

THE GLOBAL
URBAN ECONOMIC
DIALOGUE SERIES

THE SUB PRIME CRISIS

THE CRISIS OF OVER-SPENDING
AND OVER-SUPPLY



UN  HABITAT
FOR A BETTER URBAN FUTURE

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The Global Urban Economic Dialogue Series

The Sub Prime Crisis: The Crisis of Over-Spending and Over-Supply

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FOREWORD



Urbanization is one of the most powerful, irreversible forces in the world. It is estimated that 93 percent of the future urban population growth will occur in the cities of Asia and Africa, and to a lesser extent, Latin America and the Caribbean.

We live in a new urban era with most of humanity now living in towns and cities. Global poverty is moving into cities, mostly in developing countries, in a process we call the *urbanisation of poverty*.

The world's slums are growing and growing as are the global urban populations. Indeed, this is one of the greatest challenges we face in the new millennium.

The persistent problems of poverty and slums are in large part due to weak urban economies. Urban economic development is fundamental to UN-HABITAT's mandate. Cities act as engines of national economic development. Strong urban economies are essential for poverty reduction and the provision of adequate housing, infrastructure, education, health, safety, and basic services.

The *Global Urban Economic Dialogue* series presented here is a platform for all sectors of the society to address urban economic development and particularly its contribution to addressing housing issues. This work carries many new ideas, solutions and innovative best practices from some of the world's leading urban thinkers and practitioners from international organisations, national governments, local authorities, the private sector, and civil society.

This series also gives us an interesting insight and deeper understanding of the wide range of urban economic development and human settlements development issues. It will serve UN member States well in their quest for better policies and strategies to address increasing global challenges in these areas

A handwritten signature in black ink, reading 'Joan Clos' in a cursive style.

Joan Clos

Under-Secretary-General, United Nations
Executive Director, UN-HABITAT

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INTRODUCTION

The sub prime crisis refers to the collapse of sub prime mortgage markets in USA due to the sharp rise in foreclosures beginning in 2006 and led to the failure, merger and government bailout of leading American financial institutions and enterprises such as Bear Stears, AIG, Fannie and Freddie, Merrill Lynch, Citi Group, Lehman Brothers and etc. The sub prime crisis triggered a financial crisis which rapidly spread to other countries around the world and became a global financial crisis in 2008. It affects every country and everyone through the global nature of the financial system.

In late 2008, the global financial crisis began to affect the real economy and triggered a global economic crisis. It resulted in the worst global economic recession since the Great Depression of 1920s and 1930s. The sub prime crisis is basically the crisis of the overspending of governments and individuals beyond their financial capacities. It is the crisis of over-consumption. It is the imbalance between consumption and production. It is the result of consumptionism. This report examines the causes of the sub prime crisis and the impact of the sub prime crisis and that of the global financial crisis caused by the sub prime crisis.

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