Economic and Financial Committee (ECOFIN)

MUNUC 34

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CHAIR LETTER

Hello delegates,

Welcome to MUNUC 34!

Before you jump into reading the background guide, I would like to introduce myself, my expectations for the committee, and the topics we will be discussing. My name is Stasya Rodionova and I will be your chair for ECOFIN this year. I am a fourth year at the College studying political science, statistics, and Eastern European studies. I was born in Moscow, but grew up in New York City. Although I did some high school Model UN, it wasn't until college that I started getting more seriously involved in the activity. Since then, I have staffed every conference hosted by UChicago, being especially involved in MUNUC, where I have previously moderated, chaired, and served as the USG of the General Assembly. In addition to MUNUC, I am also involved in ChoMUN (our collegiate conference), where I will be crisis directing the Ad Hoc this year. I also travel with the UChicago competitive MUN team.

Throughout my years I have collected some advice that I would like to give all of you before you enter committee. The first thing I would advise you all to do is your research! This background guide is a resource that is meant to prime you for conference, but will likely not be enough for you to be able to substantially interact with the content. Treat the background guide as a starting point. Pay attention to the questions at the end of both topics for this committee, as those will be primarily the focus of debate throughout the weekend. Pay specific attention to the Possible Solutions section, which will give you guidelines for how to do your research.

Now, onto my expectations for committee. As someone who has competed before, I believe that the best way to improve throughout the weekend is by facing challenges. This committee will be demanding. The Dias will be strict about asking for specificity and engage with the content rather than simply restating the quick facts that may be found from a quick Google search or a Wikipedia page. The most important piece of advice that I can give you to ensure your success in this committee is *focusing your research on solution mechanisms to the problem rather than the history of* *the problem*. I cannot overstate how crucial this is not only to the general flow of debate, but also to your own enjoyment of committee during the conference. That being said, I understand that the prospect of a large GA, along with the difficulty of the topics chosen, can be daunting, and I assure you that the Dias will be available throughout the entirety of conference to provide help, answer questions, or give feedback.

If there are any questions that you have, whether about the topics, committee procedure, or anything else, do not hesitate to reach out to me at usg.ga@munuc.org

Good luck with your research and I look forward to meeting you all in February,

Stasya

HISTORY OF THE COMMITTEE

The Economic and Financial Committee (Second Committee) of the United Nations is responsible for dealing with questions about economics, global finance, and growth and development around the world. It was created alongside the other major General Assembly bodies of the United Nations during its founding. It is considered a critical organ of the UN, without it the United Nations and the other organs attached to it would cease to function, as ECOFIN apportions funding among programs and committees. Within the purview of the committee are developing solution mechanisms to persistent economic inequity and dealing with emerging concerns within global finance. ECOFIN is composed of all 193 member states of the United Nations and each of them have equal voting power. It can essentially be described as the policy making body for economics, global finance, and economic growth. As in other UN bodies, ECOFIN has the capacity to make policies and draft guidelines, but cannot enforce them. Accordingly, cooperation and support is essential in this committee, as well as thoroughly thought out incentive systems for nations to voluntarily agree to participate in the resolutions produced by this body.

COMMITTEE STRUCTURE & MECHANICS

How To Do Well in This Committee

<u>How To: Research</u>

The background guide should always be a jumping off point for research. Where research is concerned, delegates should identify what they believe to be the most important aspects of the issue and pursue generating solutions that specifically address those.

Here is a suggested structure for research:

1. Start by articulating a particular problem, the more specific, the better.
2. Research past ways it has been addressed or potential methods of mitigating it.
3. Propose a specific solution mechanism that either
    a. Builds upon past actions,
        i. What hasn't this past action considered?
        ii. How can we make it function better?
        iii. Have we re-assessed whether it is actually effective?
    b. Amends existing mechanisms,
        i. What has the existing mechanism failed to address?
        ii. Are there any loopholes that allow for bad actors to exploit this mechanism?
        iii. Is the mechanism prone to abuse or corruption?

c. Institutes a new form of solution

    i. Is there an existing mechanism that solves this issue?

    ii. Are there similar regional or national mechanisms that we can scale up to make globally applicable?

    iii. What is the justification for creating a new solution mechanism?

4. Write a 15s pitch for why this proposal is a good solution for the issue.

How To: Solutions

The issue of funding in Model UN committees is often contentious. Before getting deeper into it, I should clarify that no chair is looking for specific numbers for funding. The numbers are not as important as delegates demonstrating that they have done their research on what is and is not feasible.

Most chairs will be dissatisfied with seeing solutions that rely upon the World Bank, IMF, or individual country contributions as their source of funding. This is the most common pitfall in high school Model UN. For starters, the IMF and World Bank aren't inexhaustible pots of cash available for UN usage. The two are independent international organizations that are very deliberate in issuing aid in emergencies. The criteria that countries need to meet in order to receive even a small loan from either of these (and related) funding structures are so high that most seriously impoverished nations still do not make the cut. Secondly, it is a mistake to assume that individual nations can fund any solutions on the scale of the UN. The national budgets of these countries, even the wealthiest ones, are simply insufficient to handle such expenses. On top of that, it is not a politically viable way of spending the government budget. Furthermore, even if this was somehow feasible, the individual delegate representing the US or Switzerland or wherever does not have the power to commit his or her country to such a serious financial burden, nor is it in their best interest to do so. For these reasons, solutions that rely on the IMF, World Bank, or individual country donations are not quality solutions because they show a lack of understanding of international lending practices on the part of the delegates and an unwillingness to research alternative actionable ways of solving the problem. Consider yourselves warned.

The best solutions in Model UN are those that do not cost any money or have methods of self-generating revenue for funding. In other words, policy-based solutions to global problems are one of the better ways of going about this. Though the UN cannot issue blanket resolutions, it can recommend the implementation of specific restructuring policies that countries may adopt in order to achieve the overall goal.

How To: Clause Writing

Clauses take your research and package it into an easy to understand and standardized format. Here are the most immediate things you need to know about clause writing:

1. The entire Working Paper/Draft Resolution is one sentence with only one period at the end. Use commas and semicolons to separate clauses and sub-clauses.

2. Each new operative clause begins with an action word such as: recommends, creates, calls upon, encourages, urges, supports, etc.

3. Subclauses should then aim to explain the particular mechanisms included in your clause and how they operate. Subclauses should aim to explain the who, what, where, when, why, how, etc, of the implementation of each clause.

4. You can also choose to use sub-sub-clauses to list certain things such as: the definitions of categorized qualifications, the specific medical or educational supplies you want to distribute, the makeup of a particular summit panel, etc.

Here's an example clause:

1. Encourages the declaration of ECOFIN as the best committee at MUNUC 34 by;

a. Creating a judging panel for the purposes of evaluating what makes ECOFIN so great, furthermore;

   i. Evaluating committee quality on the basis of;

      1. Debate liveliness,

      2. Length of Working Papers and Draft Resolutions,

      3. Proportion of engaged delegates in the committee,

      4. Net amount of MUNUC merchandise purchases attributable to said committee,

   ii. Generating a report on the findings of aforementioned committee,

   iii. The judging panel will consist of returning former MUNUC executive committee members (PKO),

b. Publicizing the findings of said report by;

   i. Using MUNUC's printers to make 1,000 copies of aforementioned report,

   ii. Asking MUNUC admin staffers to distribute reports to all other MUNUC committees.

How To: Parliamentary Procedure

Parliamentary procedure can be really confusing to grasp at first. The easiest way to understand what is going on in committee is to differentiate between moderated and unmoderated debate. In moderated debate, everyone will be seated and delegates will be raising their placards to be called upon to speak. In unmoderated debate, delegates are free to get up from their seats and find other delegates in order to talk about solutions and write Draft Resolutions. What happens during moderated debate is sometimes called “frontroom.” Conversely, what happens in unmoderated debate is often called “backroom.” (E.g. “I think I’m doing well in backroom, but I need to work on my frontroom skills.”) Below you will find a brief guide to some commonly used terms.[1]

Common terms:

Abstentions: Delegates may not abstain from voting on Procedural matters but may abstain from voting on Substantive matters (e.g. only directives or amendments). Abstentions will change the number of “Yay” votes required for a majority.

Chair’s discretion: As the procedural decision-maker, the Chair retains all ability to allow, reject, or change proposed motions by delegates.

Dilatory: This motion is not applicable or useful at this time and so will not be entertained by the Dais

In order: This motion is applicable and will proceed as is customary

Signatories: Delegates who wish to see a working paper or draft resolution introduced and voted upon. Signatories do not have to vote for a directive. Working papers/draft resolutions require around ¼-⅓ of committee members as signatories in order to be considered for introduction.

In order of most disruptive to least disruptive, the common motions of debate are as follows:

1. Motion to Modify Debate
    a. Open, Adjourn, or Close Debate
    b. Suspend the Rules
    c. Introduce Draft Resolutions

[1] Adapted from Shayna Cohen & Katie DeLong’s MUNUC 33 Background Guide

2. Points
    a. Of Order (may interrupt speeches)
    b. Of Personal Privilege (may interrupt speeches, but ideally shouldn't)
    c. Of Inquiry (may not interrupt speeches)
3. Motion to Enter Voting Procedure
4. Motion to Extend the Previous Moderated Caucus
    a. Moderated Caucuses can be extended by a maximum of half of the total speaking time of the original motion
        i. E.g. A 10min Moderated Caucus will have a maximum of a 5min extension
5. Motion for an Unmoderated Caucus
    a. Total Time (Longest to Shortest)
6. Motion for a Moderated Caucus
    a. Time per Speaker (Shortest to Longest)
    b. Total Time (Longest to Shortest)

How To: Do Well in GA

GAs require a lot of specific preparation. My best advice is to focus on depth rather than breadth of research. Research should always target specific solutions rather than covering the broadness of the issue.

On top of this, GA is a balance of managing your frontroom and your backroom performance. Practice giving speeches on your own and taking up the full speaking time available to you. If the moderated caucus has an individual speaking time of 1 minute per delegate, speak for the whole 60 seconds. Practice giving speeches on specific solution ideas.[2] Backroom is a little tougher to navigate. Above all, make sure that you are being a kind person in your backroom and treating everyone with respect. Leadership is about lifting other people up.

If you are part of a double del partnership, make sure that both you and your partner are on the same page. Make sure that you communicate to one another and are upfront about what you need from the other person throughout the duration of conference. You should also be candid to each other about your strengths and weaknesses before you go into conference so that you can establish a working relationship that flows well. Balance is key to a good partnership. Both delegates in the double del partnership should be making speeches. Both partners should work on the draft resolution.

Finally, my best piece of advice for you is to think about how you could make your time in committee easier, more enjoyable, and worthwhile given your goals. From my end of things, I hope to make this MUNUC a valuable learning experience for you.

[2] Hint: You can use the following structure for a 45s speech: 10s intro, 30s of content, 5s conclusion. Aim to make your main point, then explain (in depth) how you propose on working on the issue, then wrap it up by bringing it back to your main point. You should split up the content portion of your speech into no more than three distinct points/ideas.

TOPIC A: MARKET MANIPULATION

Statement of the Problem

In January of 2021 the nearly extinct company GameStop made an unexpected comeback. In the span of a couple months, the American video game retailer rebounded from a stock selling price of $3 to its all time high of $483.[3] News headlines everywhere soon exploded with mentions of not just GameStop, but also Reddit, WallStreetBets, and Robinhood. The short story is that a group of individual traders were able to destabilize the field using Reddit and Robinhood and resultantly cause large hedge-fund companies to lose billions of dollars. The long story, which this background guide will seek to tell, is a classic example of actor-driven market volatility, an ongoing and unpredictable challenge that has caused a lot of chaos in global economies.

So how did GameStop (GME) stock experience such a dramatic increase in price? GameStop had for long been an ailing company. As the availability of worldwide shipping grew, it became harder to maintain physical GameStop locations, forcing the company to close 783 stores in the span of 2019-2020 alone.[4] The purging of GameStop stores across the country was partially a measure intended to relieve the strain that operations imposed on the company which was facing over $300 million worth of short term debt by the end of 2020.[5] All signs pointed to the company's declining health, which was reflected in the way its stock price dropped from $50 in 2014 to $3 per share in 2019.[6] It's inability to adapt to the digital format and choice to remain primarily a brick and mortar business wasn't helping the general sentiment that it was operating on borrowed time. At the end of Q3[7] in 2020, GameStop was experiencing losses due to the end of its most recent console cycle. The company expected better returns in Q4 when it launched a new console.

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[3] Internationalbanker. "GameStop: What Happened, and What It Means." *International Banker*, 29 Mar. 2021, internationalbanker.com/brokerage/gamestop-what-happened-and-what-it-means/.
[4] Valentine, Rebekah. "GameStop Has Closed 462 Stores so Far This Year, 783 in Last Two Years." *GamesIndustry.biz*, GamesIndustry.biz, 8 Dec. 2020, https://www.gamesindustry.biz/articles/2020-12-08-gamestop-has-closed-462-stores-so-far-this-year-783-since-last-year.
[5] ibid
[6] Internationalbanker. "GameStop: What Happened, and What It Means." *International Banker*, 29 Mar. 2021, https://internationalbanker.com/brokerage/gamestop-what-happened-and-what-it-means/.
[7] The fiscal year is split into 4 quarters, running for 3 months each. Q3 contains returns for July, August, and September

However, not everyone believed that GameStop was a failing company. Upon the release of a new product in November 2020, its stock price increased from $3 to $20. This is most directly attributed to the Reddit group WallStreetBets (also referred to as WSB), a subReddit on the popular forum with nearly 3.5 million followers. Before we dive into how exactly WSB contributed to the increase in GME stock price, we'll define some terminology. You may also refer to the glossary section at the end of Topic A.

Bear market/ Bearish: This is a term used to describe a potentially downtrending market or stock. For example, a trader may evaluate that GameStop stock will only continue to lose value in the coming fiscal quarter. We would call this a bearish view.

Bull market/ Bullish**:** Conversely, a bullish view would predict that stock price would go up in the near future. Thus, a trader that believes that GameStop stock will perform well has a bullish view.

Trader**:** Anyone that engages in buying or selling financial assets (i.e. stock) either on their own behalf or for someone else. Not to be confused with an *investor*, who tends to buy stock and hold onto it long-term.

Hedge-fund**:** A pooled investment fund that creates profit for itself and private investors based on risky investment or selling practices. In simpler terms, a hedge fund is a company that manages investors' money by buying stock at low cost and selling it when the stock value increases, thus generating profit. (N.B.: Hedge funds, unlike the broader category of asset management companies, are only for private investors, and thus are less regulated than their public counterparts)

Short-selling**:** Investopedia defines this term best: "Short selling occurs when an investor borrows a security and sells it on the open market, planning to buy it back later for less money."[8] In other words, a trader or a hedge fund can sell stock of a given company (borrowed from an investor) at market price with the expectation that the stock price will continue to decline and that they can buy it back later at this lower price, return the stock, and they can pocket the difference. E.g. I believe that Dogecoin stock (DOGE) will devalue after Elon Musk goes on SNL. I borrow 1,000 shares of

[8] Hayes, Adam. "Short Selling." *Investopedia*, Investopedia, 7 Dec. 2021, https://www.investopedia.com/terms/s/shortselling.asp.

DOGE stock from my friend worth a total of $650 and promise to return it the next day. I sell the stock at the market value of $650 that day. Elon Musk goes on SNL and, true to expectations, he is horrifically unfunny. The next day, Dogecoin stock plummets and its price declines by 30%. I buy back 1,000 shares worth of DOGE stock that day at the new market value of $455. I give my friend back her 1,000 shares of Dogecoin and I pocket the $195 I just made from the sale ($650 - $455 = $195). This is called a short sell or "shorting the stock."

***Short-squeeze*:** When a stock's price unexpectedly rises, short sellers often panic and are forced to sell off the stock, even if it comes at a loss. The resultant flow of people selling the stock causes a temporary spike in it's price. To summarize, it is called a "short-squeeze" because the people in "short" positions are forced (squeezed) into selling.

Back to GameStop. Most hedge-funds evaluated that GameStop's prospects were bullish. That is, most experts believed that its stock price would continue to devalue. However, a group of amateur traders on Reddit made the case for it being otherwise. One user on WSB posted a manifesto titled "Bankrupting Institutional Investors for Dummies, ft. GameStop" that made the case for the company's future and predicted an upcoming short-squeeze.[9] In particular, the user dove into the company's balance sheet, the console cycle, the way it's been moving towards a digital market, and so on. The manifesto noted that the sheer number of short holders of the company was at such a high percentage that even a shift up to a $15 stock price would trigger a massive short-squeeze. The subReddit community was very responsive to it and the excitement actually helped push the stock price to nearly $20 by the end of 2020.

At this point, the increase in the company's trading price had grown substantially compared to its performance in previous years. This made it catch the eyes of many profit-seeking hedge-funds. They estimated that GameStop was overvalued and that the stock price would soon decrease. With the belief that the price would fall and they could re-purchase their holdings at a lower price point in the near future, they began to sell their GameStop stock. In response, Reddit users decided to purchase and hold as much GME stock as possible. Thus, hedge-funds found themselves in a position

[9] "R/Wallstreetbets - Bankrupting Institutional Investors for Dummies, Ft Gamestop." *Reddit*, https://www.reddit.com/r/wallstreetbets/comments/ivs6dw/bankrupting_institutional_investors_for_dummies/.

where they could not repurchase their shares of GME stock after they had sold it because so much of it was held by a group of amateur traders on Reddit.

In turn, this holding of GME stock made the stock price skyrocket due to the fact that demand had risen but the supply of shares being sold was significantly lower. On January 20th of 2021, GME stock was valued at around $40/share. On January 25th it reached a market price of $76/share. Just days later on January 28th, it surged to a peak price of $483/share.[10] This caused huge losses for hedge-funds because, by definition, the GME stock they sold was *borrowed* from their clients. Even if the hedge-fund cannot turn a profit on a particular stock, it still must return the holdings to the original owners. This means that the hedge-fund must make up for the price difference between selling and purchase price. For example, if the company sold 5 shares of GME stock valued at $20/share ($100 worth total) and was forced to repurchase it later at a price of $80/share ($400 worth total), that means they must cover the $300 worth of losses out of their own funds. In total, as of January 28th 2021, it was estimated that short-selling hedge-funds suffered a loss of $19.75 billion on GameStop stock alone in the span of the first 28 days of the year.[11]

The David-beats-Goliath story doesn’t end there, however. One of the ways that amateur traders were buying GME stock was through an app called Robinhood, which is a commission-free investment and trading platform. This means that there are no fees charged for buying or selling stock. It is specifically designed to be easy, accessible, and fair to use for the average person who has little background in financial markets. As the name of the company suggests, it was designed to help “the little person” find their bearings in the world of trading. With GameStop stock reaching its peak at $483/share on January 28th, Robinhood announced a temporary restriction on purchasing any more of the company’s stock citing market volatility. This provoked a lot of backlash at the company for protecting large companies and their CEOs over the individual…so much so that the app was flooded with an overwhelming amount of 1 star reviews, which Google later elected to delete.[12] Several lawsuits were filed and Robinhood even had a hearing with Congress in order to explain its decision to allow the sale, but not the purchase of GME stock in late January. The US Securities and

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[10] Internationalbanker. “GameStop: What Happened, and What It Means.”
[11] Ibid.
[12] Gonzalez, Oscar. “AOC and Lawmakers Call for Hearings on Robinhood for Freezing Trades on GameStop Stock.” *CNET*, CNET, 29 Jan. 2021, https://www.cnet.com/personal-finance/investing/aoc-and-lawmakers-call-for-hearings-on-robinhood-for-freezing-trades-on-gamestop-stock/.

Exchange Commission got involved and launched an investigation to "closely review actions taken by regulated entities that may disadvantage investors or otherwise unduly inhibit their ability to trade certain securities."[13] The primary issue with the company was that by restricting individuals' ability to purchase GME stock at this point in time, it was unfairly depriving the average person and barring their access to participation in buying and selling public stock, an essential central tenet of a free market economy. While the company was able to lift the moratorium and limit purchases to some maximum amount of shares per user, it still faced a lot of anger from Redditors and regular users who claimed the company was serving the interests of large corporations.

Before we are quick to condemn Robinhood for its actions, however, it is also necessary to point out that its CEO Vlad Tenev traces the decision back to the numerous regulations and standards the company adheres to. Specifically, the company must keep a "substantial amount of money on hand in order to process all trades happening through its clearinghouse."[14] The decision to suspend GME purchases, the CEO explained, was a result of the fact that the company needed a larger reserve in order to satisfy the demand from the National Securities Clearing Corporation given the risk involved and the sheer volume being traded.

That being said, Robinhood's response to the situation was a stark contrast to other major actors in this story. CashApp, for example, released a statement that pinned the blame on its third party clearing broker and emphasized that it did not agree with the decision made.[15] Reddit's response was also quite different. Amid pressure for the company to do something and even shut down r/WallStreetBets, the CEO told BBC that they had the complete opposite intention and that Reddit was a forum that was there to provide that community, not break it apart.[16]

As of October 2021, GameStock was trading at around $200/share, which is still substantially higher than the $3/share it had been selling at in November of 2020. The main reason for the relative

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[13] Sherr, Ian. "Robinhood Troubles: SEC Will 'Closely Review' Actions That Restricted AMC, GameStop Stock Trades." *CNET*, CNET, 29 Jan. 2021, https://www.cnet.com/news/robinhood-troubles-sec-will-closely-review-actions-that-restricted-amc-gamestop-stock-trades/.
[14] Gonzalez, Oscar. "Fact Check: Robinhood Backlash: What You Should Know about the Gamestop Stock Controversy." *Our.News*, 17 Mar. 2021, https://our.news/2021/03/18/robinhood-backlash-what-you-should-know-about-the-gamestop-stock-controversy/.
[15] Ibid.
[16] Internationalbanker. "GameStop: What Happened, and What It Means."

stability of this high price is the fact that individual users are choosing to hold on to their shares, a decision still driven by WSB. The events surrounding GameStop this year have thrown a lot of questions into relief. It leads to questions about the stability (or fragility) of the entire system, what this means for the future of short-selling and market volatility, whether there are any consequences for collective action or colluding to influence stock prices via online fora, and to what extent the system is rigged against the smaller players.[17] These questions and the consequences of the GameStop short-squeeze are incredibly significant. With billions of dollars lost and the entire market system thrown into chaos, it becomes increasingly clear that the involvement of individuals and groups in their attempts to influence the market are a hot button issue. The following section will seek to give you a better understanding of the major players of the system and dive into other contemporary examples of actor-driven market volatility.

[17] Ibid.

History of the Problem

Market volatility is a "measure of dispersion around the mean or average return of a security."[18] In other words, it is the way that prices are dispersed around the mean price of a given security. The more spread out they are, the more volatility there is. The more volatility, the more risk for individual investors.

Actor-driven market volatility (market manipulation) is no new phenomenon and neither are intentional attempts to rig or game the system for individual profit. This section will cover other major attempts to influence stock prices and take advantage of certain market features. All of these are ongoing issues that are challenging to regulate and have negative externalities either for the average person or for some segment of the market.

Insider Trading

Insider trading is the buying or selling of stock based on private information. It unfairly gives an advantage to individual traders over the rest of the market. In 2001 a biopharmaceutical company named ImClone was in the process of developing a new treatment and, when it became apparent that the treatment did not pass FDA approval, the company alerted its executives and other key stockholders before going public with this information. This led to key shareholders, including one Martha Stewart of cookbook fame, selling off their stock at a higher level than everyone else who sold it off after the stock price crashed.[19] Shortly after, an investigation was launched and multiple people were convicted of insider trading.

In 2021, a group of TikTok users discovered that they could follow the financial records of members of Congress who were investing in companies that tended to do very well. Because members of Congress are required to release financial information, including what they or their spouses are trading, ordinary people on the internet could follow the paper trail to find out what would be smart to invest in. House Speaker Nancy Pelosi denies holding any stock in her name or having any prior

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[18] Wagner, Hans. "Why Volatility Is Important for Investors." *Investopedia*, Investopedia, 13 Sept. 2021, https://www.investopedia.com/articles/financial-theory/08/volatility.asp.
[19] Ganti, Akhilesh. "What Is Insider Trading?" *Investopedia*, Investopedia, 17 Dec. 2021, https://www.investopedia.com/terms/i/insidertrading.asp.

knowledge of how her investor husband chooses to buy or sell stock. However, the stock that he (as well as other elected representatives) purchases tends to show "abnormally positive returns when there's a disclosure by a senator."[20] Similarly, in February 2020, shortly before the Covid-19 financial crisis, a substantial number of elected representatives sold off their stock holdings. Notably, Republican Senator Richard Burr has been found to have warned constituents about the coming financial crisis and he himself sold off all his stock holdings in a single day in February.[21] In spite of this, it remains difficult for investigators to find someone guilty of insider trading. In any case, users on the internet have chosen to harness this phenomenon and turn a profit on it themselves, investing where they see the congressional paper trail.[22]

Crypto/Investment Whales

In cryptocurrency circles, "whales" are known as actors that are highly influential and can manipulate the market via buying and selling massive volumes of crypto. Whales can make the market volatile by setting up so-called "buy and sell walls." At the root of the potential attack is the user's ability to open a large buy or sell position on the market. Smaller investors will see the large listing and panic, expecting the price of the stock to either shoot up or depress. In reaction, they begin buying and selling their shares of the cryptocurrency/stock accordingly, entirely shifting the market either up or down. The whales will then capitalize on the new prices by changing their listing and collecting the price difference. Thus, smaller investors are the ones most hurt by the actions of market whales. The practice is incredibly damaging and contributes to instability via market manipulation as these individuals essentially have the ability to shape the market to whatever is most profitable for themselves without any regard for the system or other players. The same principle applies to regular stock as well. Whales can be people who have a massive share in the company or they can just be highly influential people. For example, if Nancy Pelosi or Elon Musk started trading particular stocks in ways that are unusual, most amateur investors would notice and begin to panic, creating the shock that would drive prices either up or down.

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[20] Mak, Tim. "TikTokers Are Trading Stocks by Copying What Members of Congress Do." *NPR*, NPR, 21 Sept. 2021, https://www.npr.org/2021/09/21/1039313011/tiktokers-are-trading-stocks-by-watching-what-members-of-congress-do.
[21] Mak, Tim. "Justice Department Looking into Senator's Stock Sell-Off." *NPR*, NPR, 1 Apr. 2020, https://www.npr.org/2020/03/31/824958381/justice-department-looking-into-senators-stock-selloff.
[22] Via TikTok: @ceowatchlist

Shell Companies or Scams?

A little-known New Jersey based sandwich shop under the name Your Hometown Deli, which made just under $14,000 worth of cheesesteak and chicken parm sales last year, that somehow was valued at $113 million on the stock market has both confused and concerned financial analysts everywhere.[23] Located in Paulsboro, New Jersey in a tiny concrete building by the side of the road, Your Hometown Deli's chief executive team appears to be a local high school wrestling coach and math teacher. Yet somehow, despite losing nearly $100,000 each year, the deli has managed to increase its stock price by 1,200% since going public in 2019.[24] The activity looked so suspicious that several exchange providers suspended sales of the company's stock and submitted formal complaints to the SEC for investigation.[25]

Your Hometown Deli was ultimately delisted, but holding the executive board accountable for its actions has proven to be slightly more challenging than anticipated. In order to prove that Your Hometown Deli was doing something illegal, investigators would need compelling evidence. Upon closer examination, the chairman of the sandwich shop was found to be a Hong-Kong based businessman and a lot of the stock of Your Hometown Deli was purchased out of Hong-Kong and Macau.[26] Whether Hometown Deli was a shell company, a scam, or just an anomaly is still unclear.

A shell company is a legal entity that is not designed to have business, instead sheltering another entity, reducing tax liabilities, or minimizing legal risks.[27] Shell companies are legal and can be used also to raise money to acquire other companies. Shell companies can also be used in more sinister ways, such as for the purposes of laundering money or hiding information or beneficial ownership from the police. While Hometown Deli on the surface did not seem to have been partaking in

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[23] Barron, Jesse. "The Mystery of the $113 Million Deli." *The New York Times*, The New York Times, 2 June 2021, https://www.nytimes.com/2021/06/02/magazine/your-hometown-deli.html.
[24] ibid.
[25] *Edgar Filing Documents for 0001213900-21-018020*, https://www.sec.gov/Archives/edgar/data/1632081/0001213900-21-018020-index.htm.
[26] Mangan, Dan. "Key Investor in $100 Million NJ DELI Has a History of Legal Problems, Ties to Criminals." *CNBC*, CNBC, 20 Apr. 2021, https://www.cnbc.com/2021/04/19/hometown-international-nj-deli-linked-legal-problems.html.
[27] Sinha, Sonali. "What Is a Shell Company?" *The SignalX Blog*, The SignalX Blog, 5 Feb. 2021, https://signalx.ai/blog/what-is-a-shell-company/.

anything sketchy, it posed a risk to ordinary consumers who may have invested in their stock without being completely informed about their mission or operations.

Big Players

Celebrities, CEOs, and other big industry names can sometimes also place pressure on the market. In an earlier example, this background guide mentioned Elon Musk's appearance on SNL changing the demand for DogeCoin. However absurd this may seem, it is a serious concern as celebrities increasingly have influence over vast swaths of our society through social media platforms. One tweet or Instagram post can sway thousands of people to react in ways that may change the market. While using this form of influence for personal gain is largely condemned, it does little to prevent the market from experiencing these sorts of exogenous shocks.

Glossary of Common Forms of Market Manipulation[28]

Bear raid: Happens when short sellers try to lower the price of a stock, usually via spreading false information. This can sometimes trigger a short squeeze.

Fake news: Individuals may try to spread false information about the market via chat rooms or message boards in order to trigger a short squeeze. N.B. Short squeezes are not illegal, but intentionally causing them via spreading false information is.

Wash trading: Attracting investors to a stock by superficially raising its activity. Usually this is done by buying and selling stock frequently at no profit or loss. For example, an individual will create two accounts and "wash" stock between them by buying and selling to the other account. This makes the stock look more active and increases interest in it.

Spoofing: Posting large orders with no intention of following up on them. If a large order is posted, it creates the impression that there are a lot of buyers and sellers interested in the stock, thus

[28] "Market Manipulation." *Market Manipulation: Strategies & Examples | CMC Markets*, https://www.cmcmarkets.com/en/trading-guides/market-manipulation.

attracting interest. This can influence others in the market to either buy or sell and usually the spoofer can profit off of it.

Pump and dump: The act of sending spam emails encouraging people to buy stock. Usually the perpetrator has significant holdings of the stock and they hope that by encouraging others to buy that they can drive the price of the stock up and turn a profit.

Churning: When wealth managers increase trade activity just to raise their own commission. Commission costs go up with high trading activity yet the returns for the client remain stagnant. This hurts long-term investors.

Front runner/insider information: Taking financial action based on private information. Also see insider trading.

Cornering the market: Purchasing a majority or substantial portion of stock, thus gaining majority control, usually in the hopes of being able to dictate what others must pay for the stock. Also see whales.

Past Actions & Possible Solutions

All of these previously mentioned cases are examples of different kinds of market manipulation. This section will cover past attempts to regulate this sort of volatility and offer up potential frameworks for how delegates should be thinking about the issue in researching solutions.

National Interventions

Anti-manipulation regulations are a common tool for protecting markets. Typically these are pieces of legislation passed by national governments and are enforced by the appropriate oversight boards and adjudicated by the national court system. Examples of these are anti-fraud and anti-insider trading bills.

Conversely, some market analysts and lawmakers are proponents of deregulation, arguing that extreme oversight is stifling market development and leads to criminal activity disappearing into the dark web.

The Securities and Exchange Commission (SEC) is an independent US federal agency tasked with regulatory oversight and investigative powers over instances of fraudulent market participation. It is responsible for protecting the interests of the individual and registering financial service providers. Within the SEC framework, there are several divisions and working groups such as the divisions of corporate finance, enforcement, investigative management, trading and markets, and economic and risk analysis.[29] The SEC is endowed with the power to bring civil cases (usually requesting injunction or disgorgement) but may work with other court systems as assistance for launching criminal cases. The SEC is primarily an institution involved in triage and market surveillance using FINRA and SONAR, which will be covered below.

[29] Chen, James. "Securities and Exchange Commission (SEC)." *Investopedia*, Investopedia, 21 Sept. 2021, https://www.investopedia.com/terms/s/sec.asp.

Self-Regulatory Organizations (SROs)

Self-Regulatory Organizations (SROs) are non-governmental agencies that have the power to write and establish rules within a particular industry. The most effective SROs will be able to not only set their standards but also enforce them on all their members. SROs often emerge in industries that feel they are not regulated enough by the government. Forming an SRO gives them the power to self-regulate, which is key to maintaining competitiveness.

The Financial Industry Regulatory Authority (FINRA) is one example of an SRO. FINRA is the single largest independent regulatory agency in the United States, wielding the power to fine and ban brokers from its platform if they are found to be in violation of its rules.[30]

The New York Stock Exchange (NYSE) is another example of SRO and is the largest equities-based exchange in the world. Its European equivalent, Euronext, is a similar set up of merged Paris, Amsterdam, and Brussels stock exchanges and similar exchanges are set up all over the world. As it stands, the largest (in order) are NYSE, NASDAQ, Tokyo Stock Exchange (TSE), Shanghai Stock Exchange (SSE), Euronext, Hong Kong Stock Exchange (HKSE), London Stock Exchange (LSE), Shenzhen Stock Exchange, Toronto Stock Exchange, and Bombay Stock Exchange.[31]

RegTech

Regulatory technology (RegTech) is a relatively new branch of market manipulation detection and prevention. RegTech is a third party primarily software based service that is offered to help automate surveillance and market regulation frameworks. Sonar, a system used by FINRA, is one such software. Sonar is meant to "look for everything from suspiciously well-timed trades ahead of a corporate announcement to huge jumps in trading activity on penny stocks."[32]

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[30] Kagan, Julia. "Financial Industry Regulatory Authority (FINRA)." *Investopedia*, Investopedia, 19 May 2021, https://www.investopedia.com/terms/f/finra.asp.
[31] Published by Statista Research Department, and Dec 13. "Largest Stock Exchange Operators by Market Cap 2021." *Statista*, 13 Dec. 2021, https://www.statista.com/statistics/270126/largest-stock-exchange-operators-by-market-capitalization-of-listed-companies/.
[32] Cohen, Robert, and Angela Guo. *The SEC and FINRA's Use of Big Data in Investigations and the Implications for Defense Council*. The Review of Securities & Commodities Regulation, https://www.davispolk.com/sites/default/files/cohen.pdf.

RegTech functions on a combination of big data and machine learning technologies. RegTech companies seek to do real-time monitoring of all online transactions, communicate their findings with relevant oversight bodies, and give companies' compliance departments information on money-laundering activities.[33]

In 2018, several high profile financial service companies invested in a company called Digital Reasoning. The company's goal is to create an artificial intelligence system that would effectively be able to decode human language based on context, allowing for improved monitoring. Originally this technology was meant to have military implementations, yet with financial systems moving online, it has proven to have applications to trader behavior surveillance. In 2012 the company expanded into the financial industry, a much-needed move since the increased digitization of financial markets has presented a myriad of oversight challenges.[34]

[33] Frankenfield, Jake. "What You Should Know about Regtech." *Investopedia*, Investopedia, 21 Nov. 2021, https://www.investopedia.com/terms/r/regtech.asp.
[34] Hill, Richard. "How Artificial Intelligence Can Stop Market Manipulation." *FIA Market Voice*, 11 June 2018, https://www.fia.org/marketvoice/articles/how-artificial-intelligence-can-stop-market-manipulation.

Bloc Positions

Because most countries prohibit market manipulation, this section will tease out the major points of contention within the broader debate and provide questions that delegates should aim to answer in their research and their working papers, instead of providing an extensive list of bloc positions by region. Additionally, delegates should note that because the global community is largely in agreement on the issue of market manipulation, the discussion of the topic at hand should focus on ways to combat it in the first place. Solutions should provide detailed answers to how delegates plan to lower the incidence of market manipulation events.

Global vs Local

- To what extent should the market regulations imposed be global vs local?
- How should we ensure that enforcement agencies are effective?
- Who should bear the brunt of surveillance responsibilities?
- How should dark web trading, money laundering, and other forms of fraud be detected and addressed?

Market vs User

- How should we make sure that individual users are protected from scams and bad actors?
- How should we maintain an effective level of surveillance without impeding on individual privacy?
- What is the correct approach to market regulation or deregulation?
- What kinds of rights do amateur traders have?
- What kinds of rights do large corporations have?

Equity

- How should we expand financial literacy?
- How should we make consumer financial products accessible to the average person?
- What should be done about big players and their impact on the market?
- How should we make sure that this issue does not disproportionately impact weak local markets?

Enforcement & Accountability

- What is the proper investigative procedure for cases of market manipulation?
- What constitutes sufficient proof of market manipulation?
- What sorts of penalties should the perpetrator incur?
- Should companies be held responsible for the actions of their employees when it comes to market manipulation?
- What sorts of frameworks should be put in place to facilitate market recovery after manipulation, if any?

Glossary

Bear market/ Bearish: This is a term used to describe a potentially downtrending market or stock. For example, a trader may evaluate that GameStop stock will only continue to lose value in the coming fiscal quarter. We would call this a bearish view.

Bear raid: Happens when short sellers try to lower the price of a stock, usually via spreading false information. This can sometimes trigger a short squeeze.

Bull market/ Bullish: Conversely, a bullish view would predict that stock price would go up in the near future. Thus, a trader that believes that GameStop stock will perform well has a bullish view.

Churning: When wealth managers increase trade activity just to raise their own commission. Commission costs go up with high trading activity yet the returns for the client remain stagnant. This hurts long-term investors.

Cornering the market: Purchasing a majority or substantial portion of stock, thus gaining majority control, usually in the hopes of being able to dictate what others must pay for the stock. Also see whales.

Fake news: Individuals may try to spread false information about the market via chat rooms or message boards in order to trigger a short squeeze. N.B. Short squeezes are not illegal, but intentionally causing them via spreading false information is.

Front runner/insider information: Taking financial action based on private information. Also see insider trading.

Hedge-fund: A pooled investment fund that creates profit for itself and private investors based on risky investment or selling practices. In simpler terms, a hedge fund is a company that manages investors' money by buying stock at low cost and selling it when the stock value increases, thus generating profit. (N.B.: Hedge funds, unlike the broader category of asset management companies, are only for private investors, and thus are less regulated than their public counterparts).

Market manipulation: The act of changing the natural state of the market for personal gain.

Pump and dump: The act of sending spam emails encouraging people to buy stock. Usually the perpetrator has significant holdings of the stock and they hope that by encouraging others to buy that they can drive the price of the stock up and turn a profit.

Short-selling: "Short selling occurs when an investor borrows a security and sells it on the open market, planning to buy it back later for less money." In other words, a trader or a hedge fund can sell stock of a given company (borrowed from an investor) at market price with the expectation that the stock price will continue to decline and that they can buy it back later at this lower price, return the stock, and they can pocket the difference.

Short-squeeze: When a stock's price unexpectedly rises, short sellers often panic and are forced to sell off the stock (even if it comes at a loss). The resultant flow of people selling the stock causes a temporary spike in it's price. To summarize, it is called a "short-squeeze" because the people in "short" positions are forced (squeezed) into selling.

Spoofing: Posting large orders with no intention of following up on them. If a large order is posted, it creates the impression that there are a lot of buyers and sellers interested in the stock, thus attracting interest. This can influence others in the market to either buy or sell and usually the spoofer can profit off of it.

Trader: Anyone that engages in buying or selling financial assets (i.e. stock) either on their own behalf or for someone else. Not to be confused with an investor, who tends to buy stock and hold onto it long-term.

Volatility: A "measure of dispersion around the mean or average return of a security."[35]

Wash trading: Attracting investors to a stock by superficially raising its activity. Usually this is done by buying and selling stock frequently at no profit or loss. For example, an individual will create two

[35] Wagner, Hans. "Why Volatility Is Important for Investors."

accounts and "wash" stock between them by buying and selling to the other account. This makes the stock look more active and increases interest in it.

Whales: Actors that are highly influential and can manipulate the market via buying and selling massive volumes of crypto.

Further Reading

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Mak, Tim. “TikTokers Are Trading Stocks by Copying What Members of Congress Do.” *NPR*, NPR, 21 Sept. 2021, https://www.npr.org/2021/09/21/1039313011/tiktokers-are-trading-stocks-by-watching-what-members-of-congress-do.

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TOPIC B: IMMINENT GLOBAL DEBT CRISIS

Statement of the Problem

A debt crisis occurs when there is an accumulation of foreign debts that a government cannot pay off, which happens when the tax revenue of that country is less than its total expenditures for the year. In order to understand this issue, we should closely examine how the world lending system works.

Governments can borrow money from other countries, organizations, or private lenders in order to pay for necessary government functions. Typically governments fund regular operations (such as public education, healthcare, military, etc) via taxes that they collect from those living and working within the country. However, if there is a difference between total government tax revenue and its necessary spending, then countries will typically make up that difference by borrowing from foreign creditors. They then must eventually pay back what they have borrowed, usually split up into a series of payment goals over a pre-agreed-upon number of years. If they are unable to repay the foreign debt within that time, the lender and the borrower typically hash out a different schedule for repayment. If the borrowing government repeatedly demonstrates that it cannot pay back the debt, it is in what is known as a debt crisis.

Debt crises can trigger a whole host of other cascading problems. The most obvious impact of a debt crisis is that it prevents countries from being able to invest in their future. Facing significant amounts of foreign debt prevents them from spending money on infrastructure projects, science, medicine, and other areas that are key for economic growth. Borrowing countries are forced to funnel capital towards the repayment of their debts rather than these long-term economic health goals. This cycle is often most destructive for developing countries, which are unable to recover as quickly and can stand to suffer more damage in the event of an exogenous economic shock such as commodity price-collapse or economic slowdown and disproportionate inflation rates. 36

[36] Kenton, Will. "Foreign Debt." *Investopedia*, Investopedia, 30 Dec. 2021, https://www.investopedia.com/terms/f/foreign-debt.asp.

One important thing to flag early in a debt crisis is MLT (Medium and Long-term debt). For developing economies, this reached a cumulative $36 billion in 2020.[37] This can, theoretically, be offset by a given country's exports, however, for many developing nations, the debt to export ratio is dramatically high. Under normal circumstances, this tremendous amount of debt would be refinanced in global capital markets. However, the global economy has contracted significantly as a result of the ongoing Covid-19 pandemic. Foreign exchange revenues have been reduced across the board and global credit markets have tightened. Argentina, Lebanon, and Venezuela have already defaulted and are embroiled in negotiations with their creditors, a lengthy process that usually results in losses for everyone.

The issue isn't limited to developing countries, however. This year alone 90 countries and counting have approached the IMF to access emergency financing assistance. That being said, the burden of a global debt crisis is usually disproportionally felt by developing economies. Amid calls for debt standstills and other mechanisms of financial relief, it will be more critical than ever to plan ahead and apply the lessons learned from the 1980s debt crisis and 2008 financial crisis to ensure that the next several years do not traumatize developing economies.

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[37] Kharas, Homi. "What to Do about the Coming Debt Crisis in Developing Countries." *Brookings*, Brookings, 13 Apr. 2020, www.brookings.edu/blog/future-development/2020/04/13/what-to-do-about-the-coming-debt-crisis-in-developing-countries/.

History of the Problem

This section will outline the reasons why debt crises occur and explore it through historical examples of past global debt crises.

The 1980s global debt crisis was centered around Latin America. In the 1970s the world experienced several oil pricing shocks, which helped oil-exporting countries but not developing and oil-importing countries. In order to help stabilize the situation, US commercial banks offered loans to many Latin American countries. By 1982, the borrowing had reached $327 billion total in foreign debt. The initial lending in the 70s was sustainable due to the near-zero interest rates of short-term loans at the time. However, the 1980s saw a tightening of monetary policy in an effort to lower inflation rates. As the world entered a recession in 1981, banks changed their loan policies by charging higher interest rates and shortening repayment periods.[38] This ultimately led Mexico to announcing that it would no longer be able to service its loans. Shortly afterward, banks stopped issuing international loans, plunging most of Latin America into a recession now known as the Lost Decade. Efforts to restructure the debt were successful in the short-term, but not in the long-term. The US Federal Reserve records; "Instead of eliminating subsidies to state-owned enterprises, many LDC countries [Less Developed Countries] instead cut spending on infrastructure, health, and education, and froze wages or laid off state employees. The result was high unemployment, steep declines in per capita income, and stagnant or negative growth—hence the term the "lost decade.""[39]

Nearly 30 years later, the 2008 financial crash caused another sovereign debt crisis. The adoption of the Euro in the early 2000s led to the unification of Europe into one delicate economic ecosystem. Lending practices became skewed because different eurozone members had different rates of economic development. At that time, Northern eurozone countries had much slower rates of growth in prices and wages than their Southern counterparts. The European Central Bank, however, had to establish a uniform interest rate that applies to all eurozone members equally, regardless of the macroeconomic differences of the member states. Essentially, this meant that the same exact interest rate was relatively high in Northern eurozone countries and relatively low in Southern

[38] Sims, Jocelyn. "Latin American Debt Crisis of the 1980s." *Federal Reserve History*, https://www.federalreservehistory.org/essays/latin-american-debt-crisis.
[39] Ibid.

eurozone countries compared to wages. This created an incentive for banks in the north to lend and for actors in the south to borrow (because interest rates are so low), leading to the build-up of debt in southern states. Under normal circumstances, the debt itself is not an issue because there are structured repayment plans. The collapse of the American housing bubble, however, created a domino effect in which several countries' banking systems failed. All of a sudden, the flow of foreign loans into EU countries had shriveled to a trickle, ultimately taking its toll on government spending. Notably, Greece announced its inability to make loan payments and required a bailout in order to prevent further destabilization of the European economic union. A contributing factor in the leadup to the crisis was that countries within the EU prioritized their individual policies, leading them to cover up ways in which they were breaking with the Maastricht Treaty. which established the eurozone economic agreement. Instead of limiting deficit spending, they took alternate approaches by securitizing their future revenue.

Aid Systems

Because of the nature of the international world order, debt crises require robust multilateral structures to help solve them. There are several actors which can intervene in debt restructuring and emergency financing. The first is local political institutions; when a government recognizes its debt insolvency, the first politically unpopular and necessary step is cutting government spending and increasing taxes. However, this can oftentimes destabilize fragile regimes which are already feeling financial strain.

The second framework for alleviating this issue would be international lenders and financial institutions. With the rise of outstanding global debt, there have been calls for the UN, the IMF, or the G-20 to step in and establish what is known as a debt standstill- a temporary pause on debt repayments.[40] The standstill would allow countries to reassess their lending practices and buy time to analyze the feasibility of payback structures for each country.

[40] "Debt Standstills Can Help Vulnerable Governments Manage the COVID-19 Crisis." *PIIE*, 10 Apr. 2020, https://www.piie.com/blogs/realtime-economic-issues-watch/debt-standstills-can-help-vulnerable-governments-manage-covid.

Capital Flight

In order for countries to pay back their loans, the rate of growth at home has to be sufficient to generate revenue. If economic growth is stagnant and investors take their money elsewhere due to diminishing returns in the domestic market, indebted countries will not be able to generate the repayment amount. This is known as capital flight. Capital flight is an issue because it compounds the issues experienced in the indebted country and prevents them from repaying the loan. In analyzing the Lost Decade, Christopher Culp writes;

"For example, a bank in the U.S. makes a loan to the government of Argentina in order to foster development. The Argentine government dispenses the money to the private sector, but because the rate of return is so low, private investors merely place the money in U.S. banks. The result is that the government of Argentina owes money that it cannot repay to American banks, and the Argentine economy has nothing to show for it. The loan money, intended to develop Argentina, is sitting in U.S. banks, out of reach of both the Argentine government and its original U.S. lenders."[41]

At a staggering 322% of GDP worldwide, the incoming pandemic-triggered debt crisis is a challenge that seems nearly insurmountable.[42] The debt crisis and ways out of it are also geo-politically charged, as global creditors can be powerful in the international arena. For example, as China's economic power grows, its ability to be a powerful global creditor does too. In fact, recent estimates suggest that China's lending power is approximately half of that of the World Bank (16% vs 32%, respectively).[43] With the majority of its lending going to low income countries in Africa and Latin America, China's lending practices have raised concerns within Western political spheres that see this as a potential unwelcome expansion.

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[41] Culp, Christopher. "How to Solve the Debt Crisis: Christopher Culp." *FEE Freeman Article*, Foundation for Economic Education, 1 Dec. 1988, https://fee.org/articles/how-to-solve-the-debt-crisis/.

[42] Tiftik, Emre, and Khadija Mahmood. "Global Debt Monitor COVID-19 Lights a Fuse." *Institute of International Finance*, Institute of International Finance, 6 Apr. 2020, https://www.iif.com/Portals/0/Files/content/Research/Global%20Debt%20Monitor_April2020.pdf?#:~:text=Now%20topping%20322%25%20of%20GDP,points%20higher%20than%20in%202007.&text=in%202019%2C%20up%20from%20%24183%20trillion%20in%202018.

[43] Mitchell, Charles Kenny and Ian. "The Problem Isn't That Chinese Lending Is Too Big, It's That the US and Europe's Is Too Small." *Center For Global Development*, 14 Dec. 2021, https://www.cgdev.org/blog/problem-isnt-chinese-lending-too-big-its-us-and-europes-too-small.

Past Actions & Possible Solutions

Debt crises are a compounding issue, meaning that they get increasingly difficult to solve the more time passes. This section will address several historical solutions as well as aspects of the issue that delegates should aim to cover in their working papers.

Additionally, this committee will be challenging. The dais will be looking for innovative solutions to the issue at hand. **The dias discourages you from relying upon solution mechanisms that rely on the IMF, World Bank, or other global funding structures** for reasons outlined in the section above. The best solutions will be those that prescribe policy-based fixes to the issue or include solution mechanisms that generate their own funding.

Concessionality

Concessionality refers to offering of lending services below market conditions. Concessional terms may include a below-market price interest rate on loans, deferred payments, or income-contingent payments.[44] Concessional loans are usually offered in scenarios where it is in the best interest of the lender to maintain the stability of the system the borrower operates in. Since global financial markets are so dependent on the performance of other actors, they present a perfect opportunity for concessional policies to be extended. Delegates that wish to have concessionality solutions for the world debt crisis must be specific on the terms of the lending and the actors involved.

Creditor Participation

Solving the issue of a global debt crisis requires mass participation by creditors. In 1985, the IMF and World Bank held a joint meeting to discuss strategies of tackling the Latin American debt crisis. The Baker Plan, proposed by the then US Treasury Secretary James Baker, asked for voluntary extensions of loans from commercial banks to indebted countries.[45] This strategy was supposed to allow countries to outgrow their outstanding debts. The plan also asked for increased cooperation

[44] "Frequently Asked Questions – Concessional Loans." *Frequently Asked Questions – Concessional Loans | Department of Finance*, https://www.finance.gov.au/publications/advice-paper/frequently-asked-questions-concessional-loans.
[45] Bogdanowicz-BINDERT, Christine. "The Debt Crisis: The Baker Plan Revisited." *JSTOR*, Journal of Interamerican Studies and World Affairs, 1986, https://www.jstor.org/stable/165706.

from regional development banks such as the Inter-American Development Bank. In particular, they were asked to increase disbursements to debtor countries by 50%.[46] However, with multilateral action like this, there is an increased chance that banks may free ride on the fact that others in the industry are providing massive loans. In fact, that is exactly what happened after the implementation of the Baker Plan. Mid-sized banks under contributed, leading to one-third less money contributed than expected.[47] The Baker Plan was also criticized for delaying loan paybacks rather than addressing the underlying issues.

Market Solutions

Market-based solutions are mechanisms that help solve the problem through a smart relocation of funding and debts. These solutions will usually incur minimal costs and are thus successful plans for severely debt-burdened countries. Market-based solutions for debt crises include securitization and the usage of bond markets. In simple terms, governments can repackage their assets and securitize them on the market to restructure their debt.

In 1989, the Baker Plan was retired in favor of the Brady Plan. The Brady plan repackaged indebted countries' loans into tradable bonds, allowing them to form better working relationships with commercial banks. Essentially, bonds are basically a way of selling fractions of foreign debt and can be used to exchange with a loan. It is a promise of repayment with interest that commercial banks can collect on later or choose to sell to other entities. The novelty of the Brady Plan was that it allowed commercial banks to redistribute the concentrated risk associated with carrying the debt of defaulted countries, getting the debt off their balance books and making the banks more mobile and willing to work with indebted countries. In-depth knowledge of how bonds work will not be required of you in this committee since bonds are somewhat difficult to understand conceptually. However, it is in delegates' best interest to research market-based solutions to the crisis and have a general overview of what is and is not feasible. The chart below explains Brady Bonds, which were successful in lifting some Latin American countries out of crisis and have since been retired because of that.[48]

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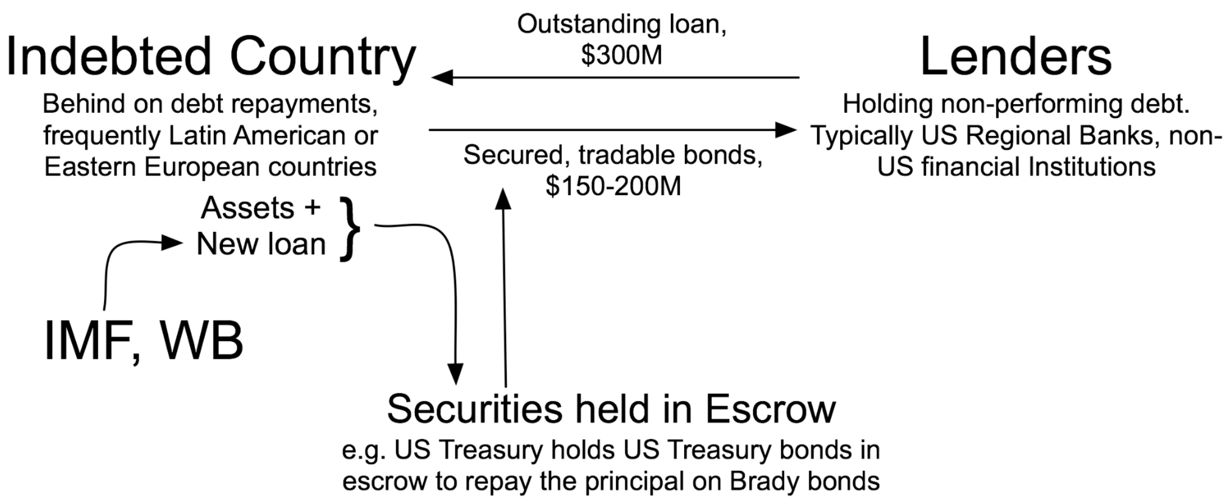
[46] Ibid.
[47] Kharas, Homi. "What to Do about the Coming Debt Crisis in Developing Countries."
[48] Chart via: "Brady Bonds." *Wikipedia*, Wikimedia Foundation, 17 June 2021, https://en.wikipedia.org/wiki/Brady_Bonds.

Typical Brady Bond Structure



Debtor Country Reform

Perhaps most importantly, countries should be engaging in internal economic reforms. Without internal restructuring, the other methods of alleviating a debt crisis will be ineffective long-term. Policy reforms can be roughly split up into two categories: reforms that focus on the individual and reforms that focus on the overall economic health of the nation.

Poverty reduction is a critical individual-focused policy reform. There are a series of policy prescriptions that can be implemented in order to reduce poverty and create better social safety nets. Poverty reduction policies include work support programs, investment in education, better unemployment insurance systems, child tax credits, and housing assistance.[49]

Work support programs are a vast category of policies and practices that help people re-enter the job market. These programs tend to target specific stages of the job process such as preparation and placement. Preparation will often take on the forms of job application support programs, mentorship, industry-specific training, and community re-entry centers. Placement will often include guided re-entry into the workforce, subsidized employment, and assistance to get workers through

[49] Parrott, Sharon. *Reducing Poverty Four Key Policy Areas That Need More Policy and Foundation Attention* . Brookings Institution, Aug. 2008, https://www.brookings.edu/wp-content/uploads/2012/04/parrott_paper.pdf.

the first months of employment. These programs often focus on alleviating the burden on the homeless, ex-criminals, and non-native speakers.

Investment in primary and secondary education is also critical to generating economic activity as income and economic activity are strongly associated with education levels. Increasing support for children of low income families will help to lift the poorest sector of the population into the working class. To achieve this, education opportunities in low-income areas need to be better financed and parents should have adequate access to childcare, specifically quality full-day childcare since many parents are working full time day jobs and possibly even night jobs. Secondary education needs to be made more accessible for low-income families as well. This can be achieved through government subsidized education loans or through annual education-specific tax cuts issued to low and middle income families supporting a child through higher education.

Social security nets are also critical to generating economic growth and poverty reduction. Unemployment insurance systems need to be robust enough in order to support the recently jobless through the job application process. Some current systems of unemployment support are set up in ways which disproportionately disadvantage low-income workers and women from qualifying for unemployment benefits. Another mechanism within social safety nets are earned income tax credits, which give low-income individuals specific tax breaks based on their status. For example, families can receive credits based on the number of children in the family. In other words, they would be receiving some sum back on their tax payments based on the number of children in the household and the household income. This type of structure is non-linear and the scale can slide significantly based on household income bracket. Medical assistance programs are also critical in supporting low-income sectors of the population. In many places, the cost of medical assistance can be so high that individuals may choose to avoid seeking the care they need, resulting in a compounding health problem that may harm their ability to be a part of the workforce.

Housing assistance is another important form of poverty reduction. In many low-income families the cost of housing can exceed 30% of their annual cash income, leaving them with little to spend on food, basic necessities, healthcare, and education. The issue is also self-perpetuating, as those that have less income are more likely to live in areas with poor schooling and nutritional access, forming a vicious cycle. Subsidized housing is an often overlooked way of poverty reduction. One way to think about social programs such as housing, educational, and nutritional assistance is to consider whether they should be entitlement programs. Entitlement programs are structures in which all individuals that qualify for assistance receive the aid they need. One example of this is nutritional assistance in the United States, where every child and family that requires food security assistance receives it, either in the form of free school meals or SNAP benefits. In contrast, housing in the US is not an entitlement program, meaning that the program does not have enough funding to provide all those that qualify with the assistance they need. In other words, it is not a need-met structure.

Structural reforms focus more on the overall economic health of the indebted nation. These solutions focus on creating an economic environment that allows for growth and are an essential complement to individual based reforms. Growth-enhancing structural reforms allow economies to build by changing the regulatory framework in which consumers and businesses operate. According to the European Commission, "Typical structural reforms include policies that make labour markets more adaptable and responsive, liberalise service sectors, boost competition in product and service markets, specific sectors, or improve the overall business environment, encourage innovation, improve the quality of public taxation systems, and address the challenges of population ageing on the welfare state."[50]

Besides addressing these issues, creating a non-stagnant investing environment is also very important. Countries need to be able to draw in foreign direct investment (FDI) by assuring their investors that there is opportunity, value, and security in bringing their money into the country. Part of this assurance is preventing capital flight, or the rapid outflow of cash from a country, which is tied to high levels of immigration and brain drain. Stabilizing a national debt crisis requires both individualized stopgap social services solutions as well as broader reforms to the economic fabric of a country in order to make sure that the economic activity generated by these efforts sticks around and grows.

[50] "Structural Reforms for Economic Growth." *European Commission - European Commission*, 1 Aug. 2018, https://ec.europa.eu/info/business-economy-euro/growth-and-investment/structural-reforms/structural-reforms-economic-growth_en.

Global Aid Structures

In 1996, the IMF and World Bank created a joint program titled the Heavily Indebted Poor Countries initiative (HIPC).[51] The main function of the program is to issue debt reduction packages to countries facing unsustainable levels of debt. Aid packages can be issued to countries that meet the following criteria:

1. The country must be eligible to borrow from the World Bank Development Agency and the IMF Poverty Reduction and Growth Trust.

2. Face an "unsustainable burden of debt" which cannot be solved with traditional debt relief mechanisms.

3. Have a track record of policy reform and be on good standing with the IMF and World Bank.

4. Produce a Poverty Reduction Strategy Paper (PRSP).

The ability of these countries to receive further aid from HIPC is contingent on their good performance and implementation of poverty-reduction policies and their PRSP. The country must continue to demonstrate measurable commitment to debt reduction, internal financial restructuring, and growth-enhancing reforms.

It should be noted here that even though the IMF and World Bank have debt relief initiatives set up, these are solutions of the last resort. To date, only 37 countries have received aid from HIPC, 31 of which were located in Africa. The relief that these countries got from HIPC was a drop in the bucket of the outstanding debt that these countries are facing. Furthermore, this sort of initiative is impossible to implement on a large scale, let alone on a scale vast enough to solve a global debt crisis. The global debt crisis is currently at $281 trillion.[52] In contrast, HIPC ability to issue debt relief

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[51] "Factsheet - Debt Relief under the Heavily Indebted Poor Countries (HIPC) Initiative." *IMF*, 23 Mar. 2021, https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/11/Debt-Relief-Under-the-Heavily-Indebted-Poor-Countries-Initiative.

[52] Maki, Sydney. *World's $281 Trillion Debt Pile Is Set to Rise Again in 2021*. Bloomberg, https://www.bloomberg.com/news/articles/2021-02-17/global-debt-hits-all-time-high-as-pandemic-boosts-spending-need.

packages numbers in the billions. For this reason, the HIPC cannot be labeled a success or a failure. It is not a sustainable solution to the global debt crisis, but merely a stop-gap solution.

Bloc Positions

Blocs within this committee are not particularly strong or pre-ordained. However, blocs within this committee can broadly be visualized along one axis: a country's level of development. However, this breakdown of development should by no means make or break who you align with. Rather, it allows for a deeper understanding of the differences in development.

All development banks distinguish between high-income donor countries and low- and middle-income borrower countries. Donor countries contribute capital to be used for loans, and borrower countries apply for those loans and utilize the donated capital. There is not necessarily a clear division between donor and recipient countries in all cases, however. The World Bank is comparatively much clearer, with specific data-driven levels that determine a country's eligibility to become a borrower.[53] Middle-income countries like China may in some cases be both a borrower and a donor, adding to the complexity.

In broad strokes, more developed countries (donors) want to maintain strict oversight, maximize the social impact of their contributions, realize return on investment, and strengthen their influence abroad. Their motivations are a mix of humanitarian goodwill and pragmatic interest in expanding their economic influence, perhaps through new trading partners, awarding their own corporations lucrative contracts, or gaining key allies on the world stage. In contrast, developing countries (borrowers) want more control over projects, less bureaucracy, more favorable economic terms like lower interest rates, and to retain control over their economies rather than ceding ground to foreign multinationals.

Historically, donor countries have controlled the entire development system. Recent movements, however, have called for greater representation of the recipient countries, and at development banks across the world forums have been created for the developing world to have a say in the aid process.

[53] For instance, the IDA (a component institution of the World Bank) uses the following list, updated annually: https://ida.worldbank.org/about/borrowing-countries

Advanced Economy

Another name for a country with an advanced economy would be a "Developed Country", though this term is not necessarily the best characterization of these types of countries, as there is often still development that can be done within them. The IMF comes out with a list of these countries, though there is not necessarily a certain number or threshold that the IMF uses to determine whether a country is developed or not. What characterizes these advanced economies is a high degree of industrialization and a high gross domestic product (GDP) per capita.54 The World Bank, on the other hand, refers to these countries as high-income economies, defined by a gross national income (GNI) per capita of USD12,536 or more.55

Advanced economies are often those providing the highest level of capital to multilateral development banks. The goal of these countries is to aid emerging and developing economies develop. However, they also wish to ensure that their assets and investments are protected, and often that their investments are in their own national interests. In theory, however, helping another country develop is in the best interest of the financier, as it helps grow the global economy and boosts trade.

Middle-Income Economy

Middle-income countries (MICs) or economies, as defined by the World Bank, make up 75% of the world's population.56 MICs are differentiated between a status of lower middle-income economies-- defined by a GNI per capita between USD1,006 and USD3,955-- and a status of upper middle-income economies-- defined by a GNI per capita between USD3,956 and USD12,235.57

[54] "Advanced Economy." United Nations Economic and Social Commission for Western Asia, November 17, 2015. https://www.unescwa.org/advanced-economy.
[55] "World Bank Country and Lending Groups." World Bank Country and Lending Groups – World Bank Data Help Desk, n.d. https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups.
[56] "Overview." World Bank, n.d. https://www.worldbank.org/en/country/mic/overview.
[57] Ibid.

Middle-income economies are often both benefactors and beneficiaries of international development aid. Often, the aid these countries receive is aimed at what is referred to as second-generation development challenges. These challenges include things such as lifestyle diseases, aging populations, pension reform, tertiary education, social inequality, competitiveness, trade and tax policy, financial literacy, green growth, and urbanization.[58] To address these challenges, development must take a multi-sectoral, holistic approach that seeks to keep these countries from staying defined as a middle-income economy for too long.

MICs are also key drivers behind development as well, and often make up a large portion of Member States of multilateral development banks. Sustainable development in these countries has great spill-over effects, assisting in poverty reduction, international financial stability, and cross-border global issues, such as climate change, energy, food and water security, and international trade.

Emerging Economy

Emerging economies, or what have been traditionally referred to as developing economies or developing countries, are similar to middle-income economies, broken into two subcategories: low-income economies-- USD995 or less-- and lower-middle- income economies-- USD996 to USD3,895.[59] This definition is not universal, however, and emerging economies are more often defined by less developed industrial bases and a lower human development index compared to more advanced economies. Emerging economies are often in the greatest need of development aid. A large part of this aid is improving infrastructure and institutional capacity in the country, as well as increasing access to finance among populations.

[58] Ibid.
[59] "World Bank Classification Emerging Countries." World Bank. World Bank, n.d. https://wcph2020.com/world-bank-classification-emerging-countries-17.

Glossary

Capital flight: Large and uncontrolled cash outflows from a country, usually due to negative monetary policies and depreciating monetary value.

Concessionality: A measure of how beneficial the loan credit is to the debtor compared to typical market rates. In other words, how "nice" the terms of a loan are.

Debt standstill: A temporary stop on debt collection.

Debt/equity swaps: "is a refinancing deal in which a debt holder gets an equity position in exchange for the cancellation of the debt. The swap is generally done to help a struggling company continue to operate."[60]

Debtor country reform: A series of structural reforms initiated to alleviate the burden of national debt.

Government bonds: Security issued by the government to continue to allow government spending.

Liquidity: Availability of physical cash in a market.

Loan enhancement: Also called credit enhancement, a method of reducing the risks to creditors by having the debtor offer more favorable terms.

Loan securitization: A complicated process which basically boils down to pooling together debts and selling their cash flows to third parties.

[60] Chen, James. "What Is a Debt/Equity Swap?" *Investopedia*, Investopedia, 30 Dec. 2021, https://www.investopedia.com/terms/d/debtequityswap.asp.

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