Committee: Group of 20

Issue: Accumulation of public debt and the consequences for economic development

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Position: President

PERSONAL INTRODUCTION

Dear Delegates,

My name is Antonis Chronis and I will have the honor to serve as the President of this year's Group of 20 in the 4th annual ACGMUN conference

To begin with, I would like to congratulate you on your participation at ACGMUN. The Pierce-ACGMUN is a conference which will provide you the opportunity to not only expand your knowledge of international affairs and relations, but also address worldwide issues through proposing solutions and debating upon them. Bearing in mind that you will be delegates of the Group of 20, you will specifically have the chance to examine issues related to disputes, global threats and challenges to peace that have concerned the international community and especially the 20 member states involved and work out solutions towards a regime covering all societal fields.

The purpose of this study guide is to introduce you to the issue of "Accumulation of public debt and the consequences for economic development". Even though this study guide will offer you an outline of the topic, I would have to personally advise you to further research the topic, so that you are sufficiently prepared. To that end, you shouldn't only familiarize yourself with your country's policy on the topic at hand, but all major issues concerning it, bearing in mind that you will be urged to form alliances on all issues. Finally, in order to be fully prepared for the upcoming conference, you may find the Rules of Procedure on the official website of the conference.

I hope you all gain an in-depth understanding of a real delegates' response to each challenge rising in our committee. Ultimately, if you are thoroughly prepared and actively participate on all 3 days of the conference, I can guarantee that the ACGMUN conference will be an unforgettable experience for all.

Providing that any question arises concerning this topic, the Rules of Procedure or anything having to do with the committee, do not hesitate to contact me through my email address: antchronis04@icloud.com.

I look forward to meeting you all!

Yours truly,
Antonis Chronis

TOPIC INTRODUCTION

In a world not far from the escalation of a Global Crisis, the international community agenda has been dominated by issues relating to the development of measures that would tackle risks from excessive debt accumulation. Government debt has considerably met an increase over the past decades taking the territorial as well as economical expansion of countries throughout the 20th century into account.

The causes and effects of foreign public debt in developing countries have been extensively debated in the past. The recent emergence of financial crises in both emerging and developed economies, as well as the extensive variation in the levels of economic growth rates across world economies, has generated renewed interest among development economists on the impact of public debt on economic growth.

It is self-explanatory that the countries under public debt accumulation experience a negative impact both on their economic as well as on the sociopolitical sector. Along with the economic difficulties of a state, it is vital to comprehend that the international relations and position of the state in the international community is severely affected. Despite the issues that arise within the state, it has been also documented that all neighboring states are also immensely impacted by the escalation of such an economic phenomenon. This impact could vary from the disturbance of their trade or political relations to the escalation of an economic conflict, which could eventually result in the worsening of the economic status of furter nations.

Although many economists and specialists argue that the accumulation of public debt can improve and develop foreign policies and relations, it is vital to examine and determine the negative effects the aforementioned phenomenon has on an economic and social level in different nations, whose policies highly differ from each other.

The creation of this vicious circle has been deemed to be an issue of great importance for the international community. Hence, NGOs and multiple governments have decided to focus on the mitigation of the effects of public debt accumulation on all societal sectors. Worsening the economic status of a state, resulting in social disorder, exacerbating states' foreign relations and escalating trade and political conflicts are few of the issues that arise both directly as well as indirectly involved states, where the issue of public debt accumulation is to be recognized. Hence, it is vital to develop effective ways and adopt different perspectives on the issue, among the strongest and most impactful economies of the world, so as to prohibit the escalation of tragic socioeconomic events in countries suffering from greater humanitarian and social issues.

DEFINITION OF KEY TERMS

Public Debt

Public debt (sometimes to be recognized as government or sovereign debt) stands for the total debt of a nation's central government. Government debt is also expressed as a variable of the GDP (Gross Domestic Product) of a country. It is vital to be mentioned that public debt is one of the most important sources of financial resources for a government to economically support public spending and fill budgetary gaps of the state. As a percentage of GDP, public debt usually functions as an indicator of the governmental ability of a state to meet future economic and/or political obligations. Additionally, public debt can be subdivided into two categories: External debt and Internal Debt.

External Debt

External debt refers to the type of debt owed to lenders outside the territory of a country. Lenders can vary from governments, international institutions or commercial banks.

Internal Debt

Internal debt mainly stands for the obligation of the government towards its domestic leaders. In this case, national organizations or national banks could function as sources of income, so as to temporarily improve the economic stability of a nation.

Economic Development

Economic development relating to nations/organizations/individuals refers to the key element of quality of life, while it is also necessary for a nation to dominate the world economy.

BACKGROUND INFORMATION

History of Public Debt

The economic term of public debt traces back several centuries ago, as throughout the development of modern history countless were the times when governments faced the need to be financially aided. Social welfare, state building and public-good provision stigmatised the history of sovereign debt and were key reasons why governments proceeded with public debt processes.

19th century

The 19th century has stigmatised the history of public debt accumulation concerning the fact that it functioned as a transition period, during which governments used public debt for implementing measures from different societal sectors. More specifically, governments issued public debt as a means of providing public goods, while the use of financial aid as a tool of prosecuting wars, was also to be recognised.

Governments used to set financing education and the development of infrastructure as a priority, which were covered through domestic public debt. Along with the phenomenon of industrialism, rural areas grew bearing the increase of minimum working income and the development of manufacturing in mind. This civil expansion led to a broader need for sewers, clean water and an improved healthcare system, which was covered by further public debt payments brought by the governments. By the end of the 19th century, sovereign debt was one of the key resource income for the development of the vast majority of all societal sectors.

20th century

The escalation of wars and military conflicts have been major events that characterise the evolution of the 20th century. Thus, it is only logical that the economic field of society was also impacted by the aforementioned events. Increases in debt burdens, banking panics and of course financial crises were few of the economic phenomena that were to be recognized throughout the whole century.

A secular increase in public debt-to-GDP ratios was documented during the late 20th century for the first time in modern history. Responding to the popular governmental demands for improving the healthcare and educational system as well as other unfunded social services, was a further fact that also impacted the perception of public debt by countless states and the creation of a larger financial burden that would eventually lead to one of the biggest economic crises in the world.

Accumulation of public debt

It is self-explanatory that one of the most important goals that the United Nations has set ever since it was founded is tackling poverty and limiting the amount of Less Economically Developed Countries (LEDCs). Public debt has been considered as one of the most effective measures in order to achieve economic prosperity. The international community (including the United Nations, the biggest economies of the world and multiple Non-Governmental Organizations (NGOs) such as the World Bank or the International Monetary Fund (IMF)) has been providing financial assistance to multiple states in need in order to resolve their current economic difficulties.

Nevertheless, the implementation of the aforementioned measures (financial and social assistance) turned out not to be sufficient to resolve all the existing issues in member states of the United Nations. Being heavily indebted, such nations were never capable of repaying. This resulted in the creation of a vicious circle, under which the majority of LEDCs has been suffering for the entirety of the 21st century.

Despite that fact, reports from the International Monetary Fund have shown that there are several MEDCs (Most Economically Developed Countries) and among others Japan, Italy, Greece and Zimbabwe, which all are documented to possess extremely high debt-to-GDP rates.

Impact on economic growth

It has been multiple times proven that the accumulation of public debt has been one major obstacle for the economic development of a state. Their governments' incomes, which mostly come from taxes, increasing public costs for sectors such as public health and education and new loans, are used in order to pay back. The money that could be used in order to boost the economy and increase the investing ability per capita is now trapped in a vicious circle of loan service.

In addition, international investors are being discouraged to invest in primary sectors of such an economy. Instead of investments in primary sectors of the economy, which create broad development, the main financial activities concern bond and securities. The creditors, along with the World Bank and IMF create support programs for the indebted ones and propose an austerity policy as the solution to the problem, aiming to the complete repayment of the debts.

Another program that has been lately launched is the International Development Association's (part of the World Bank) credits and grants with low or no interests. Such loans are being granted to LEDCs in order to increase economic growth. The austerity policy has almost always a negative impact on human rights, since people's civil and labor rights are being broadly violated.

Most common measures include cuts of public expenditure on healthcare and education, reduction of public investments that create job positions, replacement of collective agreements by individual agreements, infringement of full and stable working regime. All of these lead towards the increase of inequalities, while in most countries that apply such policies the rates of unemployment and of people living below the poverty line get rapidly increased.

MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

Germany

In the mid-20th century and more specifically in February 1953, representatives from 21 countries gathered in London to decide on the fortune of Germany's public debt. After the Axis' loss in World War 2, its debt to the United States, the United Kingdom, France and the rest of the allies was estimated at around 40 billion marks. The countries of the convention agreed that it was impossible for West Germany to repay its whole public debt and restructure its ruined post-war economy. In the end, they decided to reduce Germany's debt to approximately 15 billion, which is almost 63% reduction. The agreement also contained the following terms: a. Germany would pay back in its national currency, b. It would reduce its importations and increase its national production, c. It would increase its exports, in order to succeed with a positive trade balance.

Argentina

Between 1998 and 2002, Argentina was facing one of the most severe economic and political crises in global history. The country's public debt had reached over 150% of the GDP, while the unemployment rate was around 21%. In December 2001 the Argentinean government refused to repay the biggest amount of its public debt, $ 81 billion. The country declared a default and started restructuring its debt and reforming its economy.

Vulture funds had a major part in this story. In the end of the crisis, they had begun buying non performing bonds by disheartened investors, which at the time were almost worthless. After two debt restructures in 2005 and 2010, the amount of debt the vulture funds owned was significantly decreased and led them to drag Argentina in an arbitrary court. In 2013, Argentina proceeded in another default, refusing to repay the debt

Ecuador

The government of Ecuador (December 2008) became the second Latin American country to refuse its debt repayment in one decade. President Correa declared a public debt of $10 billion approximately as "immoral and illegitimate", because it was contracted illegally by the previous administration, as he claimed. In an independent auditor's report commissioned by the government there was noted that the loans violated Ecuador's domestic laws, US Securities and Exchange Commission regulations and the international legislation. The report stated that the loans had illegitimate aspects, such as undermining the state's sovereignty, asymmetric relation between the contract parties and usury.

International Monetary Fund

The International Monetary Fund is one of the most involved Non-Governmental Organizations in this specific field. Having provided financial assistance to a large variety of United Nations Member States, its involvement has caused major issues in the international economic environment. As mentioned in previous sections of this study guide, the IMF has released countless reports regarding the issue of public debt accumulation, while extensive research has also been made on efforts that should take place in order for the international economic environment to be restored.

RELEVANT RESOLUTIONS, TREATIES AND EVENTS

United Nations General Assembly Resolution on External debt sustainability and development (A/RES/64/191)

The aforementioned United Nations General Assembly Resolution focuses on mitigating the effects of debt crises within nations, by enhancing all societal sectors. It specifically calls for cooperation with the private sector, so as to find solutions that are agreeable to all UN member states. Furthermore, it also reeds that it is of utmost importance to restructure mechanisms which enhance different approaches to sovereign debt.

United Nations General Assembly Resolution on Enhancing international cooperation towards a durable solution to the external debt problem of developing countries, (A/RES/52/185)

The UNGA resolution deals with the issue of external debt especially in Less Economically Developed Countries (LEDCs), as it urges such nations to promote a favourable trade and economic environment so as to attract foreign investment. This would eventually lead to the promotion of economic growth and sustainable development. Last but not least it stresses the importance of the international community to develop a conducive external economic environment through a variety of different measures.

United Nations Human Rights Council Resolution on The effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights, (A/HRC/RES/14/4)

The aforementioned UNHRC resolution tackles the issue of the effects of the accumulation of both public and foreign debt. In comparison with the other resolution, this one at hand deals with the humanitarian impact of this economic phenomenon, thereby stressing the importance of economic prosperity within a state.

Hence, it also suggests ways so as to mitigate the social impact that public debt accumulation could have on individuals as well as all societal sectors.

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

The accumulation of public debt has been an issue that has concerned the international community for a long period of time. The United Nations as well as a large amount of its organs have dedicated a lot of time and effort to develop and draft resolutions and reports that include critical ways of handling the issue at hand. NGOs and other organizations such as the International Monetary Fund and World Bank, being the ones responsible for the development of this socioeconomic phenomenon to its current extent have continued funding and assisting nations in need, in order to manage to deescalate their economic situation.

POSSIBLE SOLUTIONS

Enhancing an international legislative framework on alternative debt management solutions

One of the most important measures to be adopted is the development and adoption of international legislative framework. Member States could proceed with the adoption of a convention that would set a guideline binding to all involved states that would eventually prohibit the escalation of economic crises through the reformed and newly adopted debt management solutions.

Creating appropriate international bodies to deal with sovereign debt cancellation procedures

Although multiple Non-Governmental Organizations have focused on similar issues, it is of absolute necessity to develop an organ, whether that could be a NGO or a committee or an alliance that would specifically deal with issues related to debt accumulation. This way there would be no other crucial issues that would push the mitigation of this issue further down to the respective organizations' agendas.

Implementation of treaties, in which parties to come to multilateral agreements

A further effective way to mitigate the impact and the escalation of such issues would be to organize treaties or other committee hearing during which the involved states would come to multilateral agreements, if deeming it impossible to repay the already imposed debts.

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