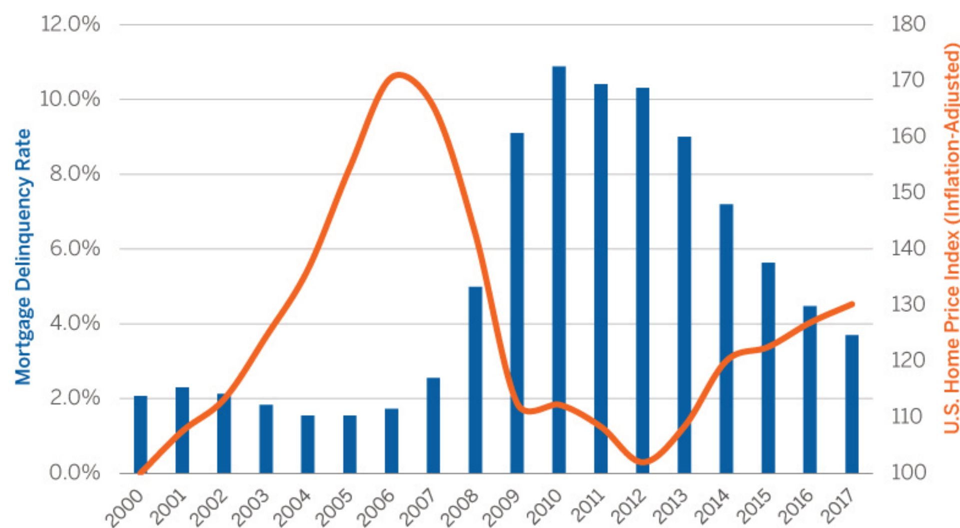
2.4. DERIVATIVES AND OTHER PRODUCTS

Along with subprime MBS, banks decided to expand the slew of financial products they could offer with these mortgages by creating derivatives. Derivatives essentially are financial products that derive from other financial products, such as betting on whether a company will default on their debt or not, for example. In the context of MBS, banks created financial products like collateralized debt obligations (CDOs) and synthetic collateralized debt obligations (SCDOs) – all of which derive from MBS. The effect of these financial products was providing scale to the MBS; they made the mortgage market influence trillions of dollars more than they would if they were not being used for derivatives.

2.5. THE BURST

The main problem with subprime mortgages and their derivatives was that they allowed for an extremely large amount of credit to be issued based on a number of mortgages that could default – and they did. The mortgage delinquency (missed payments) rates skyrocketed, as shown in the graphs below.





When homeowners started defaulting, these MBS lost value rapidly, causing losses. Banks were leveraged in MBS, meaning they did not have enough capital when the crisis hit. As panic spread, credit markets froze, and banks could not refinance their debts. Without liquidity and with crashing asset values, many institutions — like Lehman Brothers — went bankrupt or needed government bailouts to survive. This led to a domino effect of banks facing bankruptcy and a crash in housing market prices.

Another infamous example of this is Bear Stearns. With $46 billion of mortgage assets that had not been written down, and $10 trillion in total assets, the institution was on the verge of bankruptcy; instead, the Federal Reserve agreed to guarantee its bad loans to facilitate its acquisition by JPMorgan Chase. This process happened to several financial institutions in the US, as what came to be known as the "bailouts" given by the Fed. Such bailouts and other stimulus packages given by the government to banks and businesses to contain the crisis were seen worldwide as the crisis spread.

3. CURRENT SITUATION

This committee takes place at the end of 2008, thus, right after the major bailouts and emergency financing plans provided governments worldwide. The global economy was in a deep recession. Stock markets had plummeted throughout the year, major banks had been bailed out, and governments were trying to contain damage. In the US, the recession was officially confirmed, with businesses cutting jobs and consumer spending dropping. Europe and Japan were also suffering, and China announced a large stimulus plan to keep its economy from slowing down too much. Central banks lowered interest rates to near zero, but lending was still tight. The US government had spent hundreds of billions rescuing banks and car companies, but uncertainty remained high.

At the same time, the crisis had affected the global labor market severely. Unemployment rates were rising, especially in sectors tied to finance, manufacturing and construction. Access to credit was scarce, harming investment and job creation. Many questioned whether emergency financial support from governments should be directed at corporations or at broader social programs.

Similarly, the financial industry, which was central to the crisis, faced public scrutiny. The unchecked growth of high-risk financial products, the role of credit rating agencies and

the lack of oversight in credit had been essential for the collapse of the economy. As a result, discussions emerged over the need for harsher regulatory frameworks. While some argued excessive regulation could slow economic recovery, others warned that the same recklessness could repeat in the future.

Further, the crisis exposed the vulnerability of a globalized economy. A crisis that started in the US was able to rapidly spread and collapse economies worldwide, both in developed and developing nations. Countries with high dependency on international trade were facing an even harsher impact due to the struggling consumer market. The balance between maintaining open international markets and protecting domestic industries became a growing concern.

Towards the end of 2008, the need for planned, coordinated action among the international community was essential. Whether the government should continue with bailouts and nationalizations, whether and how financial institutions were going to be held accountable, whether new regulations were necessary, the dangers of a global economy and, most importantly, how to prevent crises like this from happening were central to international affairs debate.

3.1. POSITION OF CENTRAL COUNTRIES

3.1.1. United States of America

The United States took an aggressive interventionist approach, injecting large amounts of capital into failing institutions and cutting interest rates to near zero. However, it remained divided on regulatory measures, being less strict than Europe in financial oversight.

3.1.2. United Kingdom of Great Britain and Northern Ireland

The United Kingdom prioritized stabilizing its financial sector by nationalizing parts of failing banks and aggressively cutting interest rates. The government took an interventionist approach to prevent a deeper economic collapse.

3.1.3. Federal Republic of Germany

Germany approved bank bailouts but was more cautious, avoiding excessive government spending. It later became an advocate for stricter financial regulations within the European Union.

3.1.4. People's Republic of China

China struggled with the crisis due to its heavy reliance on exports. It strongly opposed protectionist policies abroad and responded with massive state-led stimulus packages to sustain economic growth within.

3.1.5. State of Japan

Japan, already in a weak economic position, saw further decline. Its dependence on exports made protectionism harmful, but its historically low interest rates left little room for monetary policy adjustments. The crisis worsened its long-standing issue of weak consumer demand.

3.1.6. Federative Republic of Brazil

Brazil entered the crisis after years of growth with the commodity boom. Due to reliance on commodities, Brazil suffered as demand from major buyers such as the US and China weakened. Brazil was pro-intervention with state-owned banks extending credit to businesses and pushed for more regulations and stricter surveillance.

4. GUIDING QUESTIONS

These guiding questions will help delegates develop branches of exploration, topics to discuss during the symposium and simultaneously stimulate the debate. Keep in mind that this section is neither a direct agenda, nor a mandatory path that will necessarily be followed during the working sections of the committee. However, if needed or wanted, inspiration may be taken from the items below.

1. *What long-term strategies should be implemented to assist nations in recovering from the crisis?*

In this topic it is suggested that the delegates discuss methods of helping other countries regarding recovery from the crisis in question while considering the situation their own delegation finds itself in.

2. *How can the committee hold financial institutions accountable for their risky practices which led to the crisis?*

Discussing the topic of big financial organizations and their roles in the issue would be a central topic of discussion in this section.

3. *Should governments prioritize long-term investments over short-term gains?*

There are a diverse range of aspects that can be discussed and thought upon this subject, such as education, infrastructure, technology and many more. This is a very broad topic of discussion in which different perspectives can be considered.

5. REFERENCES

DeSilver, Drew. 2013. “Chart of the Week: A stroll down financial-crisis memory lane.” Pew Research Center. https://www.pewresearch.org/short-reads/2013/09/13/chart-of-the-week-a-stroll-down-financial-crisis-memory-lane/.

“ECOSOC at a Glance | Economic and Social Council.” n.d. ECOSOC. Accessed November 17, 2024. https://ecosoc.un.org/en/about-us.

“ECOSOC Brochure.” 2023. https://ecosoc.un.org/sites/default/files/d7-files/files/files/en/2022doc/ECOSOC_Brochure.pdf.

“The Global Financial Crisis | Explainer | Education | RBA.” n.d. Reserve Bank of Australia. Accessed November 23, 2024. https://www.rba.gov.au/education/resources/explainers/the-global-financial-crisis.html.

Gratton, Peter. 2024. “Mortgage-Backed Securities (MBS): Definition and Types of Investment.” Investopedia. https://www.investopedia.com/terms/m/mbs.asp.

Gratton, Peter. 2024. “Mortgage-Backed Securities (MBS): Definition and Types of Investment.” Investopedia. https://www.investopedia.com/terms/m/mbs.asp.

Guillén, Mauro F. 2007. “The Global Economic & Financial Crisis: A Timeline.” The Lauder Institute. https://lauder.wharton.upenn.edu/wp-content/uploads/2015/06/Chronology_Economic_Financial_Crisis.pdf.

Hammarskjöld, Dag. 2024. “Research Guides: UN Membership: UN Economic and Social Council Membership.” UN Research Guides. https://research.un.org/en/unmembers/ecosocmembers.

Investopedia. n.d. “The 2008 Financial Crisis Explained.” Accessed November 23, 2024. https://www.investopedia.com/articles/economics/09/financial-crisis-review.asp.

Investopedia. n.d. “Great Recession: What It Was and What Caused It.” Accessed November 23, 2024. https://www.investopedia.com/terms/g/great-recession.asp.

“Main Bodies | United Nations.” n.d. the United Nations. Accessed November 17, 2024. https://www.un.org/en/about-us/main-bodies.

“Research Guides: UN Economic and Social Council Documentation: Introduction.” 2024. UN Research Guides. https://research.un.org/en/docs/ecosoc.

Szczepanski, Marcin. 2019. “A decade on from the crisis: Main responses and remaining challenges.” October 17, 2019. https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2019)642253.

Szczepanski, Marcin. n.d. “A decade on from the crisis – Main responses and remaining challenges.” European Parliament. Accessed February 19, 2025. https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/642253/EPRS_BRI%282019%29642253_EN.pdf.

Weinberg, John. n.d. “The Great Recession and Its Aftermath.” Federal Reserve History. Accessed February 19, 2025. https://www.federalreservehistory.org/essays/great-recession-and-its-aftermath.