



BACKGROUND GUIDE

The World Bank





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Member State representatives,

It is with great pleasure that we welcome you all to the 7th edition of St. Xavier's Model United Nations in Bathinda.

We are sure that all the delegates specially the ones that are new to the MUN world are looking forward to this conference. During these two days we will look into the complex details about the United Nations as well as The World Bank with the agenda for deliberation being - 'Brewing of the United States debt ceiling crisis, it's potential economic impact and solutions to counter this crisis'.

It will be an educative and interesting simulation for both beginners and experienced delegates. In order to make the understanding quicker and easier, we suggest that you read or watch a couple videos to get familiar with the rules and procedures.

Here in this background guide, you will get a basic and brief understanding of the committee and the agenda at hand. However, this guide is merely a simple explanation and one must not rely solely on the background guide for their preparation for the conference.

All the best and happy research!

Abhishek Bindal
Chairperson

Avish Elvis
Vice-Chairperson

Gurleen Kaur
Rapporteur



THE WORLD BANK



Introduction to The World Bank

The World Bank is an international organization of 189 countries dedicated to providing financing, advice and research to developing nations to aid their economies. The bank predominantly acts as an organization that attempts to fight poverty by offering developmental assistance to middle- and low-income countries.

The World Bank Group is one of the world's largest sources of funding and knowledge for developing countries. Its five institutions share a commitment to reducing poverty, increasing shared prosperity, and promoting sustainable development. The 5 institutions are as follows :

IBRD - The International Bank for Reconstruction and Development

IDA - The International Development Association

IFC - The International Finance Corporation

MIGA - The Multilateral Investment Guarantee Agency

ICSID - The International Centre for Settlement of Investment Disputes

According to the official website, their mission is

"To end extreme poverty: By reducing the share of the global population that lives in extreme poverty to 3 percent." and

" To promote shared prosperity: By increasing the incomes of the poorest 40 percent of people in every country."



Understanding the Agenda

'Brewing of the United States' debt ceiling crisis, it's potential economic impact and solutions to counter this crisis'

At first glance, the committee's agenda may look like a very long and complex sentence. However, it is very easy to understand and discuss.

Let us break it down bit by bit in simpler words.

UNITED STATES DEBT CEILING -

What is the debt ceiling? Also known as the debt limit, the debt ceiling is a law that limits the total amount of money the government can borrow to pay its bills. This includes paying for federal employees, the military, social security and medical care, as well as interest on the national debt and tax refunds.

CRISIS -

Every so often, the US Congress votes to raise or suspend the ceiling so it can borrow more. The cap currently stands at roughly \$31.4 trillion. That limit was breached in January, but the Treasury Department used "extraordinary measures" to provide the government with more cash while it figured out what to do. This has happened multiple times in the past .



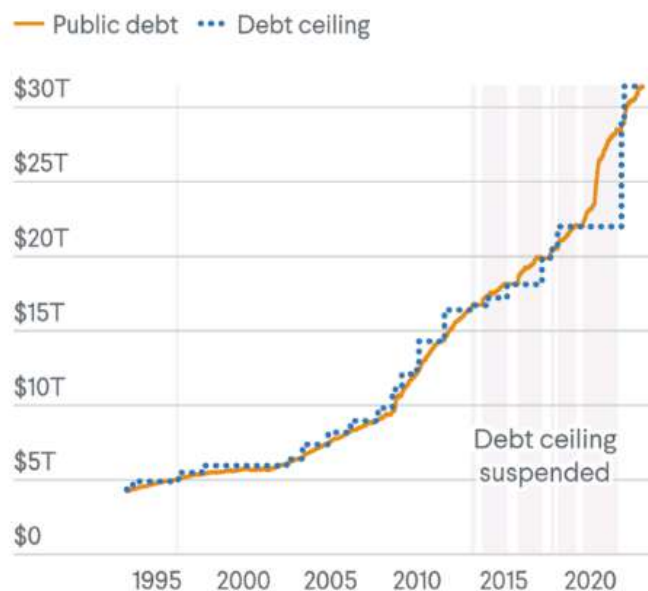
IT'S POTENTIAL ECONOMIC IMPACT -

Some experts say being unable to pay off the debts would bring chaos for the U.S. and global economies. Even short of default, hitting the debt ceiling would make it extremely difficult for the government to finance its operations, including providing for the national defense or funding for medical care or social security.

SOLUTIONS TO COUNTER THE CRISIS -

Now this is where we get our brains running and take turns debating solutions. Needless to say, the crisis is going to impact the global economy but what can be done to minimise it's negative impacts. This part is especially what the delegates need to research and present their views and discuss upon in the conference.

U.S. Debt Has Sometimes Risen Faster Than the Debt Ceiling



The Debt Ceiling

The United States Congress had free rein over the country's finances before the debt ceiling was established. In 1917, the debt ceiling was created during World War I to make the federal government fiscally responsible.

Because the federal government runs budget deficits, meaning it spends more than it brings in through taxes and other revenue, it must borrow huge sums of money to pay its bills.

The debt ceiling has been raised or suspended several times to avoid the risk of default.

There have been a number of showdowns over the debt ceiling, some of which have led to government shutdowns.

Shutdowns are the result of conflict between the White House and Congress, with the debt ceiling used as leverage to push budgetary agendas.

Do other countries have similar policies? The answer is, few countries maintain debt ceilings, and nowhere else do the limits regularly threaten serious economic disruption.



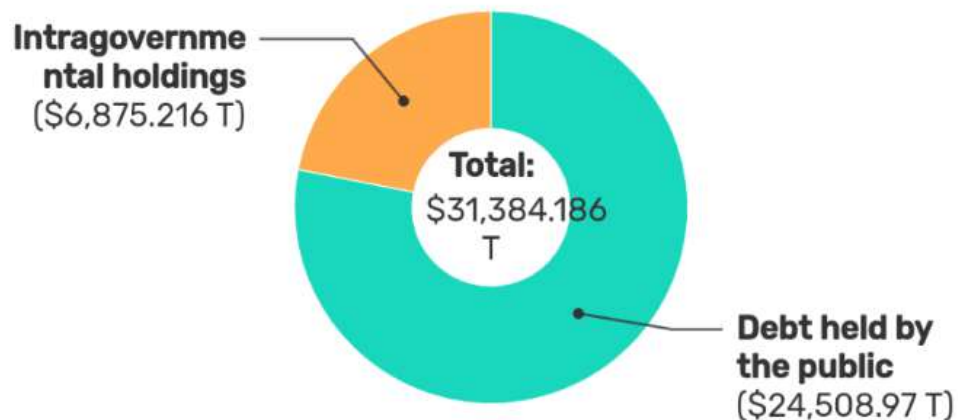
The U.S. DEBT

The U.S. national debt reached the debt ceiling of \$31.41 trillion in January 2023. The U.S. Treasury manages the U.S. national debt through its Bureau of Public Debt. The bureau classifies that amount into two broad types: intragovernmental holdings and debt held by the public.

There are two kinds of national debt: intragovernmental and public. Intragovernmental is debt held by the Federal Reserve and Social Security and other government agencies. Public debt is held by the public: individual investors, institutions, foreign governments.

Breaking Down the National Debt

Total U.S. national debt was \$31.38 trillion as of January 2023. Here's how it breaks down.



Source: [Treasury Department](#)

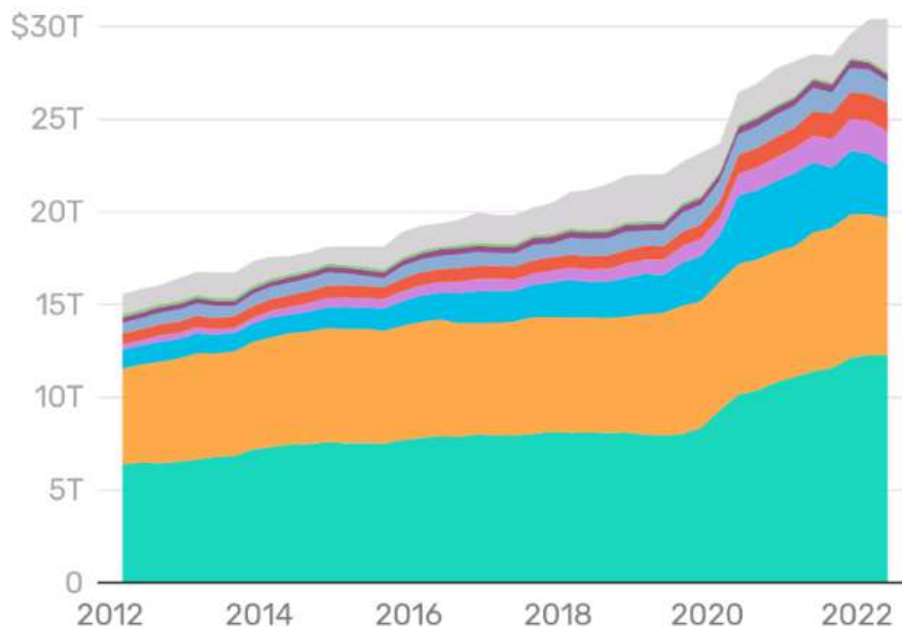


Intragovernmental Debt

The Treasury owes this part of the debt to other federal agencies. Intragovernmental holdings totaled more than \$6.89 trillion in January 2023. Why would the government owe money to itself? Because some agencies, like the Social Security Trust Fund, take in more revenue from taxes than they need. These agencies then invest in U.S. Treasuries rather than keep the money with themselves. It can be understood clearly in the chart given below.

U.S. Treasury Securities Holders by Type

The largest holder of U.S. debt is the U.S. government.



Source: [Treasury Department](#)

Public Debt

The public holds over \$24.53 trillion of the national debt, as of January 2023. Foreign governments hold a large portion of the public debt, while the rest is owned by U.S. banks and investors, the Federal Reserve, state and local governments, mutual funds, pensions funds, insurance companies, etc.

Other holders of the public debt include insurance companies, U.S. savings bonds, private pension funds, and others including individuals, government-sponsored enterprises, brokers and dealers, banks, bank personal trusts and estates, corporate and non-corporate businesses, etc.

Major Foreign Holders of U.S. Public Debt

Japan is the largest holder of U.S. debt.



Source: [Treasury Department](#)



Consequences and Impact

"Failure to meet the government's obligations would cause irreparable harm to the U.S. economy, the livelihoods of all Americans and global financial stability," Treasury Secretary and former Federal Reserve Chair Janet Yellen wrote to Congress in January 2023.

A default on government debt which sits at almost \$31.5 trillion would send shock waves through global financial markets as confidence in U.S. borrowers falls.

Potential repercussions of reaching the ceiling include a downgrade by credit rating agencies, increased borrowing costs for businesses and homeowners alike, and a drop in consumer confidence that could shock the United States' financial market and send its economy and the world's into immediate recession. Not to mention it would cost thousands, if not millions of jobs.

As well as creating economic uncertainty, a U.S. debt default would impede the government from carrying out critical functions, such as issuing social security benefits, maintaining national defense, and adequately funding the public health system.

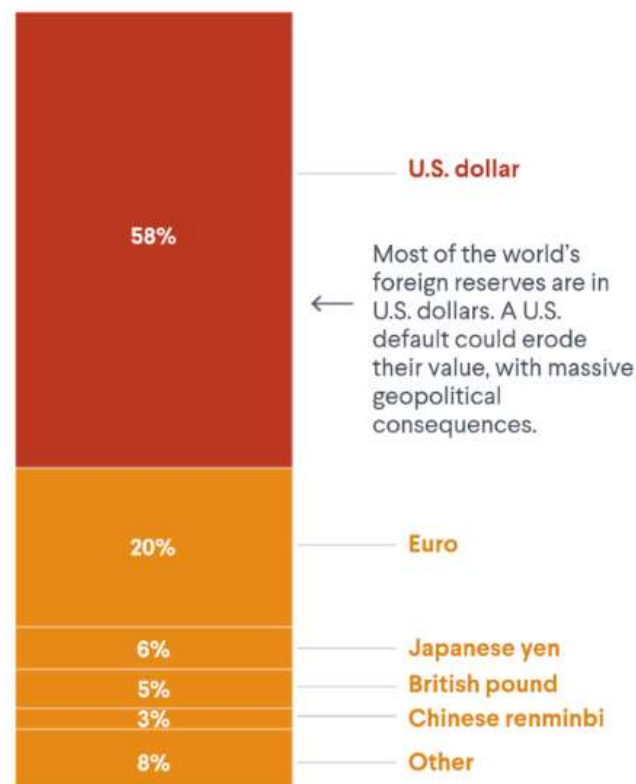


The creditworthiness of U.S. treasury securities has long bolstered demand for U.S. dollars, contributing to their value and status as the world's reserve currency. Any hit to confidence in the U.S. economy, whether from default or the uncertainty surrounding it, could cause investors to sell U.S. treasury bonds and potentially weaken the dollar.

Over half of the world's foreign currency reserves are held in U.S. dollars, so a sudden decrease in the currency's value could ripple through the market for treasuries as the value of these reserves drops. As heavily indebted lower-income countries struggle to make interest payments on their sovereign debts, diminished value of foreign currency reserves could threaten to send some emerging economies into debt or political crises.

A U.S. Default Would Cause Global Economic Chaos

Foreign reserves by currency, December 2022



Some important questions for research

1. Why does the United States have a debt limit?
2. How does the U.S. debt limit impact your country or its economy?
3. What would be the consequences if the United States breaches the debt ceiling?
4. Will military salaries, social security benefits and bondholders be paid?
5. How would we minimise the negative impacts of the crisis?
6. Does the U.S. government have any options if the ceiling is not raised?
7. Should the debt ceiling be revoked altogether?
8. Could breaching the U.S. debt ceiling bring down other markets?