The Age of Global Economic Crises

The frequency and repetition of economic crises over the last hundred years demands an analysis that allows us to discover the root causes of these situations and the problems they have generated in the world economy. This book investigates these cycles throughout the 20th and the early 21st century. Economic crises can be the result of political or military conflict, but they have also been the consequence of bad practices, unbridled speculation, excessive greed, or poor management by the rulers and leaders of nations. The contributors to this volume analyse the causes and consequences of economic crises from the Great Depression to the present day, incorporating post-World War II reconstruction, the oil crisis of the 1970s and the "lost" Latin American decade of the 1980s, among others. This longer-term view allows the book to provide insights into understanding economic cycles in the long run, not just at a specific moment in time, and the ways in which they have spread internationally. This historical analysis also helps to shed new light on the current Covid-impacted situation, as it provides another reading of the main crises of recent centuries and their causes and consequences, as well as the measures and policies adopted to overcome the difficulties. This book will be of significant interest to readers in economic history, business history, politics, and economics and history more broadly.

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Foreword

I am grateful to the authors of this book for the opportunity to write this brief foreword. Indeed, when the international economy suffers a serious crisis, such as the current 2008/2022 crisis, capable economic historians provide interpretative analyses of the origin, development, vicissitudes, and foreseeable effects of this phenomenon, which disrupts the domestic economic activities of countries, as well as those related to foreign countries, thus slowing down the world economy.

This book, therefore, is the brilliant response of Professors Juan Manuel Matés-Barco and María Vázquez-Fariñas, with a select team of researchers, to the aforementioned crisis of the present, which is fully active. With good criteria and from a cyclical and dynamic conception, these professors relate the current situation with previous economic fluctuations, which had their origin in the crisis of the capitalist industrial system, known as the crisis of 1929, which arose between the two world wars.

Faced with such a crisis, and before the end of the conflict, in 1943, a response to it emerged, inspired by John Maynard Keynes, through the Bretton Woods agreements, which guaranteed international monetary and exchange rate stability, accompanied by the Marshall Plan, the origin of Europe's Golden Age (1950–1973) and the economic growth of the Western world in this period. The devaluation of the dollar in 1969 put an end to the Bretton Woods system, and a floating exchange rate system was installed, which has survived to the present day. Structurally, the oil crisis was driven by the change in relative prices, which favoured oil and the primary sector in general, against industrial prices.

Counter-cyclical policies, then, were inspired by neoliberal principles, accompanied by crises in Keynesian conceptions, which were disqualified under the impulse of growing financial globalism. This led to the next crisis of 1991–1993, ostensibly with the speculation and successive devaluations of the pound sterling, and also the crisis of the monetary system of the European Union, which responded, at the turn of the 20th century, with the unified monetary order of the Euro. Stemming from neoclassical monetary principles, this supported an apparent international economic recovery, based on a fragile, non-explicit banking structure, with the core of businesses increasingly distant from Keynesian criteria of industrialising impulse.

That fragility exploded in 2008, with multiple banking crises and companies suffocated by effective stagflation. In the European Union, the political reaction persisted in the neoliberal canons of indiscriminate reduction of public spending, even in non-discretionary investments, inducing, in the business sphere, nominal decreases in current wages, nothing more disqualified by Keynes' theory, and consequent stagnation of productive activities.

This depressive dynamism, also fuelled by the Covid epidemic, has rightly forced the European Union to turn its economic and financial policy around, with mutualised bonds and expansionary spending content feeding the next EU generation; all in all, the war in Ukraine adds to the uncertainty.

Personally, in the wake of the oil crisis, I was a pioneer in showing, econometrically, the effective impact of the 1929 crisis in Spain, although its intensity was lower than in the United States and other more industrialised countries. In Spain, it manifested itself, in very quantified terms, in a fall in industrial GDP, a drop in foreign trade, and also employment, especially from 1932 onwards, when the United Kingdom diverted imports of agricultural products to Commonwealth countries, previously purchased from Spain, such as Valencian rice, which would then be bought from Ceylon.

In those years, valuable monographs on the Great Depression had proliferated in American universities, under the influence of John Maynard Keynes' General Theory, which invited the study of economic cycles, with dynamic approaches, related in their origin to monetary changes and to other aspects, such as structural factors. The pioneering monetary explanation of the 1929 crisis was published by Milton Friedman and Anna J. Schwartz (Princeton, 1965). In 1978, Peter Temin published *Did Monetary Forces Cause the Great Depression?*

In 1945, Folke Hilgerdt had pointed out that the slowdown in Latin American industrialisation in the 19th century was due to the negative trend in the terms of trade for countries exporting primary products compared to industrial countries. This approach was followed by the Nobel Prize winner Arthur Lewis (1949) to explain the 1929 crisis, adopting a sectoral rather than a geographical approach (*Economic Survey, 1919–1939*). In 1973, Charles Kindleberger published *The World in Depression 1929–1939*, taking intersectoral relative prices as an independent variable, expressed for numerous countries.

Ben Bernanke, Nobel Laureate in Economics 2022, published "Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression", *The American Economic Review*, 1983. In that article, he stressed the importance of studying economic institutions, in particular financial institutions, which, rather than being a "veil", can affect transaction costs and thus market and distributional opportunities. He also postulated that we were living in a new era called the "Great Moderation" where, according to him, modern macroeconomic policy had reduced the volatility of the business cycle, to the point where it should no longer be a central theme in economics. Later, Bernanke would see that his assertion had indeed been fulfilled during the Bretton Woods system; but with the floating exchange rate system, which emerged with the devaluation of the dollar (1969), crises would be cyclically intense, in particular the 2008 crisis, which emerged during his tenure at the US Federal Reserve. According to *The New York Times*, Bernanke was attacked for failing to foresee the financial crisis, for bailing out Wall Street, and, more recently, for injecting an additional $600 billion into the banking system to jump-start the sluggish recovery. Evidently, this criticism came from neoliberal positions; today, however, Bernanke has been awarded the Nobel Prize.

Together with my colleague Pedro Fraile, at an international congress (Berne, 1986) we presented an essay, *The Twentieth Century's Two Big Crises: Origins and Similarities*, in which we emphasised structural factors as opposed to monetary factors to explain both the 1929 and 1973 crises, highlighting Bernanke's position, who had pointed out (1983) that the key to the 1973 crisis had been the deficient structure of the US banking system. Crises affect different territories with different intensities or in different ways, according to their specific economic structures.

Keynesian theory shows that the resources allocated to investment, the starting point for promoting GDP and employment growth, do not necessarily generate inflation; it will depend on the sectors in which they are invested and their elasticity to gain productivity and stimulate demand, in addition to the elasticities of other variables, which do not necessarily generate an inflationary process.

It is another matter that Keynes reasoned that a certain amount of inflation could be an incentive for investors, since a dynamism of rising sales prices ahead of production costs is stimulating for entrepreneurs and for the moderate capitalism projected by Keynesian economics.

Today, the situation is completely different. *Modern Monetary Policy* (MMP), essentially Keynesian, though perhaps for some excessively schematic, in its approach and in its defence of budget deficits, does not complain about populist public spending policies, which do not make explicit the limits that inform a country's public deficit and debt. The large volume of available resources is exalted; but the elements of their application and effects must be analysed in concrete terms and with the utmost rigour.

In recent times, the idea that a restrictive public spending policy to overcome the current viral-economic crisis would be a very serious mistake, given the negative effects of the policies implemented in the face of the 2008 crisis, has been gaining momentum. Stephanie Kelton, a distinguished representative of the MMT and head of the Economics Department at the University of Wisconsin–Kansas City, a leader in Health Economics, points out in her recent book (*The Deficit Myth*, 2020) that maintaining a fiscal deficit and the expansion of public spending by increasing the money supply to prevent economic stagnation that generates social inequality is good and helps to spread wealth, warning that the current crisis is a continuation of the financial crisis of 2008. However, he also points out that the limit to the speed of an economy is not in the deficit but in inflation.

That theory of MMT, considered in the final analysis – Professor Kelton's work contains a sophisticated and well-argued scientific development, backed up by experience – has the appearance of effective viability in countries that have monetary sovereignty, such as the United States, Japan, the United Kingdom, or Canada; but it would be more difficult for it to be successfully applied in the Eurozone, given that here there is still no fiscal unity and monetary policy is conditioned by the tax and budgetary diversity of the member countries, such as Spain.

I conclude by predicting an effective dissemination of this book, and I hope that its contents will project effective interpretations of the current economic reality, in order to promote counter-cyclical policies that restore prosperity and economic well-being to societies in all latitudes, while respecting national conditions, disaggregating indicators according to sectors and localities.

Juan Hernández Andreu
Professor Emeritus at Complutense University of Madrid

Preface

This book aims to study the economic crises of the last hundred years. The frequency and repetition of these cycles demand an analysis that allows us to discover the causes of these situations and the problems they have generated in the world economy. On several occasions, economic crises have been the result of political or military conflicts; but they have also been the consequence of bad practices, unbridled speculation, excessive greed for wealth, or poor management by the leaders of nations. For this reason, the interest of this work is to investigate these problems and describe the causes that have given rise to each of the crises that occurred throughout the 20th century and the beginning of the 21st century, analysing their consequences and the ways in which they have spread internationally.

In recent decades, the growing interest in economic crises, their causes, and consequences, as well as the ways to deal with them in the best possible way, has motivated the development of this type of studies. However, most publications in recent years have focused mainly on the Great Depression of 1929, ignoring the fact that there are other important recessions in the global economy. For this reason, this book provides a study of great interest for understanding economic cycles and how they work throughout history and not just at a specific moment in time.

On the other hand, in the 21st century we are immersed in a new cycle of economic recession, and the studies presented here help to better understand the present situation. This research aims to provide another reading of the main crises, their causes, and consequences, as well as the measures and policies adopted to overcome these critical situations. These studies are carried out with the aim of establishing relationships between the different crises of the last century and finding possible similarities and differences. In essence, the overall objective is to learn from the past, which is essential for understanding economic events and making sound decisions in a globalised world.

In economics, the word "crisis" is the term most commonly used to express a difficult and complex situation for a country, a company, or the citizens themselves. This is an expression that has been used since the 20th century, especially after the crisis of 1907. Before that date, it was more common to use the word "panic". To a large extent, the change came about because of the scenario it presented: fear of investment and fear of any economic process that entailed some risk. The move in language was intended to soften the terms of the scenario. The crash of the New York Stock Exchange in 1929 endorsed the trend and in an attempt to alleviate such a bleak outlook, the term "depression" began to be used, which had a softer tone and implied that it would be a temporary situation.

In any case, "panic", "crisis", "depression", "recession", etc., are words that have become established among ordinary citizens since the beginning of the 20th century and, above all, in the first decades of the 21st century. Generally speaking, successive economic crises have been caused by a breakdown in the balance between production and consumption, characterised by a collapse in demand, the consequent business failures, and the resulting unemployment.

During the Ancien Régime, the so-called subsistence crises were generated. Adverse weather conditions could provoke a period of bad harvests that led to famine, epidemics, and a weakening of the population. Trade and handicraft industry contracted systematically in the face of the delicate situation. For example, the crisis of 1348 was the result of several years of poor agricultural production, food shortages, and an epidemic such as the Black Death, which resulted in a very high mortality rate.

The changes brought about by the industrial revolution from the 19th century onwards generated the so-called crises of overproduction or market saturation, often closely linked to financial crises. Throughout this century, subsistence crises and industrial crises sometimes coexisted. The combination of both crises – subsistence and overproduction – had a very negative effect on a large part of the population. The 1929 crisis was a clear example of so-called overproduction or market saturation crises.

The 20th century, with its two world wars and the oil crisis of 1973, to name but a few of the most relevant moments, has been the testing ground for many critical situations. Moreover, the last decades of this century have seen significant financial crises with great intensity. In the international literature on the subject, it is common to distinguish between banking crises, currency crises, and "twin" crises. On the one hand, systemic banking crises are characterised by episodes in which an increase in non-performing loans leads to serious liquidity stress. Faced with this situation, the respective governments intervene in an extraordinary way by guaranteeing deposits, promoting bank takeovers or mergers, and injecting liquidity and capital into the banking system.

On the other hand, currency crises correspond to episodes of massive asset sales, leading to a sharp fall in international reserves and a substantial devaluation of the exchange rate. "Twin" crises are characterised by mutual feedback between different typologies, usually coinciding with a mixture of banking and currency crises. In some cases, they are related to the level of a state's external indebtedness and can lead to a "triple crisis" (banking, currency, and debt). The latter is often accompanied by the suspension of interest payments to investors by the government or the private sector.

On other occasions, there have also been financial crises represented by real stock market crashes, characterised by a sharp fall in the price of movable assets – usually after a phase of increase known as the "real estate bubble" – typical of many situations such as those experienced in 2008 and leading to real "financial panics".

The economic and financial crises of the first decades of the 21st century, like many of those of previous eras, have been characterised by not only major market failures, but also the ineffectiveness of many governments and serious errors in state policies. The problems arising from asymmetric information have been very large and have led to high-risk situations, agency corruptness, imitation of wrong behaviour, and contagion processes. Moreover, governments have not been able to deal effectively with market failures and have even contributed to and multiplied the negative effects of incipient crises through their misguided policies.

We therefore consider it necessary to analyse in detail the main crises that have occurred throughout recent history and, more specifically, from the first third of the 20th century to the present day. To this end, this volume includes eight chapters that cover the main economic crises, analysing in detail their causes or origins, their development, their main consequences, and the policies developed to overcome the situation in each case, among other aspects.

In the first chapter, Juan Manuel Matés-Barco – Professor of Economic History and Business History at the University of Jaén – presents a study on the 1929 crisis and its effects on the world economy, especially in the West. To this end, a brief overview is given to the instability and uncertainty in the economy prior to the outbreak of the crisis. Likewise, the causes of the New York stock market crash, its repercussions, and the spread of the crisis to the main European countries are analysed. On the other hand, the recovery policies that some states implemented to mitigate the effects of the crisis are described. Finally, it takes stock of the crisis and its effects on subsequent developments in the North American and European economies.

In the second chapter, Leonardo Caruana (University of Granada) and Julio Tascón (University of Oviedo) consider Europe after World War II in 1945–1946. This war was by far the worst conflict that had occurred in Europe, and the destruction was massive. In the east of Europe, Leningrad was completely destroyed, as was Stalingrad, many places in Italy, and the cities of Saint-Nazaire or Roan in France. However, Warsaw probably suffered the greatest amount of destruction, while the image usually put forward is that of cities in Germany: Berlin or Hamburg, both of which were ghost cities. More than five years of war had terrible consequences for Europe. The population suffered enormously, and it is difficult to explain the horror, the inhumanity, and the crimes that occurred extensively throughout Europe, especially in the east. Hunger and deprivation of basic goods were unfortunately normal. As this chapter explains, the United Nations played an essential role in providing first aid to Europe and its population.

In the third chapter, "Major economic recessions in the last quarter of the 20th century: the oil crisis (1973–1980)", María Vázquez-Fariñas (University of Málaga) analyses the crisis of 1973 and all its main features. Oil has been considered one of the main sources of energy since the advent of the second industrial revolution. Its consumption increased enormously throughout the 20th century, generating a strong dependence on this resource on the part of the most industrialised countries. In this context, the arrival of the oil crisis in 1973 and its reactivation in 1979 led to a paradigm shift in Western economies. The interventionist economic growth model that had prevailed in industrialised economies after the Second World War ended up collapsing and gave rise to new economic policies that completely changed the development model. Therefore, this chapter analyses the background and causes of this crisis, its effects, the main consequences, and the measures adopted to overcome the recession, as well as the characteristics of the new global economic environment that emerged, mainly due to high inflation and low growth in Western Europe.

In Chapter 4, María José Vargas-Machuca (University of Jaén) studies "The external debt crisis and the 'lost decade' in Latin America (1980–1990)". In August 1982, the Mexican government announced the impossibility of servicing its external debt as a result of the increase in interest rates, the evolution of the dollar price, and its own internal economic conditions. And it was not the only case. A year earlier, Costa Rica had also declared a moratorium on its foreign debt. In a short time, the difficulties reached other countries in a similar situation, which also suspended the payment of their external commitments. Thus began one of the most severe crises that Latin America had suffered in the last century, threatening the solvency of major international banks, especially the United States. The process of economic adjustment was long and costly, leading to what is known as the "lost decade" of growth in the region. So, the objective of this chapter is to delve deeper into this period of crisis, which was particularly intense in Latin America, but had serious consequences for the world economy.

Chapter 5, by Simone Fari (University of Granada), describes "The 1990s: crisis during globalisation". The last decade of the 20th century is usually considered a period of economic growth. Nevertheless, financial and banking crises shook some national economies around the world. At the beginning of the 1990s, crises took place in Japan, the United States, Canada, Finland, Sweden, and Norway. In 1994, Mexico faced a strong devaluation crisis that switched to a national economic crisis. At the end of the decade, financial crises arose in two different (but related) regions: Asia and South America. Finally, at the start of the new millennium, the dot.com bubble exploded because of the amazing development of the "new economy" during the 1990s. Were these crises mere fluctuations of the global free market, as liberal economists suggested? Following the neo-Schumpeterian interpretation, the chapter suggests these crises represented the typical transition from a technological paradigm to the next.

In the sixth chapter, María-Luz De-Prado-Herrera (University of Málaga) and Luis Garrido-González (University of Jaén) conduct extensive research on the "Great global financial recession (2008–2013)". The economic growth that occurred between 1994 and 2006 created an optimistic euphoria that led most people to believe that crises were a thing of the past. Between 2007 and 2008, this optimism faded. Humanity is now faced with the inexorable evidence that, from time to time, economic cycles of recession or growth emerge that, together with globalisation, bring about significant changes in the world economy. Following this introduction, this chapter analyses the origin and causes of the first great global financial recession of the 21st century. The work initially focuses on the case of the United States, which is examined in detail to explain the importance of the use of a series of complex, high-risk financial products and the role played by rating agencies. The study is then extended to Europe, Latin America, and Asia. The corresponding sections are devoted to these regions, in that order, in an attempt to clarify the peculiarities of the recession that took place in each of them.

In Chapter 7, "Global economy vs. Covid-19 pandemic", Mariano Castro-Valdivia (University of Jaén) analyses the effects of the Covid-19 pandemic on the global economy, differentiating between advanced and developing economies. The analysis is preceded by a brief history of the origin and dissemination of the infection and the policies to control the pandemic. In addition, the author analyses the state of the world economy prior to the onset of the pandemic by examining its main macroeconomic indicators. The study continues with the evolution of these macroeconomic indicators, and it also takes a balance sheet of the pandemic and its impact on the global economy, including the prospects for recovery in the face of the uncertainty generated by new variants of Covid-19 and the war between Russia and Ukraine.

Finally, Antonio Martín-Mesa (University of Jaén) presents a final reflection that brings together the main aspects dealt with in a conference given at the *Cátedra de Internacionalización* of the University of Jaén on 24 October 2022. This chapter analyses the main characteristics that the economic crises of the last century have brought to Spain, focusing mainly on the 1929 crisis, the 1973 oil crisis, the 2008 crisis, and the latest crises caused by the Covid-19 pandemic and the Russian invasion of Ukraine. This general analysis is intended to make the reader reflect on the current state of the economy and the measures that could be taken to overcome the situation.

These studies, and this book as a whole, are intended to be a reference work for the courses on economic history and the history of the company, but also a study and consultation text for academics, researchers, professionals, and readers in general. The works are the result of rigorous and detailed studies and capture the crises around the world and throughout history. In essence, these have been the main motivating factors behind the preparation of this work.

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