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The American Changing Economic Philosophy during the Great Depression 1929-1939 and the Financial Crisis 2007-2010

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Declaration

I, Abir Dhouadi, hereby declare that this dissertation is my own original work and that acknowledgment has been given when due and that this research document has not previously been submitted at any institution to obtain any academic qualification.

Dedication

I firstly dedicate this study to God Almighty who has granted me guidance, physical strength, strength of mind, skills, and who has given us a healthy life throughout my study career.

I also wholeheartedly devote this study to my beloved Mother and Father, especially to my mother who has always been the source of my inspiration and who has given me strength when I thought about giving up, by providing me with moral, emotional, and financial support.

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Abstract

In 1920 the capitalist system achieved an economic boom in the United States, but in 1929 a crisis occurred which is classified as one of the most serious in history. Because the capitalists were unable to face the recession crisis, the world entered into a massive economic recession in all sectors, which affected the economies and colonies of Europe, especially those that were in favor of the capitalist system.

The world also witnessed a financial crisis in 2008 known as the mortgage crisis. It was one of the worst disasters after the Great Depression of 1929. The low financial level destabilized the economic entity and led to the misuse and expansion of the high-risk mortgage, which led to a negative impact on the economic system in general. The two crises had several negative aspects, and the main elements that distinguished them from the other were their impact and severity. A comparison was made between the financial crisis and the Great Depression from the point of view of history and then the economy. This was done intentionally to answer the question: Did history repeat the same Great Depression, or was it different? The causes and consequences of each of them were also highlighted, which were reflected in the whole world after the United States of America was considered the largest economic power in the world.

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List of Abbreviations

CBO: The Congressional Budget Office

CDC: The Centres for Disease Control and Prevention

CNBC: Consumer News and Business Channel

FC: The Financial Crisis

GD: The Great Depression

GDP: Gross Domestic Product

NBER: The National Bureau of Economic Research

OECD: The Organisation for Economic Co-operation and Development

US: The United States

USA: The United States of America

General Introduction

The first chapter deals with a period of the economic downturn in which America lost its financial value, which led to the country's deterioration, starting with the bankruptcy of the Wall Street Stock Exchange, in addition to commercial and industrial losses from what was known as the Great Depression 1929-1939.

The Great Depression was dominated by a series of collapses when banks went bankrupt and the capitalist situation deteriorated. Factories production declined, which impeded the growth of the economy due to the failure to pay employee wages, along with the presence of high unemployment rates.

The real gold standard in America declined due to the Great Depression (GD) since it linked to all countries around the world and trade cooperation among themselves, investors, and others. Moreover, the rate of household consumption in social services increased, which in turn led to debt accumulation and the decline in the standard of living to impoverished levels. This was but an extension of the impact of the Great Depression because the US Federal Reserve decided to increase money requirements in a period when the country's situation was deteriorating economically, making stock prices far above their average real value.

The second chapter deals with the financial crisis (FC) that the world witnessed at the beginning of 2007, which led to the bankruptcy of financial institutions and the destruction of even the largest capitalist banks. Because of this recession, the economic turmoil in the state, especially the capital that affected the economy, swelled completely. Mortgage loans formed a high demand for expansion in investment, an increase in building prices, and a reduction in banks' credit requirements, which lent a helping hand in the gradual deterioration of the situation. Not only that, but it also created panic among economists over the seriousness of an upcoming recession that was realized in 2007, declaring a severe recession threatening to

collapse the whole economy. The financial crisis of 2007 represented a decline in GDP and a lack of liquidity because of the economic downturn. As an evitable result, the level of unemployment worsened to an ultimate high.

The third chapter deals with the differences between the 2007-2010 financial crisis and the Great Depression 1929-1939. Both were a turning point in the economy and formed a wave of economic repercussions that left economists building plans to counter any future. Besides, this chapter compared the two crises in terms of economic and political reasons and also examined the extent of their impact on the entire economic world from the perspective of economic scientists.

The aftermath of the two crises reflected in the American and capitalist societies, especially the low-income class. This aside, economists predicted that another crisis would paralyze the global economy due to the rapid spread of Covid-19, which is currently destabilizing the economic level and moving it towards a new recession.

Chapter One:

The Effect of the Great Depression on Recovery and Economic Change in America 1929-1939

Introduction

The economic period between 1929 and 1939, which lived through peak deterioration and bankruptcy in all sectors, is defined by history and is considered nowadays as a meter to gauge the world economy. Based on this premise, this research studies the Great Depression that arose in the United States of America in the 20th century, during which the global markets suffered losses after having been known as a thriving industry. This is because stocks reached an ultimate low that shook the entire world economy, giving birth to the Great Depression. In the same vein, the Great Depression led to a weaker economical marketing movement and the bankruptcy of the largest international companies and banks. From the 1920s onward, also known as the “Jazz Period”, extravagance found itself within both the American society and economy, and which later had an important role in fuming violent repression.

To explain the situation further, Blinder claims, “only intense interventions in 1973-1975 and 1980-1982 carried a candle, and each of them on its day was called the Great Depression” (14). When the US market indices, including the currency and gold market, plummeted, investors withdrew their money for fear of a decline in the value of the dollar, which worsened the situation and exacerbated the crisis. Thus, the Great Depression constituted a terrifying dynamic movement that led even the largest international companies and institutions to bankruptcy.

After the situation culminated, America had already faced many crises that have shaken the foundations of its capitalist system. Interestingly however, the Great Depression during 1929-1939 also witnessed acts of violence against the so-called “system”, and this is precisely what will be discussed in this chapter.

1. The “Super Rich” Concept that Led to the Depression in the 1920s

This period was also known as the “tumultuous twenties” or the “jazz era” due to the spread of prosperity and luxury, as well as the spread of the cultural movement and activity in various parts of the country, especially at work. This was seen in the increase in production and state development at all levels, such as Hollywood cinema, jazz, and the spread of the radio.

Moreover, America became a model for many countries regarding the development of the economic, technological, and industrial fields. This was all thanks to the numerous novel inventions that played a significant role throughout the country. Another defining feature of the turbulent twenties is the increased popularity of news forms of art, so movie theatres, jazz lounges, and concert halls were flooded with viewers.

America witnessed a paradigm shift in various industries, like the spread of four-wheeled vehicles in the auto industry. This contributed in increasing the American people’s road movement and assisted in reaching that development peak, which subsequently reflected on the rest of the world countries. In addition, various inventions such as the telephone, television, telegram, and the fridge also flourished during the jazz era; they were incredibly popular among people, given how surprised they were with these new useful tools, and so the production of these inventions increased in accordance to the high buying rate.

Gradually with modernization, various medicines and antibiotics were also discovered, mainly due to the First World War that helped in giving rise to new epidemics and various diseases in that era. To that, Zeitz said, “Her story is the story of America in the 1920’s the first “Modern” decade, when everyday life came under the full sway of mass media, celebrity.” (9). The development during the twentieth century was not limited only to the electronic level. This is evident in how the printing press renovated a number of social behaviors. An example of this can be seen in the transition from utilizing large-sized

winepress to the modern printing press paper that has spread to America first then the world.

The twentieth decade led to the announcement of the birth of the mass press that quickly and widely spread due to the large consumption of written material, especially the daily newspaper. This written material gave insights on the country's culture and daily events since America needed to communicate with people, inside, and outside the borders to ameliorate the production, distribution, publishing experience to the consumer, along with helping in publicizing new markets and industries all over the country.

Additionally in the 1920s, the thirtieth president of the United States of America, Calvin Coolidge, Coolidge in his famous speech "After all, the chief business of the American people is business.'' This acted as evidence to support the control and good management of buying, selling, and expanding relations with others in the field of economics, coupled with the ability to manufacture, produce, and develop solid investment at the economic, agricultural, and technological levels.

According to "The Great Depression: A Diary":

> As I look back now to the 1922-29 period, it seems to be unreal and almost unbelievable. After the war, pressure people wanted to have a good time and to spend money .The flappers appeared upon the scene. Women's dresses became shorter until they hardly reached the knee and in the later stages of the delirium, they wore their stockings rolled and their bare knees rouged. Morality and religion were pushed into the background and in its place came Negro jazz bands and nightclubs and all its attendant evils. (Roth and Ledbetter 4)

On the other hand, Herbert Hoover, who was considered the minister of trade in the 1920s, expanded the country's economic projects to the highest levels and made an effort in enhancing these projects' coordination and cooperation in international trade. It was during that period that Herbert ran for the presidential elections and made promises during his

election campaign with the Republican Party in 1928 that if he won, there would be “a chicken in every pot and a car in every garage.” (Hoover). Indeed, his reign was known for its impressive development and inventions, but he was not elected for a second term. Alongside all the economic, social, and cultural contributions he had made, women's fashion also faced various alterations in that period, as their “fashion sense” changed dramatically compared to how it was prior to the 1920s. One common women’s fashion style was the hat, short skirt with face makeup. Not only that but this style was also seen in cinema and parties.

Moreover, in the 1920s, women formed a movement to defend their freedom of education and the right to vote, and they have achieved significant gains in women's equality. In addition, the movement imposed itself and entered the field of politics and many other fields. One of the famous actors during that period, Colleen Moore, claimed, “They were smart and sophisticated, with an air of independence about them, and as casual about their looks and clothes and manners as to be almost slapdash.” (Moore).

In the twentieth century, Americans bought mass-produced goods, “supply and demand”, and went on to buy the most used, most expensive, and tallest luxuries to experience luxurious life in a dramatic fashion. They also rushed to buy cars, houses, and appliances; moreover, they paved more roads and created multiple shopping centers and various other services. According to Foroohar in her book “Makers and Takers”, “The roaring twenties were marked by not only financial boom and technological wonder, but also massive income inequality.” (41). In addition to factory production and sale financing, which reflect the prosperity achieved by the American individual, banks also quickly branched out to increase the percentage of their profits in this lucrative money supply, which encouraged mergers to seek a greater expansion of institutions. This carried on until everything collapsed, and America entered its largest-ever recession. This collapse became apparent firstly on the stock market in Wall Street in particular during October 1929, which affected the economy as

a whole.

Despite all these inventions and development in all aspects of the economy, the excessive use and consumption of these inventions led to an economic boom that left behind the greatest economic depression the world has ever witnessed.

2. Defining the Problem

When the Great Depression, the country's worst-ever economic recession, began in October 1929, a few Americans realized the dangerous nature of the situation only between 1929 and 1932; the American economy fell sharply and thus the production industry shattered, giving rise to the rate of unemployment. Thousands of Americans became unemployed; Rooth and Ledbetter mentioned, “As the unemployed struggled with bills and consumed even less, more companies cut back on workers on even closed up shop. The unemployment rate skyrocketed.” (17). While the country’s situation slowly deteriorated with an increase in the unemployment rate, companies failed to pay their debts and so the production of goods stopped until the movement of economic activity weakened.

Banks’ failure made matters worse after the market crash. Many Americans began pulling their money out of the banks, preferring to keep them or buy gold there instead. Consequently, American citizens collectively withdrew bank accounts and banks had no money to cover the withdrawals, and the result was billions of dollars deposited from banks unable to be compensated at the height of the Great Depression. This negatively affected the United States and later extended to Europe because of the economic relations between them. In addition to that, Rothbard and Johnson said that “The accelerating inflationary boom of the three decades since the end II world war has loaded the economy with unsound investments and with oppressive mountain of debt: consumer, homeowner, business and international.” (23). Production inflation in America slowed the economy and shrank the bank and real estate debts, which created the industrial and commercial bankruptcy in

America.

The National Bureau of Economic Research (NBER) defined the crisis as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales." (NBER). While the crisis may occur in any particular country that has been subjected to several risks that completely affected it violently, threatening the natural stability of the economy.

On the other hand, Ohanian added to what the NBER said: "It becomes difficult to generate a large depression within an explicit model without changes that directly depress or impede the incentives or the opportunities to produce and trade, such as changes in efficiency, institutions, taxes, regulations, or trading technologies." (7)

The business cycle is the cycle of registering commercial funds according to the rate of production of goods; if this rate was on the decline, it generally was through a series of contraction and stagnation.

On the one hand, the business cycle is characterized by expansion through the growth and prosperity of the economy when it reaches certain aspects of development. On the other hand, it is characterized by deflation and can be a period of economic deterioration, i.e. the rate of production decreases, along with this deflation. Zarnowitz added this to NBER, "thus the high—growth phase typically coincides with the business cycle recovery and mid-expansion, the low-growth phase with late expansion and contraction". (15)

He also mentioned, "This greatly influenced macro econometric models which emphasized the destabilizing role of random shocks and exogenous factors." (83). This expansion was and is still measured by the NBER, a group of economists who analyze the country's economy from the bottom (the previous work cycle to the peak i.e. the current

cycle), while the contraction i.e. (the drop in the price level) is from the peak to the bottom that left a purely economic boom.

In addition, the American economic activity has gone through fluctuations and obstacles, which in turn resulted from sudden turbulence in various economic sectors. The latter is a natural, America-affected cycle in the world economy.

As a result, Richardson defined the business cycle as "[…] describes the rise and fall in production output of goods and services in an economy" (22). Overall, business cycles were measured using the rise and fall in the real gross domestic product (henceforth GDP) or the GDP adjusted for inflation. Moreover, Keynes argued that "attributed to the trade cycle a sudden, sharp downturn, a protracted decline, and a gradual, sluggish upturn" (qtd. in Zhang 72). When the economic cycle takes place in the shadow of capitalist economies with alternating periods, it may lead to either recession or prosperity. In the case of the Great Depression's recession, the American economy witnessed a state of imbalance that ended in an economic downturn.

In addition, Keynes mentioned in his theory about the economic cycle the following:

> "There is, however, another characteristic of what we call the Trade Cycle which our explanation must cover if it is to be adequate; namely, the phenomenon of the crisis—the fact that the substitution of a downward for an upward tendency often takes place suddenly and violently, whereas there is, as a rule, no such sharp turning-point when an upward is substituted for a downward tendency." (232)

Through the business cycle, economists such Keynes, Friedman, and Samuelson founded several stages based on it:

- First, the depression: When expansion occurs in any country and reaches a level that helps it invest in all economic aspects such as production that is represented in the abundance of industrial and technological materials, as well as increased sales, job

opportunities, and unemployment, the result is zero in debt. Zarnowitz mentioned that, "Prosperity interrupted only by mild recessions or slowdowns breed overconfidence, excessive short-term financing by banks of long-term business projects, investment booms interacting with stock market booms, growing indebtedness, and illiquidity.'' (71). That is why the economy is constantly flowing because of the supply and demand, in order for the country to reach its peak of expansion.

- Second, the peak: This occurs when the economy faces a problem after it has reached the maximum level of growth and stagnation in its economic indicators, remained at the same pace that does not grow, and experienced a regression in the economy.
- Third, the boom or the crisis: The boom is a stage that highlights the economic downturn and the deterioration of the economic situation, such as the high unemployment rate and the accumulation of debts, in which precisely the volume of production and per capita income decreases by decreasing money indicators and decreasing cash in any country.
- Fourth, the recession: It befalls when unemployment is spreading and the country declares its failure to control the economic situation, and it is considered the last horrific economic stage that arises panic in the country and on its people, and it is also an indication for economic collapse.

In contrast, theorists Wolff and Resnick said, "the Keynesians argued, the continued presence either of prolonged inflation or recession could push suffering and frightened citizens to seek the socialist or communist alternatives that both neoclassical and Keynesian theorists reject." (3)

Despite all the economic indicators and stages, economists cannot predict such crisis before several years or months from its occurrence, thus it is challenging for any country to control the economic cycle since it follows a financial policy, especially with the presence of capitalism that it can control until it regains its normal condition in the foreseeable future.

3. Causes of the Delayed Recovery and Economic Change

Every country has an economy that helps it stand out among other countries. Subsequently, opinions and analyses differed from one country to another about the causes of the recession in 1929. Economists such as Karl Marx and Adam Smith attributed the cause of the crisis to the boom in the 1920s and the development of industry and technology. This increased production inflation, which resulted in a surplus in goods and led to bankruptcy.

3.1 Indirect Causes

The worsening American economy caused an increase in imported goods, and American trade decreased by half, leading to the collapse of the stock market. Foroohar mentioned that “Financialization has resulted not only in big-picture; destructive trends like slower growth, inequality, and market fragility but also in a number of secondary symptoms that are part of the core illness.” (23). In addition, America not only imposed customs duties on merchants and investors but also imposed an increase in imported agricultural commodities, which led to farmers' inability to purchase their agricultural dues. Through America’s cooperation with a few neighboring countries, especially a few European countries along with China, it had a close relationship with merchants and various factories producing and exporting. Moreover, America issued various laws such as taxes imposed on foodstuffs, such as sugar, coffee, leather, cotton, and primary industrial materials. During that period, the Chinese were known for handmade ceramics that were quite popular in America because of its unique decoration on traditional clothing and embellishment on household items.

According to Tomasi, “The Decline of Economic Liberty the institutions of the early American republic emphasized private property commercial exchange and guarantees of formal legal equality. Justice, in that social world, was understood primarily as a property of individuals.” (32). Undoubtedly, economists at that time were not aware of the reality of the

risks surrounding them, so America reached the peak of production and did not work on the laws of free trade that raised the value of the economy until it fell into a bankruptcy crisis in all the fields of the American state.

All of this was supposed to be produced at the lowest possible cost with the removal of the tax law. Because in reality, trade depends on the exchange between both parties: the importing countries and the producing countries. With the events that proceeded, US exportation has seriously deteriorated because of the neighbouring countries; meaning they can no longer purchase from the Americans, their financiers. Thus, American industries were destroyed until suddenly America became in great isolation and was a problem for the world as well because of customs barriers that created tension and conflict between countries that led to the maximum economic depression left by history.

Douglas Irwin, in his book Peddling Protectionism: Smoot-Hawley and the Great Depression , had this to say about Hawley Smoot “The sharp increase in US tariffs, the apparent indifference of the US authorities to the implications of their actions for foreign retaliation that quickly followed, as threatened, helped convert what would have been otherwise a normal economic downturn into a major world depression.” (4). When America imposed customs duties on investors, matters got worse for the economy, and the rates of America’s exports and imports decreased, which stirred the pace of the economy from growth to total contraction.

He also claimed that “The most disastrous single mistake any US president has made in international relations was Herbert hoover is signing of the Smoot-Hawley tariff act into low in June 1930.” (4)

The protectionist policy founded by the Hawley Smoot in 1930 negatively affected the American economy and increased extremism, unemployment, and poverty rates. Trade also collapsed entirely because the imposed protectionist policy worsened the situation. That

is why, some economists from different countries such as Lebanon, Brazil, Kenya, and America have appealed to protect free trade ever since then.

Lindert surveyed the literature for opportunities for social assistance in the intervening century and argued that there were high social returns to be gained from schooling, nutrition supplements, and health care at this time. He concluded that the "barrier that had to be removed was the concentration of political power into the hands of elites as opposed to taxation for growth-enhancing public investment." (485)

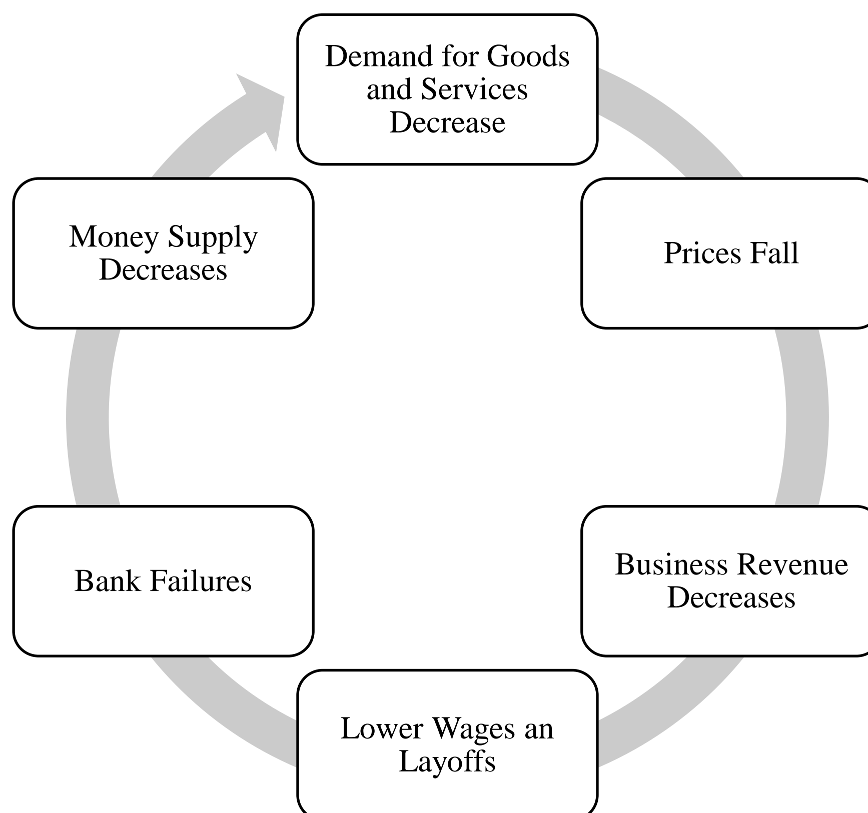


Fig. 1 The indirect causes behind the great depression, from: econlowdown.org. "What Really Caused the Great Depression?"

Fig. 2 The indirect causes behind the great depression, from: econlowdown.org. "What Really Caused the Great Depression?"

Fig. 1 illustrates the economic downturn that led to the deterioration of the US economy. As shown in the graph above, the decline of the demand for commodities led to a reduction in the value of the US dollar, and as a result of this announcement, companies and banks went bankrupt completely.

3.2 Direct Causes

3.2.1 Capitalism in America (a free market economy) or (laissez-faire)

Capitalism is considered a basic element in the economy in which the individual relies on his/her own capital because it is an economic system that is based on the method of production and the method of confiscation of goods in the market in which there is a trade based on supply and demand. While capitalism arose as a result of the recovery of America in 1920 and the development of trade along with the discovery of gold and various other minerals, they made use of surplus capital that resulted from speculation (usury), which helped them to profit quickly and obtain a lot of wealth. According to Wolf, “The crisis inflicted huge damage to the credibility of the market-oriented global financial system and so also on the credibility of what is often called ¨Anglo-Saxon financial capitalism.” (9). Furthermore, after the emergence of the capitalist economic system, America faced an industrial problem that was represented in consumption that appeared due to the abundance of production and modern ideas and inventions. As a fundamental factor in the development of industries on a large scale, they discovered mines and trade-exchanged minerals like gold and silver, which exceeded the supply and demand chain. This led to the expansion of trade; therefore, the capitalist system was aimed at the freedom of work to facilitate trade within the country and abroad.

Neal and Williamson provided a checklist of the four elements of capitalism:

1. Private property rights;
2. Contracts enforced by third parties;

3. Markets with responsive prices; and
4. Supportive governments. (2)

Consequently, at the beginning of the twentieth century, some countries worked to prevent the capitalist system because capitalism had had a negative impact on society in particular and on the country in general. Moreover, capitalism led to debt accumulation per capita. Income and consumption of basic materials became limited because capitalist workers produced goods and offered them on the market at a costly price that only the rich could afford; they did so to ensure the quick profit of the merchant in the shortest possible time. According to Foroohar, “our system of market capitalism is sick, and the big-picture symptoms-slower- than average growth, higher income inequality, stagnant wages, greater market fragility, the inability of many people to afford.” (5)

In addition to that, the free capitalist system was not able to control the country. It eventually became a mess, and the unemployment rate that rose through the capitalist law led to a series monopoly, i.e., controlling the market in terms of price and quantity, and with many industries entering this fierce competition, an imbalance between production and consumption was created. It is also worth noting that the capitalist system was considered a feature of free capitalism that had an effective role in the collapse of the economic market.

Greenspan and Wooldridge invoked that “the corner failed: the investors suffered big losses; depositors withdrew money from any bank with a whiff of a connection with the speculators; and because those speculators were all well connected with the financial establishment, the panic spread.” (425). This was not easy for investors since they drowned in losses from their money that is deposited in banks. The country’s situation has become bankrupt across various industrial sectors, including banks, which led to a complete blockade from all sides.

In addition, Piketty and Goldhammer said that “if moreover, the rate of return on

capital remains significantly above the growth rate for an extended period of time (Which is more likely when the growth rate is low, though not automatic), then the risk of divergence in the distribution of wealth is very high.” (p34)

However, Keynes, a British economist, wrote a book called “The General Theory of Employment, Interest, and Money” in 1936. Within its cover, he introduced a theory that analyzed the capitalist economic crisis based on the foundations and factors of economics. This theory stated that America was in that period in a great depression and that there was no solution through public policies to revive the economy.

In that period came the Keynesian theory that revolutionized the American society and that included the government that benefits from the total economy for full employment because if the country had continued in that way, unemployment would have extended for long periods because of free markets that were terminalized in a random manner. This theory suggested that the country should have imposed taxes on only the major companies. This was all one condition: that it is run by the government.

Keynes’s theory dictated that "recovery is possible only. After the 'fixed' capital of business, firms has been reduced sufficiently to restore its profitability. ‘If I am right, Keynes' theory requires that net investment be, typically, negative in depressions.’” (235). Keynes's theory came as an example to solve the crisis and impose any wages on workers at a high or low price in order to provide jobs in the free market that are concerned only with business owners and individuals to ensure the stability of the global economic system. Unsurprisingly, this was a failure and the deterioration of the economy could not be stopped.

On another hand there was additional evidence of Keynes’ potentially successful ideology, “He makes a recovery wait not only on the absorption of stocks but also on the ‘shortage of capital through use, decay and obsolescence’ causing ‘a sufficiently obvious scarcity to increase the marginal efficiency.’” (233)

Keynesian economists have distinguished that the role of government policies is in limiting the economic cycle because it is seen as one of the causes of the recession and in providing solutions through his theories that encourage investment and lower prices in case of high demand.

Therefore, bearing the full responsibility of the state in reducing taxes and finding a remedy to the increasing unemployment rate during the depression was a problem, and at the same time, controlling the value of prices was necessary if full employment was lost. This is the sole reason that Keynesian theory created chaos among economists as it stood against the classical system that aimed at producing through the supply and demand chain, thinking that accumulated spending equals accumulated income whatever the amount of capital is.

By contrast, Smith said in his book “An Inquiry into the Nature and Causes of the Wealth of Nations” that “money or those goods indeed save us this toil. They contain the value of a certain quantity of labor which we exchange for what is supposed at the time to contain the value of an equal quantity.” (5). In the late twentieth century, and in the circumstances of the violent crisis, economists created a competitive free market theory through the supply and demand to maintain and protect the market balance and high demand from American traders and investors. The classical theory aimed at what companies produce from goods since they pay dues for all of that, and on the other hand, it was spent on workers who got wages to buy these goods from different services that are within their needs. As a result, the state achieved equal production with total income and there was no surplus or provision of goods.

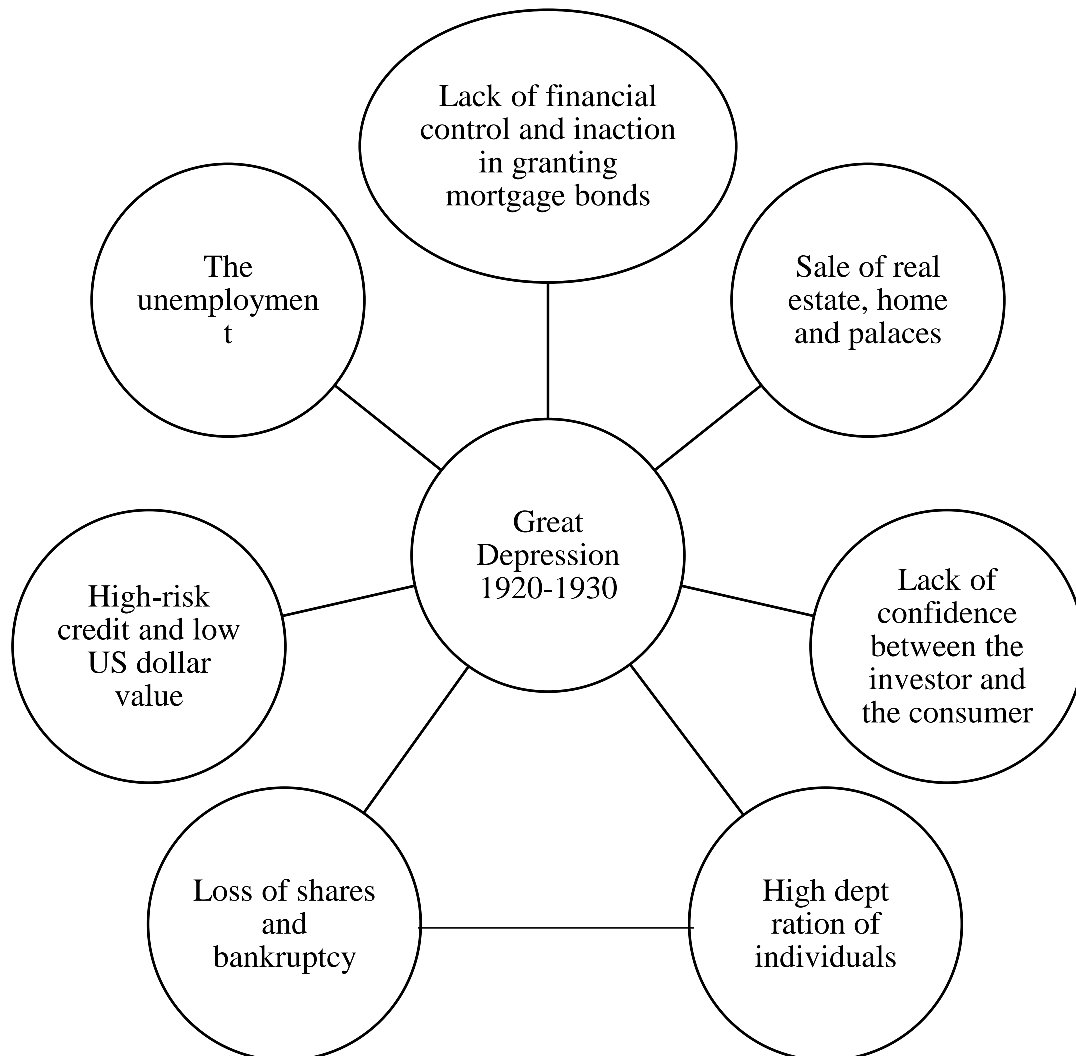


Fig. 3 The cycle of declining liquidity in America in 1930

Fig. 4 The US owed debt compared to the nominal GDP growth

Fig. 5 The cycle of declining liquidity in America in 1930

Fig. 2 indicates the stage of economic stagnation. It is a stage in which the situation has closed to deterioration. In the event of this stage, investors, owners of funds, and companies try to stop paying money to the US Treasury Void from the severity of the credit risk premium. Civilians are in a state of embarrassment and inability to buy even the necessities of life, and this deepens the contraction and increases unemployment.

3.2.2 The Decline in the Global Market during the First World War

The major economic crisis that was inflicted upon the world was a result of the First

World War, which later helped in the emergence of the Second World War. The global financial markets experienced a violent fall that led to a decline in share prices and the dollar value in general. Its value declined and it was not easy to obtain at all, and this collapse occurred after a long period of stock rise and prosperity along the year 1920, i.e., at that time it had reached a peak that led to an improvement in the living situation and several economic levels.

After 1920, the real crisis began; the Great Depression saw light in the scene of the deterioration of the global financial markets, where the first breakthrough of the economic recession and the beginning of the most important global stock exchanges began to collapse. The world economy recorded a terrible decline in stocks, which were highlighted by a red color on its indicator. This no longer imminent danger was first announced on October 24, 1929, on Black Thursday, and from here, the American economy began to fall down.

The economy in any country determines the success or stagnation of its various economic, social, and political levels. America was the primary jewel that had ties with the neighboring countries in the financing, importing, and exporting, but this collapse negatively affected America and the whole world.

Wall Street published the following, “on the ‘Black Tuesday’ of Oct. 29 the Dow plunged again, ending the day at 230, and leaving the market down 40% from its early September peak. Between the "Black" days of the crash stocks lost over $26 billion in value.” They also added, “BETWEEN JANUARY 1973 and December 1974 the Dow fell victim to a global downturn in stock markets, slumping by more than 45%… The U.S. economy tumbled into contraction by 1974, at the same time that consumer-price inflation began to grow at double-digit rates.” (The Wall Street Journal Online)

In addition, the economic situation became dire and panic spread among the investors who offered the shares they had for sale. Instead, they became bankrupt because shareholders

could not buy or participate in the stock market. The "Downs" index lost its true value, increasing the trade deficit and the adding to the latest horrific imbalances in buying and selling.

3.2.3 Financial Banking Panic Reflected on Wall Street (Bankers panic)

The financial crisis, which was known during the depression as a total collapse in money and was characterized by economists' failure to find a solution, led the financial situation to contraction.

Wolf mentioned, "The earlier crisis brought down banks on the periphery of the world economy (a huge number of smaller US banks in vulnerable European countries, such as Austria and Germany) more than those at the core." (23). Moreover, the financial crisis ignited a collapse in the currency in the real estate market, achieving this as a countermeasure that backfired to society and was considered a financial bubble that led to several fluctuations that affected America's total loans and bank deposits and formed a full collapse in the financial and monetary systems.

3.2.3.1 The Collapse of Finance

Investments decreased at the production sector because of the shareholders who invested in huge amounts, which increased the share prices to greater values and steered the attention of economic, political, and social investors away from investing in the stock market until the supply became more than demand. All this led to the shares value falling to zero and multiple banks declared bankruptcy, which made many shareholders in debt. Wolf said that "the most wrenching financial crisis since the great depression, caused a terrible recession in the US and severe harm around the world." (436)

4.2.3.2 Bank Defilation and Money Market Crisis (State of Bubbles)

The banking crisis faced a sudden and large increase in the request to withdraw

deposits from the owners of funds, which led to a financial turmoil and imbalance because banks loaned most of their money and kept a small percentage of the daily withdrawal request slowly until they went bankrupt and were confronted with a crisis called “the credit crisis”.

4. The U.S Federal Reserve

The 1929 crisis was the inevitable free fall that the US Federal Reserve combatted by adopting bank credit policy, and that was during the 1920s. This led to the expansion and the provision of huge sums of money in exchange for cheap credit. After that, the US Federal Reserve pursued strict policies through government interventions in the economy that led to the recession.

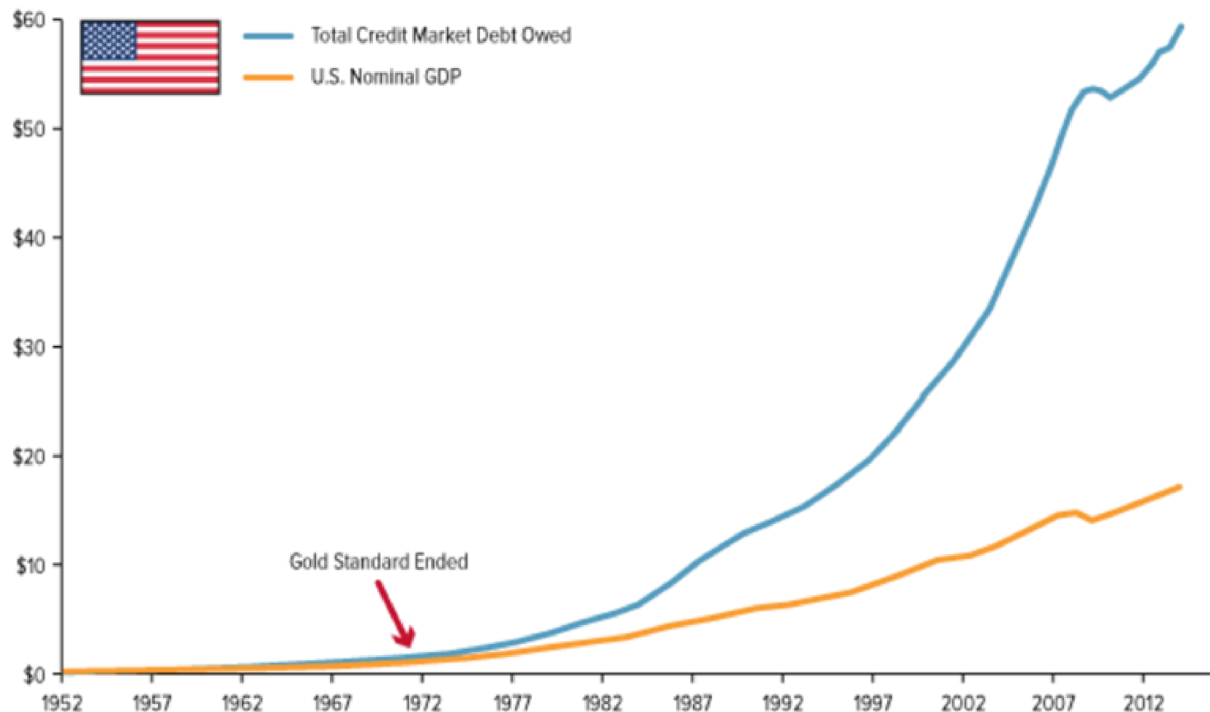
In an article, Bernanke, an American Economic Association representative, said,

> “The Great Depression was the Federal Reserve's most difficult test. Tragically, the Fed failed to meet its mandate to maintain financial stability. In particular, although the Fed provided substantial liquidity to the financial system following the 1929 stock market crash, its response to the subsequent banking panics was limited at best; the widespread bank failures and the collapse in money and credit that ensued were major sources of the economic downturn.” (6)

5. Gold as a Standard

America deemed gold as a standard and deposited it in central banks to convert it into paper money, which in turn led to the widening of the gap between the real economy and the financial economy. When the banks’ liquidity and bankruptcy shook the economic-financial system, the entirety of the United states economy collapsed because it was following the global gold rule. America’s withdrawal from the monetary system was due to linking the state policy with the state economy. The latter was considered the direct cause of the financial crisis that created a severe recession in a plethora of international banks and that paralyzed

the bank security system until the maintenance of gold to meet certain requirements became



impossible. Konkel said, “The United States and other countries on the gold standard couldn’t increase their money supplies to stimulate the economy. Great Britain became the first to drop off the gold standard in 1931. Other countries soon followed.” (Konkel)

Fig. 3 shows the ratio of the owed debt in America during the Great Depression in the scene of the GDP growth. In 1972, the owed debt, blue line, crossed with the US nominal GDP, orange line. This was when the gold standard came to end in the United States. This negatively reflected on the American economy and the world together, as seen in the decline of the US GDP in the graph above. Overall, America was considered the largest economic power, but at the time of the crisis, the recession receded and recorded a large increase in debts that affected the rest of the countries.

Fig. 6 The US owed debt compared to the nominal GDP growth, from: paramountrcc.com, “A history of the US gold standard.” 11 December 2015.

Fig. 7 The US GDP before and after the recession of 2007 **Fig. 8** The US owed debt compared to the nominal GDP growth, from: paramountrcc.com, “A history of the US gold standard.” 11 December 2015.

Conclusion

This chapter concludes that the basis of social and economic well-being is the source of the country's strength, as exemplified by the economic development that is provided by the United States of America. The Great Depression of 1929 shook the American economy, threatened its development, and left unwanted effects on the United States of America and European countries. It also left a sharp imprint on economic life, which led to a global economic downturn. The economic crisis of 1929 extended the capitalist system and continued until it caused a deficit in the activity it contributed to the economic tension in international relations in 1933. Alternatively, perhaps the happening of the crisis helped the economy despite all the lost jobs and market losses. After all, it helped to reshape the structure of the economic system to understand its mechanisms better, especially its weakness, in order to ensure that its prosperity becomes stronger than ever before.

Chapter Two:

The Modern Financial Crisis

2007-2010

Introduction

This chapter discusses the concept of "capitalism" and its effect on the economy of several countries and on the American one in particular. That said, the economic world was struck by many financial crises, such as the "credit crisis" in 1772, "the great depression" in 1929-1939, and the "oil price crisis" in 1973. The most devastating of which was the great depression that saw its first igniting sparks in 1920 and that destroyed the economy at that time, as discussed in the first chapter. This financial crisis had negative consequences that were reflected in the countries that were commercially open to it. It is worth noting that the world economy also encountered a financial crisis in 2008 that formed a destructive financial hurricane that wrecked the economies of a number of countries. Even the value of the shares of investors that had invested in some of these countries declined and led to bankruptcy, high unemployment rates, low US dollar prices, and the collapse of capitalist companies.

On the one hand, the financial crisis in 2008 affected the American economy and highlighted the weaknesses of the American capitalist system, in addition to creating panic among investors and economic specialists. On the other hand, unemployment spread and liquidity decreased in banks. Moreover, American citizens were cautious that they stored their money in their homes due to the financial crisis and lack of trust between citizens and the government.

1. The Historical Background of the Financial Crisis of 2007

The world and fundamentally the capitalist economy has witnessed many violent financial-economic crises since the late nineteenth and early twentieth centuries. Beginning with the "Great Depression" in 1929 then "Black Monday" in 1987, followed by "October 1989" crisis and the financial crisis that terrifyingly emerged in the year of 2008, which marked the failure of America to attract investors and borrowers away from buying housing and real estate in America.

The latter shocked the American economy and affected the economies of European and Asian countries.

Braun and Downey said, “the global financial crisis of 2008, ranging from creative lender of last resort policies, to market shaping, to large-scale asset purchases and targeted lending programs. Crucially, however, these interventions have been conceptualized as unconventional, exceptional, and temporary.” (14)

In addition, the recurrence of financial crises formed a level of concern among economists, who considered that the activity of stock exchanges as a major drive in capitalist economies, and as an indicator of economic changes such as the stock market. It was also considered as an indication of the beginning of either a global recovery or severe recession related to the efficiency of the global financial market.

They also claimed, “We are not seeing central bankers and macroeconomists saying, the economic conditions and/or political priorities of monetary policy changed in the face of the inflation crisis of the late 1970s and as such, so did the appropriate monetary policymaking framework.” (12)

1.1 Definition of the Crisis in Relation to the Financial Crisis of 2007

The crisis is considered a sudden change without warning, as the course of life changes to threaten the stable situation in the nature of a country’s economy. It is also known as the decisive moment that determines the fate of either, the betterment or the worsening of the economic state. The Cambridge Dictionary defines the crisis as “experiencing a time of great difficulty, danger, or suffering: The series focuses on understanding the political, economic, and social forces shaping parts of the world that are in crisis”. The crisis promises a danger in the international economy, which must be controlled by raising efficiency and the ability to make decisions to face sudden events and changes. In addition, such a crisis, like the crisis of 2007, cannot be predicted in order to be avoided; on the contrary, it arises

suddenly and in various levels of threat.

Bernanke, Geithner and Paulson mentioned, “It began, as every major crisis, with a borrowing frenzy, a credit boom during a time of overconfidence that went bust when the confidence disappeared.” (12). The government’s laxity in economic laws led to extravagance in credit, which has resulted in the weakness of the local economy, which in turn was at risk of bankruptcy.

At this stage, a crisis would arise due to limited education, ignorance, environmental degradation, as well as unemployment. It represents instability from many angels, fluctuations in the standard of living, and the emergence of financial markets and global exchanges for the struggle for power.

2. The Nature of the Financial Crisis

According to Bernanke, Geithner and Paulson, “a financial crisis is a bank run writ large, a crisis of confidence throughout the system... which makes more people want their money back, self-reinforcing doom loop of fear, fire sales, capital shortfalls, margin calls, and credit contractions that can produce a stampede for the exits.” (15). The financial crisis was defined in 2008 as a sharp contraction in economic activity whose fluctuations affected, full or partly, the overall financial variables and the size of issuing total loans and bank deposits.

Additionally, Angelides and Thomas mentioned, “unfortunately, as has been the case in past speculative booms and busts we witnessed an erosion of standards of responsibility and ethics that exacerbated the financial crisis.” (22). Hence, the financial crisis led to a serious economic bubble because of the taxes imposed on the consumer and the lack of government oversight, which further aggravated the economic situation.

The financial crisis, also known as the mortgage crisis that occurred in America in 2008 was regarded as the worst of its kind since the Great Depression in 1929. Moreover, it led to fluctuations in the stock market and completely affected the overall financial variables

and the total loans and bank deposits.

Schmidt-Hebbel, an OECD Chief Economist and Head of the Economics Department argued, “Since mid-September of this year, mutual trust between financial market participants has quite simply evaporated, with a breakdown of short-term financial transactions in major OECD economies and a global meltdown in stock markets... Spending, production, and employment could potentially collapse.” (Schmidt-Hebbel)

3. The Main Causes of the Financial Crisis

The global economic crisis was manifested for several reasons, in accordance with the economic world, which collapsed with several major causes through which it was known as the financial crisis. The most important of which was:

- Usury and debt damage (credit): The US Federal Reserve loaned money to other banks when needed and worked to manage printed money as it distributed it to financial institutions. On the other hand, the bank functioned by withdrawing dilapidated banknotes from circulation, which led to an expansion in lending in order to increase profit, but all this destroyed the local economy and increased the volume of debts more than the growth of the real economy itself.

Summers said that “by 2008 our regulatory framework with respect to derivatives was manifestly inadequate,” and added, “the derivatives that proved to be by far the most serious, those associated with credit default swaps, increased 100 fold between 2000 and 2008.” (qtd. in United States Congress, United States Senate and Committee on Banking 86)

However, the crisis was exacerbated by the second half of 2008, as a large number of borrowers stopped paying the financial instalments since to them, it was considered an ordinary result because usury is a catalyst for inflation.

- Sorkin, in his book, declared, “By August 2007, however the $2 trillion subprime market had collapsed, unleashing a global contagion.” (6). By that time, securitization of

mortgage loans has become one of the most haven mechanisms for many countries, especially America, for financing their housing sector. The securitization of both real estate and insurance was exceptionally profitable as the demand for banks grew to obtain more mortgages to support the securities.

However, Angelides and Thomas added that "the 1968 and 1970 laws gave Ginnie, Fannie, and Freddie another option: securitization. Ginnie was the first to securitize mortgages, in 1970. A lender would assemble a pool of mortgages and issue securities backed by the mortgage pool." (39). Nevertheless, The US banks persisted on the securitization of loans, which was a playing card in falling into the financial crisis and the collapse of many markets and global banks and which reflected negatively on the US and global economy.

- Difficulty understanding financial instruments (complexity): The complexity of the methods of understanding the economy's strategy in the mortgage crisis led to risks in the lack of oversight and difficulty in dealing with financial tools that were created and traded and were represented in several negative results, including:
  - Uncertainty about the mortgage crisis risks.
  - The puzzlement of economists over the crisis who were unable to control the financial situation.
  - The failure of investors and their failure to assess the efficiency of their financial instruments.
- Deregulation of the financial industry: Speculation was supported by issued mortgages and cheaply so, as real estate such as housing and mortgages were the focus of many people to benefit from, but in return, the matter created what was known as "the housing market bubble". Moreover, speculation was the main reason for the increase in mortgage payments, which caused the explosion of a large financial bubble in 2007. Nelson asserts that by saying, "At the height of the housing bubble, banks were eager to make home

loans too nearly to anyone capable of signing on the dotted line." (56)

Table 1

The Source of the US Global Financial Crisis

Mortgage (Market Collapse)	Real Estate Speculation
Increased demand for real estate in the absence of oversight.	Imbalance in the financial market.
Banks were lenient in granting mortgages to unqualified investors.	The investor focused on price fluctuations in an attempt to profit in the market value.
Affiliation in real estate without guarantees.	The investor's lack of interest in the annual income that the real estate brings, the market.

Table 1 shows two elements that helped to divulge and expand the financial crisis. It illustrates how the issuance of a law permitting real estate affiliation without guarantees constituted a state of chaos in the financial market. It also highlights that the effects of giving mortgages to investors not eligible for it, without any oversight by the government.

4. The Consequences of the Financial Crisis

The economic-financial crisis in 2008 led to dangerous indicators that threatened the US economy and the world. Dalio said in his book, Principles for Navigating Big Debt Crises", that "These lenders pose the biggest risks of creating a knock-on effects for creditworthy buyers and across the economy." (11)

Moreover, the financial crisis had a great impact on the economy; this could be seen in the following:

- The unemployment rate increased significantly and was considered the highest rate in the span of five years during September 2008, which reflected negatively on the stock market and affected the prices of stocks and stock exchanges.
- A sharp collapse in the activity of the global financial markets arose because of the

influence of the banking sector, which led to the fluctuation of the level of trading and which created a disorder and an imbalance in the American stock market indicators.

- The growth rate of the industrialized countries declined significantly, and that is due to the decrease in the market value of eight international financial institutions, among them is "JP Morgan Chase".
- Son added to CNBC "JPMorgan Chase, the biggest U.S. bank, fell about 14%, its worst decline since March 2009, when the industry was still in the throes of the financial crisis." (Son)
- The American financial crisis greatly affected Arab economies because they are part of the global economy and have had purely economic and commercial links between them. Oil prices decreased and Arab financial markets have declined and their indicators have witnessed continuous declines on different levels.
- Concerning Algeria, this financial crisis affected it less than the other countries due to the lack of cooperation between Algerian banks with the global economy at that time.
- The Algerian economy focused on exporting compounds such as hydrocarbons, which maintained Algeria's safety from any economic depression, unlike the countries that relied on general exports on top of consuming their products. Those countries were the most affected by the economic crisis.

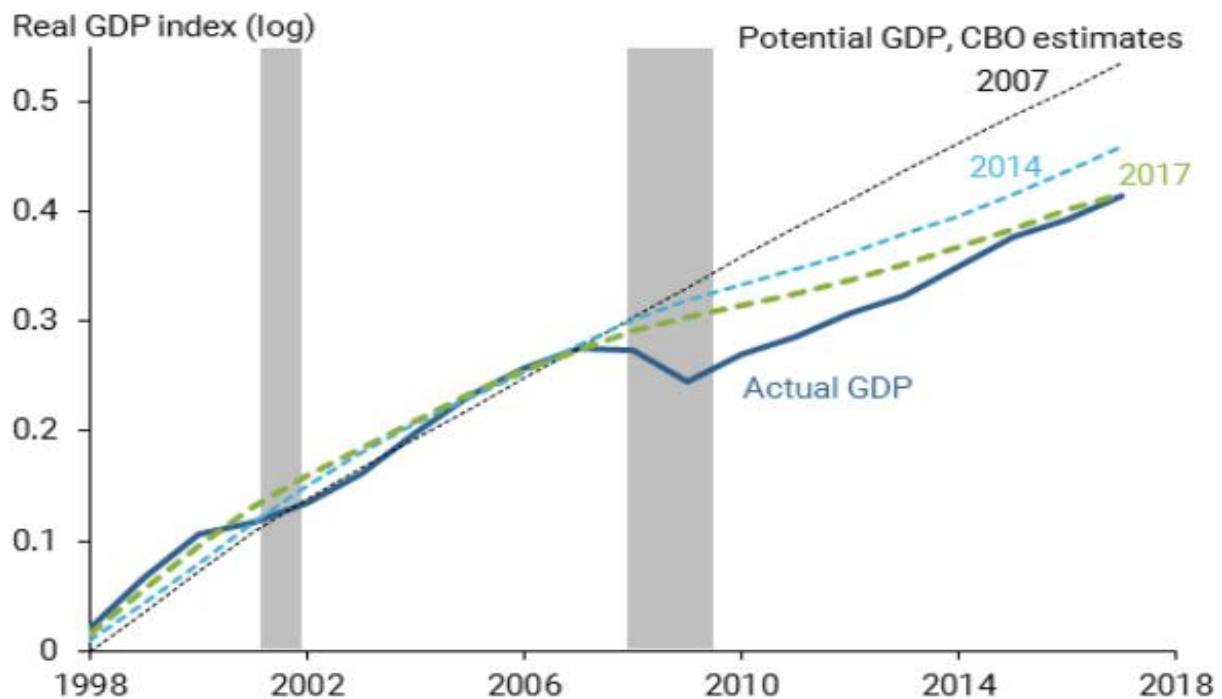


Fig. 9 The US GDP before and after the recession of 2007, from: Barnichon, Matthes and Ziegenbein. “The Financial Crisis at 10: Will We Ever Recover?” 13 August 2018.

Fig 4. Shows the gross domestic product (GDP) in the United States before and after the 2007-2008 financial crisis. The graph illustrates that the continuous GDP growth was suddenly misbalanced in the period between 2007 and 2008. This drop is what is known as the great recession. It undermined the US GDP and put the US companies at risk of bankruptcy, which a few could not escape. This value, however, began recovering as soon as the financial situation was patched.

5. The Stages of the Financial Crisis

The American economic-financial crisis that started on August 9, 2007, through the decline of economic indicators led to a contraction in banks and the overall banking system. Orlowski claimed that “the first one coincides with the outbreak of the subprime mortgage crisis on August 17, 2007, in response to the collapse of two hedge funds owned by Bear Sterns, which both had vast exposure to mortgage-backed securities.” (13)

5.1 Credit Freeze

The credit freeze created significant inflation in the price of gold and real estate when

lenders and investors have tended to search for quality in what was called “flight towards quality”. Moreover, the credit freeze was a deficit between the amount of credit and its price. This economical phenomenon occurred because of increased debt and the creation of a liquidity crisis by the collapse of the local currency and the inability to buy commodities using money in global and local markets.

5.2 The Slow Collapse of the Banking System

The US Federal Reserve “the Central Bank” announced a significant decline in its main rate of profits due to the mortgage crisis. Several major banks, such as the “Lehman Brothers” and “Wall Street’s Middle Lynch” also announced their bankruptcy. Mathiason in an article written on The Guardian’s website claimed that “A month after the ignominious collapse of Lehman Brothers, investors remained gripped by stomach-churning vertigo: the bankruptcy of the Wall Street giant forced traders everywhere to think the unthinkable - no firm, however venerable, was too good to fail.” (Mathieson)

5.3 The End of Investment

Through successive financial obstacles and crises, especially the situation that went out of the control of economists, banks and insurance companies were weakened.

4. Types of a Financial Crisis

4.1 The Monetary and Banking Crisis

All investors withdrew their own deposits and the banks retained a few percentages to meet the daily withdrawal requests. Gradually, the banks failed to respond to the depositors’ requests, which led to financial stumbling, and thus the situation caused a liquidity crisis in those banks. This is evident through what happened in the Bear Stearns Band in the United States of America in 1931 that lost billions of dollars due to high-risk bets.

4.2 The Currency Exchange Rates Crisis

It is an increase in the local currency exchange rates compared to the exchange rates of foreign currencies through speculative operations adopted by the country to reduce the local currency. However, it also increases the local, national interest rates. This is in spite of the issuance of the decision to reduce the exchange rate that a country takes rather seriously if foreign capital is available. It however can lead to slow economic growth and contraction.

4.3 The Money Market Crisis "Bubble Case"

Such a crisis is among the crises that have affected the economy and that has been known economically as the “bubble”. The “bubble” is the rise in the price of the currency in a way that exceeds the real value of it, so gradually the price begins to decline, which slowly creates a state of panic in stock prices, especially those concerned with investors.

5. The Repercussions of the Financial Crisis on America and the World

5.1 The Repercussions of the Financial Crisis on America

The concerned financial crisis appeared in September 2008 in the United States of America and slowly spread to the global level. It led to several repercussions that affected the countries that had economic cooperation and trade exchange with America. Its impact, however, differed on the level of the degree of openness of those countries to the American economy.

In addition, the crisis arose in the financial sector and then in the overall economy, until America declared bankruptcy due to the low original value of the markets and tightening credit. This was considered a major crisis in the real estate sector, which led to a lack of liquidity in most banks. However, the fall in raw materials and the rise in food commodities have sowed terror in the American people, and have indeed had repercussions on the global economy scene in the sense that it caused recession and a decline in the volume of trade.

5.2 The Repercussions of the Financial Crisis at the Global Level

The impact of the crisis at the global level was apparent on the decline in public revenues. Among the countries that were affected by the crisis in 2010 is firstly Greece. To worsen matters and demonstrate the sheer size of the risks of the financial crisis, it later on continued to spread to the rest of the countries. Inevitably, some Arab countries, such as the Middle East, have reduced the reserve ratio on deposits in the banking sector to increase liquidity in banks.

On the other hand, the value of the Arab wealth invested by companies and countries was externally damaged. This led to the global economic slowdown and embodied a violent financial crisis that was represented in the decline in oil prices after the plummeting of its demand. Likewise, Arab production of crude oil, natural gas, and phosphate decreased. Among the Arab countries that were the most affected by this was Saudi Arabia. In addition, the financial crisis led to a lack of trade between Arab and non-Arab countries due to the damage of maritime and air transport, along with the decline in tourism in Arab countries.

6. The Aftermath of the Financial Crisis

Signs of the financial crisis first appeared in 2008 on a few internal American companies and markets due to a lack of supply and subsequently demand, especially in trade and various other sectors, such as industry and agriculture. Geithner claimed in his book “Stress Test: Reflections on Financial Crises” that “There was nothing modest about our crisis. It began with a colossal financial shock, a loss of household wealth five times worse than the shock that precipitated the depression.” (14)

- The farmers were suffering from the high prices of agricultural crops materials, so they had to sell their properties instead of keeping their reserves for the coming years.
- The domestic US consumption was low due to weak demand in foreign markets, which led to poor agricultural crops.

- Industrial production was weakened after America was one of the first countries to manufacture cars and various home appliances, and that is due to the loss of its companies, the most important of which were the Standard Oil and General Motors "Ford".
- Panic and unemployment spread among the American society at large rates that it actually recorded a purely financial recession.
- US liquidity shrank and debts were not paid in due time; this caused a recession and bankruptcy in all American sectors.

7. The Impact of the Crisis on the Global Economy

The impact of the US financial crisis was manifested in many sectors that were the pillars of the economy and their severance affected many of America's neighbors. Violent effects and horror caused economic scientists to reach their peak of deflation, so they negatively reflected this on the stock market, which in turn witnessed declines in the prices of stocks and bonds.

However, Caprio mentioned in his book "The Evidence and Impact of Financial Globalization" that "the collapse of the US housing markets that began at the end of 2006 was followed by the most severe economic and financial crisis since the Great Depression." (11). The signs of the US financial crisis can be summarized in several points:

- The losses of American banks, their internal and external funds, and investments, were affected by the financial crisis that caused a severe economic recession.
- Investor confidence was subsided due to a lack of financial liquidity and high cost of lending.
- Panic and terror scattered in the economic community.
- Oil and gas prices declined, which created a severe dynamic recession.
- The decline in the price of the US dollar led to a deterioration in financial transfers and a

decrease in goods such as iron and production materials.

Conclusion

This chapter showed that the financial crisis played a crucial role in changing the American economy from recovery to stagnation. It also displayed that the crisis had political and economic repercussions that crippled and destroyed the movement of economic activity. The 2008 financial crisis ranked as the most detrimental economic crisis in the history of the US economy due to the failure of the capitalist system to find solutions to it or at least reduce its consequences. Additionally, re-working on reforming the international monetary system and making efforts to improve the American financial system was regarded as the largest capitalist economic power in the world. Financial supervision on banks and financial institutions was imposed in order to restore confidence in the financial markets and provide liquidity to the banking system. Through this, the financial crisis had a major impact on the economy of countries and demonstrated the extent of trade cooperation taking place between them. Therefore, work must be done to advance the American economy by managing credit risks and controlling capital within the country.

Chapter Three:

A Comparison between the Great Depression and the Financial Crisis of 2008

Introduction

This chapter attempts to compare between two economic crises the world has been exposed to, the great depression of 1929-1930 and the financial crisis of 2008-2010. It first compares the two crises to each other from a historical point of view. They both severed the balance of the economy itself and left near-unrepairable damage in the capitalist centers created by the US government, along with causing geopolitical tensions.

On the one hand, the financial crisis of 2008 in relation to the international events that were followed by changes in the pace of the economy was reflected in foreign investment. On the other hand, the Great Depression opened new world markets, followed by unlimited relaxation. Hence, the occurrence of crises in the world was considered possible and gave indications of the possible existence of new crises, such as what happened in the year 2020, a new crisis of its kind known as "Covid-19" that shattered the American economy and humanity all together.

1. The Differences between the Financial Crisis of 2008 and the Great Depression

America and the world as a whole have experienced several crises that have severely affected the global economy. Through this, the recurrence of economic and financial crises has had negative repercussions.

According to Aiginger in an article entitled "The Great Recession versus the Great Depression: Stylized Facts on Siblings That Were Given Different Foster Parents", "The main difference between the Great Depression and the Recent Crisis is that deflationary pressure had been lingering around before 1929, specifically in the United Kingdom and the USA." (20)

However, the financial crisis of 2007-2008 was not new of its kind. America was subjected to the same factors and events that affected the previous global economic equilibrium. Nevertheless, there are several differences that distinguish between the financial

crisis and the Great Depression.

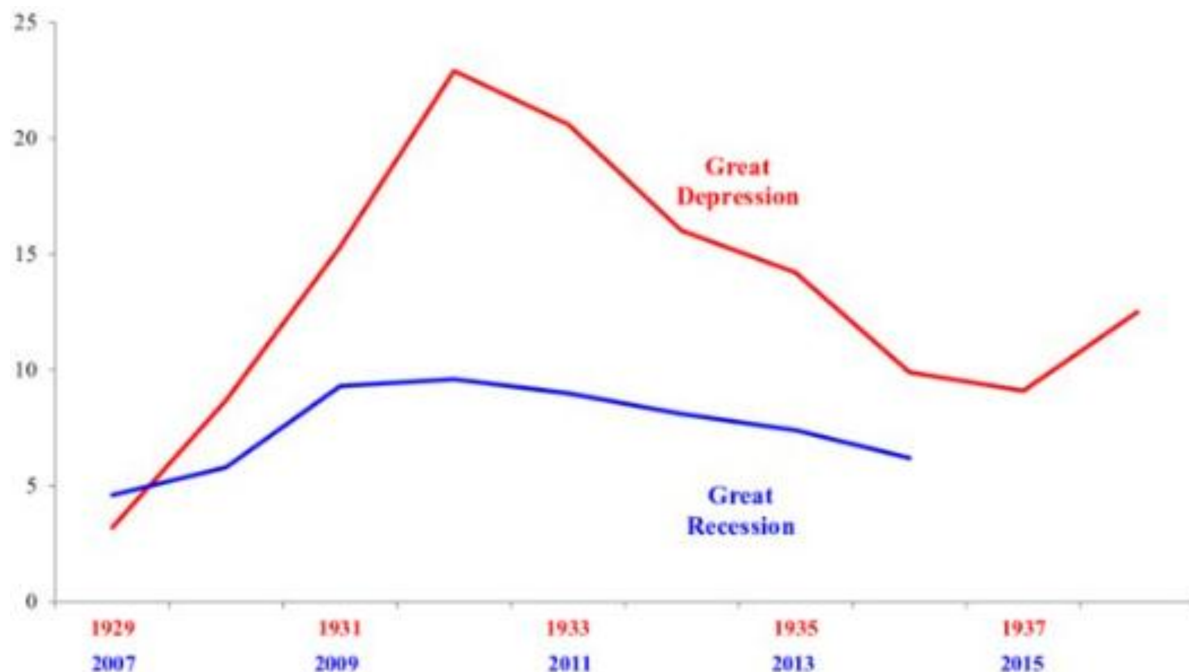


Fig. 12 The unemployment rates during the great depression and the great recession, from: Anderson, Duca and Bordo. "Money and Velocity During Financial Crisis: From the Great Depression to the Great Recession." *Federal Reserve Bank of Dallas, Working Papers*, 2015.

Fig. 5 shows a comparison between the Great Depression 1929-1939 and the financial crisis 2007-2008 in terms of the unemployment rate. The graph indicated that the unemployment rate during the great depression began to skyrocket by 1929, to reach a staggering 25% of the whole population. On the other hand, the unemployment rate caused by the great recession only rose to a value of 9%. This indicates to the severity and seriousness of the great depression compared to the great recession of 2007.

1.1 How the Financial Crisis of 2008 Differed from the Great Depression

The financial crisis differed from the Great Depression through its fluctuation and sudden unrest, which disrupted the economy and shook its natural balance. Additionally, the severity of the crisis took place according to its difference from one country to another.

The impact of the financial crisis was limited to a specific country. It was caused by weak control of bank credit, a lack of cash exchange, and lower prices in general. All this led

to an increase in individual borrowing, which constituted bad credit, also known as “lending”

“But this did not prevent major job losses, a large drop in the real value of the stock market index, and widespread business and bank failures. There was considerable anxiety at the time that the economic and financial system would unravel altogether.’’(Greg, Chibber and Panitch 45)

The financial crisis of 2008 resulted in the bankruptcy of companies, especially real estate agencies, the complete collapse of shares, in addition to the decline of the stock market and the internal investment of the country.

1.2 How the Great Depression Differed from the Financial Crisis of 2008

The Great Depression was distinguished by its sudden slowdown that was resulted from a gradual financial crisis and lack of liquidity. Slowly, the world economy became completely impotent and was on the brink of collapse. The depression was also caused by a decrease or increase in the price of the materials produced, leading to economic inflation.

The economic downturn resulted in unemployment, so most companies had to continue working without their employees to avoid any form of recession.

In addition, the Great Depression differed from the rest of the crises that preceded it in terms of its severity and its duration, which lasted for 12 years. In addition, the risk of speculation about the great depression was high due to the wrong monetary policy. This policy was one of the main factors leading to the Great Depression.

Moreover, the US Federal Reserve and customs duties sided with the monetary policy crisis that led to bankruptcy when the interest rate increased. On the other hand, the reduction in the number of bills in banks triggered deterioration following by contraction and a decline in trade.

1.3 The Difference of the Financial Crisis in Terms of Policy

1.3.1 The Financial Crisis and its Political Repercussions

The global financial crisis that started in America is considered the largest economic power that moved the world economies and helped in the emergence of several political changes that led to misbalance, all without any pre-warning. In addition, it was not the first of its kind; it was, however, preceded by many financial hardships.

According to Dalio, "over the last century, the US has gone through a long-term debt crisis twice once during the boom of the 1920s and the Great Depression of the 1930s, and again during the boom of the early 2000s and the financial crisis starting in 2008." (14)

Hence, the political repercussions in the global economic crisis were in late 2008 after the financial and banking system was paralyzed, as America was in the capitalist power, and as some governments of the Group of Twenty (G20) such as Germany, Italy, Britain, and France pumped trillions of dollars and government guarantees for the stability of the capitalist system. Furthermore, the crisis imposed severe cuts in wages and temporary contracts, which led to millions of elderly people losing their jobs. Blinder claimed, "As jobs declined, the unemployment rate, which was just 6.2 percent in September 2008, soared. It was a miserable time for American workers." (20)

Moreover, America attracted wealth but received a major attack by distorting the tax system when it avoided the wealthy and businesspersons by not paying taxes in order to increase profits and shrink wages.

As a reaction, capitalists decided to abolish democracy and negotiated between the European Union and the central bank to impose austerity and force the policy of non-welfare to cancel the support of necessary goods. Bayoumi invoked in his book, "Unfinished Business: The Unexplored Causes of the Financial Crisis and the Lessons Yet to be Learned", that "Bank capital is intrinsically risky as owners are the first to lose their money in the case

of financial distress." (25). This led to the spread of chaos between American society and increased inequality between individuals and social classes and made the capitalist system in its extreme degree of weakness.

However, in this period of economic hardship, the capitalists summoned the political polarization that generated geopolitical tensions and hatred between individuals and different political elites, as well as sowing the dispute that led to racism because of the capitalists' sense of failure, resentment, and shadowing of their status by creating racism to drive away blame and judgment against them.

Meanwhile, Bayoumi mentioned, "the system failed, not the individuals. Accordingly, I have almost exclusively used pre-crisis accounts to explain their actions." (9). However, the media played a major role in spreading racism and creating a great monopoly not only on politicians but also on all Western and Arab countries, especially against Muslim countries.

1.3.2 The Financial Crisis and its Economic Repercussions

The financial crisis differed economically in its impact and speed of its spread to the world due to the openness of its economies to the global economy in general. Through the repercussions of the financial crisis, the value of local investments, a collapse of capitalist revenues, and weak investment arose. Kindleberger and Aliber discussed, "Each of these waves of banking crises was preceded by surges in cross-border investment inflows, which led to increases in the prices of currencies and increases in the prices of securities and real estate in the countries that experienced these inflows." (6). In addition, in light of the rapid developments, the domestic banking sector became deteriorated with the lack of liquidity, raw materials, food, as well as marketed products such as natural Laurel that was imported from Arab Gulf in 2008-2009, which led to a decrease in the value of the prices of products such as fertilizers And chemicals.

Moreover, the financial crisis caused horror in both investors and citizens due to the loss of thousands of employees. Not only that, but the collapse also affected all sectors, which in turn lowered the value of the US dollar and led to the decline of the extractive industry sector and caused a contraction in the US GDP. The repercussions of the financial crisis had a significant impact on the financial recession; it led to a sharp decline in revenues and a decrease in the pace of the local economy.

Reuten said that "Therefore, even if in some period an enterprise were to accidentally be in a position to sell above the modal market price, such sales would tend to be declined, as it would have the effect of repelling buyers in a subsequent period." (207). The crisis was classified as an external shock and a global economic fluctuation that led to unbalancing the standard of living and poverty rates, in addition to rendering social services such as health, education, and housing institutions more scarce. Moreover, since the economic crisis was linked to the era of globalization, it resulted in a physical collapse and contraction that besieged America and all the countries investing in the American markets.

1.4 The Difference in the Great Depression in Terms of Policy

1.4.1 The Political Repercussions of the Great Depression

Extravagance and prosperity prevailed in America in the year 1920, as it was the biggest benefactor from the First World War. Hence, the Great Depression seemed precisely from the center of the capitalist world that it was followed by the collapse of the value of shares on Wall Street due to political and economic turmoil.

Captivating History claimed that "the Great Depression, for brevity's sake, this work focuses on events from the end of the first world war until late in 1929 to shed light on what led to the great global economic crisis of the twentieth century." (10). The United States of America witnessed a political turmoil in the rise of some political currents and elites, such as communism and socialist thought, which spread widely during that period when America

entered a struggle between their economic-political system and the intellectual system.

Meanwhile, Warren Harding, who governed America in the year 1920, appointed Herbert Hoover as the Minister of Trade. Hoover was known for his economic policy that he demonstrated when he persuaded Congress to provide aid to Russia, in terms of army, food, and clothes. Indeed, America supported Russia until 1923 when it regained its power. This strategy was mainly carried on by Hoover in order to eliminate the communist regime and reveal its total deficit. "Hoover tried many tactics to fight depression. He encouraged business leaders to keep workers. He gave many public speeches to instill confidence and prevent panic. Hoover did not believe the federal government should fix prices, control businesses, or manipulate the value of the currency''. (Amadeo) .Moreover, The Great Depression differed from previous crises under the policy of Hoover, who was considered a man of hardship and success in the economy. Though during America's exposure to the plight of the Depression, he could not find a solution, and America entered a state of chaos and decline in production.

Furthermore, the election of a new president for America, Franklin D. Roosevelt, who was considered a man of law and democracy, brought forth new orders. In fact, he ordered the government to protect the GDP per capita. The stock market, however, was not saved and it crashed the economy. This was further encouraged by the mismanagement of the Federal Reserve and bank credit, which caused problems in central banks.

1.4.2 The Economic Repercussions of the Great Depression

The Great Depression differed from the financial crisis in terms of the political turmoil that later contributed to the rise of the Second World War. Moreover, credit risks and lack of oversight by the government resulted in widespread bankruptcy and the inability of investors and owners to pay back for their properties. This was in addition to Americans' fear that kept them in their homes because of the scarcity of liquidity and lack of confidence

between the citizens and the government, which is palpable in the rise in unemployment.

Bernstein mentioned in his book "The Great Depression: Delayed Recovery and Economic Change in America, 1929-1939 (Studies in Economic History and Policy: USA in the Twentieth Century)" that "The effective demand problem of the1930s primarily resulted from persistent unemployment, but cyclical and secular changes in consumer expenditures also played an important role in lengthening the depression." (170). The American policy in 1920 encouraged laxity and granted loans to simple individuals in order to increase the volume of general economic activity to work on the policy of monetary expansion; however, it failed in the mortgage lending system and because of that, America collapsed, leaving debts in all real-estate bonds such as debt bonds and mortgage bonds.

2. The Results of the Global Crisis on the World Economy

The aftermaths of the global crisis on the world economy can be highlighted in the following:

- The economic crisis affected the poor class, the unskilled workers, who lacked a craft or work to enable them to bridge hunger, and due to the financial hardship, they had to withdraw their children from schools.
- Inequality in national income per capita spread quickly, especially in fields that have suffered major losses after the crisis.
- The indicators of the world economies in general and private investors collapsed, as the rate of emigration rates increased due to unemployment and shortage of labor.
- The political turmoil mainly resulted in material and real estate losses due to poor government disposal.
- In addition to the weak trust between the citizens and the American government, debts on latter accumulated and its inability to meet its necessary requirements became apparent,
- The collapse of the chief manufacturers led to a decline in labor, which constituted a

burden in the local economy.

3. The Effects of the Global Economic Crisis on Developed Countries

3.1 On Germany

"The impact on Weimar Germany was particularly dire. Germans were not so much reliant on exports as they were on American loans, which had been propping up the Weimar economy since 1924." (Llewellyn and Thompson). The Great Depression reached Germany due to the extent of economic cooperation between Germany and the United States of America. The crisis led to financial bankruptcy and moral collapse in Germany, as the middle class became a "poor" class due to the spread of unemployment and lack of assistance from foreign countries.

In addition to the damages that affected the German banks whose institutions, such as the bank approved by Germany, Reich Bank, these banks collapsed as they closed for fear of the spread of bankruptcy to the rest of the banks. The collapse also extended to the agricultural sector, which led to lower prices for agricultural products and forced farmers to auction their lands.

3.2 On France

"The starting of depression in France corresponds to a change in the regime. Industrial production went down in June 1930, de-personalized consumer prices in December 1930 and the de-personalized unemployment rate rose as of December 1930 onwards." (Villa 12)

The economic crisis affected France between 1929 and 1933, as France was one of the consuming countries in the capitalist power in the world. As America stopped subsidizing France by withdrawing all of its capital from America and interrupting trade, France confined itself to a crisis and concern that affected the economy; in addition to that, America imposed customs duties on goods, which led to the industrial and commercial decline in the French economy.

However, “from 1931 onwards, France was in a Keynesian unemployment regime (fall of domestic and foreign demand and of investments). Restrictive monetary policy no doubt played a great part in deepening and protracting the depression.” (26). At that period, the US dollar has already entered a state of decline in the scene of the US capitalist system losses. While France, on the other hand, entered a state of contraction, an increasing rate of unemployment, and a total collapse in the monetary and banking sector.

4. Suggested Solutions to Reform the Global Economy to Shield it from Future Crises

- Usury operations should be prevented by making use of utility in yielding goods and reaping twice their real value.
- Surveillance on random markets and controlling cash banks should be a requirement.
- Money should not be securitized illegally, and legal penalties should take effect otherwise.
- The system should work on production and non-inflation.
- Income should be distributed.
- Mortgage bonds should be re-assessed.
- Investment banks should be financed to reduce their debt ratio.
- The government should thrive to reduce taxes on investors and traders to give an expansion to monetary policy.

5. The Outcomes of the Covid-19 Crisis on the American and World Economies

The world is witnessing an epidemic crisis that has shaken the economic, political, and social entities, making it considered by many as more dangerous than the first and second world wars.

Varghese, Venketesh and Ullas said that “We are observing a very tough time once again fighting an invisible enemy; the novel COVID-19 coronavirus. Initially observed in the

Wuhan province of China, now fastly spreading around the world." (152). The epidemic of the age, also known as "Coronavirus", began spreading at the beginning of the year 2020 known as the Coronavirus. It spread rather quickly among the various groups of society with the most prominent symptoms being shortness of breath and pneumonia.

5.1 The Impact of Covid-19 on the Global Economy

China has held the torch of development globally for many years, but the Corona epidemic that many theorize was created by America, is considered an American political war against China to re-balance its economy to zero. Unexpectedly, the virus has spread from China to other countries such as Italy, Spain, and America due to the movement of people across countries, especially for commercial exchange.

Gamio, Smith and Yourish claimed, "It started two months ago, just north of Seattle. A young man who had returned from China tested positive for the coronavirus, the first known case in the United States. At first, the virus was detected only in a handful of cases, and mostly in those who had traveled outside the United States". The governments of the countries have ordered the airports to be closed, the economic movement from commercial transactions to be frozen, and the transport of goods through ships to be stopped, in addition to obliging people to remain in their homes. Besides, US President Donald Trump has stood helpless in dealing with this epidemic and has continuously demonstrated the government's inability to overcome and control the disease.

Moreover, Coronavirus has resulted in a frightening economic recession as American companies lost large proportions of their revenues due to the countries imposing restrictions on travel and international flights due to the quarantine. "But the gap between the old and new path remains large, representing one-off damage to the economy's supply side, and indefinitely lost output." (Carlsson-Szlezak, Reeves and Swartz). While America has been witnessing an utmost recession through the epidemic and the lack of job opportunities,

unemployment is spreading and leading to an increase in poverty. This is rendering America unable to overcome the deadly epidemic in addition to the health sector's shortage that is magnifying the burden on the economy.

The Centers for Disease Control and Prevention (CDC) claims, "Cloth face coverings fashioned from household items or made at home from common materials at low cost can be used as an additional, voluntary public health measure". In addition, the US insurance sector is also being affected; thousands of citizens have lost their lives due to the lack of adequate protection and protective masks.

Moreover, indicators of the economy have recorded a decrease in oil and gas prices, as supply and demand opportunities declined due to the quarantine that led to the closing of shops and industrial stores, especially the large car manufacturers.

5.2 The World Economy after the Corona Epidemic

5.2.1 Economists' Speculations on the World Economy after Covid-19

The past generations have never experienced an economic crisis like what is happening today due to the deadly Coronavirus. The economy is witnessing stagnation and major losses on the level of health and economy. Masters said,

> "In a sign of the staggering toll the virus was taking on the U.S. economy, some 17 million Americans have filed for unemployment since mid-March. Before this crisis, the highest number of filings in a single week was 695,000 in 1982. Some analysts suggest that the U.S. unemployment rate could reach as high as 40 percent in the second quarter of the year, significantly higher than its peak of 25 percent during the Great Depression."

After this crisis, the world is set to witness a fundamental change in the economy, health, and education as distant teaching/learning has become a solution to avoid diseases along with any change in economic policies.

In addition, the Corona epidemic has reflected on economic growth, which negatively affected investor psychological state and increased economists' fears that the price of an oil barrel would drop to less than one dollar. Moreover, the virus has recorded a decline in the gross domestic product that is causing a slowdown of the crisis and that will lead to global losses after the outbreak of the epidemic. "With consumer spending possibly impaired by a higher propensity to save and serious potential curbs on investment, we think the likeliest scenario is for the world economy's rebound post lockdown to be quite soft." (Moëc 6)

Many economists have decided to reconsider the world economy in 2020 due to the outbreak of the Corona epidemic, which has caused economic growth to decline. Where distance education, studying at home through the Internet, has proven to be the best solution to the current conditions. Not only students and teachers are benefiting from distant interaction, but most companies as well are proceeding their commercial dealings via the Internet. "Although there were many businesses that felt they had already cracked the online shopping code, COVID-19 taxed the systems like never before as the majority of shopping moved online." (Mallya and D'Silva 202)

The economists' expectations as to what would occur after Covid-19 can be summarized in the following points:

- More light will be shed on the economy and the importance of its role in raising the country's prosperity.
- A change in investment will occur in the type of economic activity that each country depends on from the production of the various industries invested in it.
- Economists will turn towards small industries that possess profits to increase the country's income and to attract investors towards pouring their money on it.
- More interest in scientific and medical research will take effect.
- The government will work to revive the local economy and pay more attention to the

commercial movement.

- Electronic commerce will explode and the multiplicity of its means in services, marketing, selling, and purchasing will always be on-demand in an unprecedented way.
- Friendship and cooperation between countries will be reconsidered.

Conclusion

This chapter highlighted how it turned out that the financial crisis and the Great Depression had a major impact on the global economy and demonstrated how closely interconnected international economies are. The two crises contributed to the deficit of economic activity. It also concludes that the world is constantly exposed to sudden economic crises that destabilize the economic entity and may even destroy it to the point of no return, leaving huge losses in the economy. This is precisely what is happening with the current epidemic of Covid-19, due to which the American economy is falling and is unable to re-balance itself. Lastly, the economic world must invest its efforts through cooperation to remedy the economic life again, strive for the prosperity and growth of the country in a more scientific way, and intensify the efforts of economists to control any crisis that may emerge in the future.

General Conclusion

Culminating this research, it became clear that the world is not without crises. The occurrence of which is possible and even inevitable according to the nature of the economic system of any country. The two discussed crises that the global economy has gone through are still considered the most dangerous economic crises in history, which was highlighted in the inability of economists and politicians to address them quickly and effectively. Despite the change in the structural system of the capitalist system, which considered the essential pillar of the modern economy, the gravity of the two crises launched from the United States of America, the center of the largest economic power in the world. However, the two crises continued to touch on both European economies with a high level of economic growth and their respective colonies due to their exposure to severe crises in the capitalist markets, which posed a real threat to the stability of the first world. The matter attracted the attention of researchers and economists in order to find solutions and to take the necessary measures to avoid such crises in the future.

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ملخص

حقق النظام الرأسمالي في عام 1920 رخاء اقتصاديا في الولايات المتحدة، ولكن في عام 1929 حدثت أزمة تم تصنيفها على أنها واحدة من أخطر الأزمات في التاريخ. لأن الرأسماليين كانوا غير قادرين على التعامل مع أزمة الركود التي واجهتهم في 1929، ولذلك دخل العالم في حالة ركود اقتصادي ضخم في الجانب الصناعي، التجاري...، مما أثر على اقتصادات مختلف الدول الأوروبية الرأسمالية ومستعمراتها. بالإضافة إلى أزمة 1929، شهد العالم أزمة مالية أخرى في عام 2008 عرفت باسم أزمة الرهن العقاري. هاته الأزمة كانت واحدة من أسوأ الكوارث بعد الكساد الكبير عام 1929، حيث أنها سببت انخفاضا في المستوى المالي الذي زعزع استقرار الكيان الاقتصادي بسبب سياسة الدولة التي حبذت المعاملة بالرهانات العقارية عالية المخاطر، مما انعكس سلبا على النظام الاقتصادي في العالم. كان للأزمتين العديد من الجوانب والاختلافات السلبية التي برز اختلافها من حيث تأثيرها وشدتها. كانت المقارنة بين الأزمة المالية والكساد الكبير من وجهة نظر تاريخية واقتصادية. تم هذا للجواب على السؤال: هل كرر التاريخ نفس أزمة الكساد الكبير أم أنها كانت مختلفة عن الأخرى؟ وكذلك لتسليط الضوء على أسباب وعواقب كلتا الأزمتين، التي انعكستا في العالم كله بعد انفجارها في الولايات المتحدة الأمريكية التي لا طالما اعتبرت أعظم قوة اقتصادية في العالم.