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COMPARISONS BETWEEN THE LONG DEPRESSION, THE GREAT DEPRESSION and THE GLOBAL FINANCIAL CRISIS

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ABSTRACT

Depressions are prolonged periods of economic downturns often characterised by a rise in unemployment, general fall in commodity prices, lower production levels and in many cases, lack of credit facilities or borrower apathy. Depressions are in many cases triggered by events in a specific economy or a limited number of economies even though their effects tend to transcend the national borders of the economies in question. Three of the most acclaimed depressions that have had a global effect include the Long Depression, the Great Depression, and ongoing the Global Financial Crisis. This paper undertakes to explain the causes of such depressions. It focuses on their origins, their durations as well as the impact of such depressions on the different economies around the world. The paper also draws similarities and differences between the three global depressions as well as the actions taken to end them while highlighting the influence of politics in shaping the events before, during and after the depressions.

Keywords: *Long Depression, Great Depression, Global Financial Crisis*

UZUN BUHRAN, BÜYÜK BUHRAN ve KÜRESEL FİNANSAL KRİZ'İN KARŞILAŞTIRILMASI

ÖZET

Ekonomik buhran, genellikle beraberinde işsizliğin artması, emtia fiyatlarının düşmesi, üretimin azalması ve birçok durumda kredi imkânlarının azalması veya borç alanların ilgisizliğini de getiren uzun süreli ekonomik durgunluktur. Ekonomik buhranlar genellikle bir veya birkaç ülke ekonomisindeki olaylar tarafından tetiklense de, buhranın etkileri söz konusu ülkelerin sınırlarını aşar. Küresel bir etki yaratmış olan ve tarihsel olarak en çok öne çıkan ekonomik buhranlardan üçü Uzun Buhran, Büyük Buhran ve devam etmekte olan Küresel Finansal Kriz'dir. Bu makalede sözkonusu bunalımların temel sebepleri ele alınarak, söz konusu ekonomik bunalımların kaynakları, süreleri ve farklı ülke ekonomileri üzerindeki etkileri incelenmeye çalışılacaktır. Makalede ayrıca küresel çapta yaşanmış ve yaşanmakta olan bu üç ekonomik buhran arasındaki benzerlikler ve farklılıklar ile bu buhranları son erdirmek için alınan önlemler ele alınacak, politikanın buhran öncesinde, esnasında ve sonrasındaki etkilerine dikkat çekilecektir.

Anahtar Kelimeler: *Uzun Buhran, Büyük Buhran, Küresel Finansal Kriz*

1. Introduction

A depression in economic terms can be described as a period prolonged economic downturn in an economy. Depressions must be distinguished from recessions. Recessions are normal short-lived dips in economic activity and are often no reason for concern (Frank and Bernanke, 2007). A recession becomes a depression when it fails to recover within the acceptable periods of time. Several depressions have affected economies across the world with their impacts mostly being felt in the developed world. Three notable global depressions include the Long Depression, the Great Depression and the Global Financial Crisis. The economic depressions occurred at different times having been triggered by different circumstances. The Long Depression occurred between 1873 and the late 1890s and is believed to have been triggered by various factors including the second Industrial Revolution that resulted in a rise in production which was unmatched by a rise in the demand levels (Fels, 1949). This triggered major drops in prices of commodities. The depressions affected different countries in varying degrees depending on the prevailing circumstances at the time. For instance, France was hit hard due to the fact that their domestic economy already had liquidity issues after they were forced to make huge reparations to Germany after losing the Franco-Prussian war (Rosenberg, 1943).

The Great Depression started in 1929 in the USA and spread to the rest of the world causing a slump in productivity and soaring unemployment levels across many countries. According to Madsen (2001), this depression occurred between 1929 and the early 1940s with countries recovering at different times depending on the fiscal and monetary policies adopted by the organisations. Countries such as the USA are known to have been the first countries to recover with the final recovery being made at the onset of the military mobilisations in the early 1940s that saw governments undertake major spending thereby ending low production and unemployment (Gauti, 2008). The Global was triggered by the collapsing of the housing bubble in the USA. This collapsing resulted in the plummeting of the securities that were tied to the real estate thereby triggering a downward spiral in the stock markets (Nanto, 2009). This was compounded by unregulated practices in financial institutions that resulted in high default rates leading to a liquidity crunch in some of the major banking institutions (Lewis, 2010). The inability of the financial sector to play its role in maintaining the economic growth in the USA therefore contributed significantly to the crisis.

The depressions and their occurrence sequences as well as their end have been discussed at length in the subsequent chapters. The impacts of these depressions on various aspects of the economies have also been highlighted. This paper also highlights the similarities as well the differences that characterise these depressions.

2. Overview of the Global Depressions: Periods and Causes

The three forms of economic meltdowns (the Long Depression, the Great Depression and the Global Financial Crisis) occurred at different times having been triggered by different factors mainly in the US and Europe.

2.1. The Long Depression

The Long Depression was triggered in the US during the second Industrial Revolution in the 1870s that resulted in the supply outgrowing the prevailing demand (Glasner and Cooley, 1997). As Cameron and Casson (2000) observe, the conclusion of the American civil war also made a significant contribution to boosting the production capacity in the US which further aggravated the problem. The period referred to as the Long Depression started in 1873 and spanned across two decades to about 1896. Even though it was characterised by low growth and deflation, its impact on the global economy was pale when compared to the Great Depression which occurred approximately 30 years from the end of the Long Depression (Musson, 1959). The period leading to the onset of the Long Depression was characterised by economic expansion which had shortly followed some major military conflicts. For instance, the ending of the Franco-Prussian war which ended in France making reparations to Germany to the tune of 200 million pounds triggered an inflationary investment boom in Central Europe and in Germany (Rosenberg, 1943). The progress made in rail road technology further encouraged the growth of industries through the ease of movement of capital, labour and products.

The early signs of economic crisis that led to the Long Depression were triggered by a series of events that had culminated in a panic which was brought by the fear of a *bubble* in Central Europe after a period of optimism that had been driving a boom in stock prices in April 1873. This initial panic would then die only to resurrect in the United States in September of the same year. This panic was initially triggered by the failure of the bank - Jay Cooke and Company upon their failure to sell bonds that were supposed to finance the Northern Pacific Railway (Fels, 1949). This bank failure was soon followed by the failure of several major banking houses occasioning a temporary closure of the New York Stock Exchange (NYSE) on September 20, 1873 (Rosenberg, 1943). The panic then struck Europe for a second time paralysing the VSE shortly. The deflation in France is believed to have been caused by the post Franco-Prussian war that saw France make huge reparations to Germany. The depression may also have been enhanced by the monetary policies adopted by the United States at the time. This was done in order to get back to the gold standard and this was being done by withdrawing money from the circulation hence reducing the amount of money available for trade (Musson, 1959). This led to the decline in the value of silver- a phenomenon which further contributed to the fall in the value of assets; in addition to the effect of increased industrial production.

The overbuilding of railways coupled with the collapsing of weak markets further enhanced the occurrence of the depression. Following the arising panics, governments took measures to save money by depegging their currencies. Such an example was the shift from the use of silver by the North American and European governments. This crisis was further enhanced by the scarcity of Gold that undermined the Gold standard. This scarcity of gold was solved to a small degree through the gold rushes in California in 1848 dubbed the California gold rush, the 1886 Witwatersrand gold rush and the 1898 Klondike gold rush. Early signs of recovery were cited in the United States in 1879 when they returned to the Gold standard, effectively putting a floor to the ongoing deflation (Eichengreen, 1992). The effect of this measure was further enhanced by the increase in agricultural production that was witnessed in the same year.

2.2. The Great Depression

Economists blame the occurrence of the Great Depression on structural weaknesses that were characterised by massive bank failures and stock markets (Bernanke, 2000). The Great Depression started in 1929 and lasted until the late 1930s and early 1940s. It was the most serious economic crisis that occurred in the 20th century. Like the Long Depression, the Great Depression's triggering factor was in the US. It was triggered by the fall of stock prices in between September and October of 1929 culminating into the stock market crash that occurred on the renowned black Tuesday on October 29, 1929 (Klein, 1947). It thereafter rapidly spread to the rest of the world. However, critics dispute that the crash was the cause of the Great Depression and hold the opinion that the crash should be considered as a symptom rather than the actual cause (Romer, 1992). The 1929 period did not however characterise a steady decline in market optimism. In fact, there were signs of growth in the early 1930s albeit the production levels remained below the pre-depression periods. This was however attributed to an increase spending by governments and businesses. The consumers had generally scaled down their expenditure after facing losses occasioned by the collapsed stock market. This was further aggravated by the severe drought that struck the USA in the same year. The interest rates had fallen drastically by the mid-1930. The dropping of the interest rates had been done deliberately in order to stimulate borrowing and hence rejuvenate the economy (Harold and Lee, 2004). However, the market was not keen to borrow due to anticipated continuance of the ongoing deflation at the time. This translated into depressed investment and consumer spending. By May 1930, the automobile industry had begun to feel the effects of the depression with their sales levels falling below the levels witnessed in 1928 (Rosenof, 1997). Prices began to fall at around the same period even though wage levels held steady for a while. However, by 1931, deflationary movements had set in with the farming areas being the most adversely affected. The depression then quickly spread to the whole world with most countries facing adverse economic recessions. The depression started subsiding differently in different countries. In most countries, recovery started in 1933. Such countries include the USA whose recovery started in the spring of 1933. However, the 1929 GNP levels would not be achieved for over a decade with their unemployment levels falling from 25% in 1933 to 15% in 1940 (Gauti, 2008).

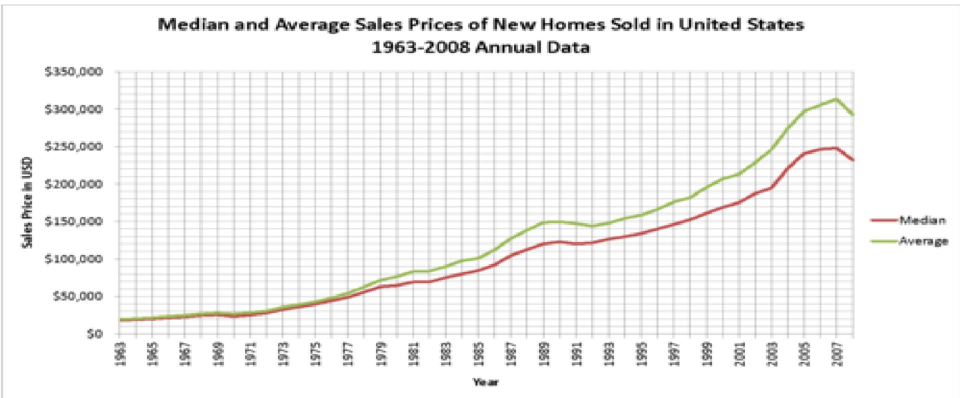
According to analysts, the recovery in the USA was mostly due to large inflows of gold and not as a result of recovery in the domestic economy. On a global scale, analysts hold the view that it was the review of the gold standard that helped the most in bringing about the recovery from the recession (Bernanke, 2000). The rigidity of the gold standard was relaxed to facilitate the devaluation of currency in gold terms. The abandonment of the gold standard was quickly adopted by countries across the world with the Great Britain being among the first countries to do so (Lewis, 2006). It therefore followed that the countries that left the gold standard tended to recover from the recession at a faster rate than their counterparts that had done so much later. For instance, the Great Britain recovered before countries like France and Poland who were among the last countries to abandon the gold standard (Romer, 1992). The depression was almost never felt in Asian countries such as China which were still using the silver standard.

The ending of the Great Depression came at a period where major military powers were on the brink of a global conflict. The influence of the World War II on the recovery can therefore not be underestimated (Romer, 1992). Analysts hold the view that the massive spending by governments is believed to have put an end to the Great Depression in most countries. However, critics oppose this view even they though they concede that the pre-war spending did contribute significantly to reduce the levels of unemployment. The most remarkable reduction in unemployment was characterised by the 1939 massive redeployments that saw governments engage all available human resource to aid in their war efforts (Madsen, 2001). The last effects of the Great Depression were finally wiped out by America's entry into the war where unemployment was reduced to levels below 10%.

2.3. The Global Financial Crisis

The Global Financial Crisis can be interchangeably called the credit crunch and is believed to be the most serious economic recession since the Great Depression of the 1930s (Krugman, 2009). This crisis was triggered by perceived deflation risk occasioning a rapid reduction in interest rates. This was followed by easy credit; increased debt burden; sub-prime lending; incorrect risk pricing and reduced liquidity in the banking system in the USA (Labaton, 2008). This led to the failure of major banking institutions triggering the onset of the Global Financial Crisis. The crisis was characterised by major declines in stock markets around the world with most governments conducting massive bailouts in for major financial institutions and corporate in an effort to return their economies to optimum levels (Steverman and Bogoslaw, 2008). The housing in the USA was also adversely affected with prolonged vacancies, foreclosures, and evictions rising to unprecedented levels. This led to the severe global recession in 2008. The USA housing bubble had peaked between 2005 and 2006 with prices being higher than the value of the assets (Roeder, 2011).

Figure 1: The Growth of the Housing Bubble



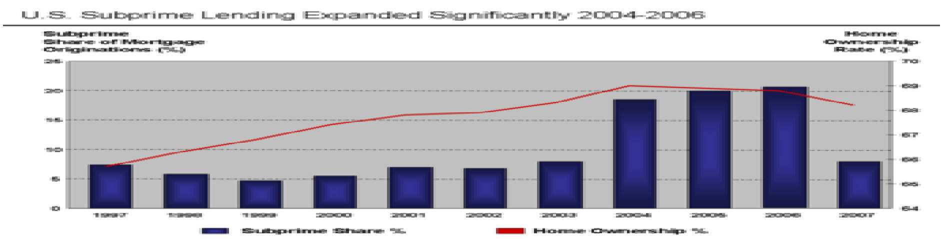
Source: Norris, 2011. Crisis Is Over, but Where's the Fix?, *New York Times,* Retrieved 25.06.2011 from: http://www.nytimes.com/2011/03/11/business/economy/11norris.html.

The average prices of houses between 1997 and 2006 grew by at least 124% (Norris, 2011). This bubble could also be observed in the relative prices of housing in relation to average income levels of consumers with the decade leading to 2001 being about 3.1 times the consumer income levels. This ratio rose to 4.2 in 2004 and 4.6 in 2006, an indication that the prices were heading towards an unsustainable level (Merrouche and Nier, 2010). According to Nanto (2009), the housing bubble resulted in a scenario where home owners opted to refinance themselves by taking second mortgages. However, by 2007, interest rates had risen and consumers began avoiding paying mortgages to avoid higher payments. This led to massive defaults by borrowers. In fact, the number of properties whose payments had been defaulted had risen by 79% from 2006 to 2007 (Merrouche and Nier, 2010). Another cause of the crisis was weak and fraudulent underwriting practices. A research indicates that by 2006, over 60% of all mortgages were not underwritten to the required standards.

Easy credit conditions also contributed significantly to the crisis. According to New (2010), the reduction of the federal funds rate from 6.5% to 1% allowed banks a higher level of liquidity to lend. The banks began to willingly give higher mortgage loans in the confidence that the loans would be repaid with more ease. However, the increase in interest rates coupled with decline in the price of housing led to an accumulation of bad debt that greatly impaired the liquidity of financial institutions. This led to the collapsing of the bubble leading to the plummeting of securities tied to the real estate damaging financial institutions globally. This was followed by unavailability of credit and fading consumer confidence that adversely affected the performance of stock markets around the world (Chan, 2011). This led to adverse effects on securities in 2008 and 2009. Analysts have also associated the crisis to the lack of ample regulation by governments that failed to check the practices that culminated into the crisis.

The question of subprime lending also contributed significantly to the crisis. Subprime lending refers to the giving of loans to consumers with weak credit histories and who are likely to default. The value of subprime mortgages as at 2007 was over $ 1.3 trillion. This was made possible by both easy credit conditions as well as government actions. Subprime mortgages remained at about 10% of all mortgages until 2004 and rose to over 20% by the end of 2006. Mortgage delinquency similarly remained between 10-15% by 2006, a figure which had risen to 25% by 2008 (Donnelly and Embrechts, 2010).

Figure 2: The Growth of Subprime Lending



Source: Krugman, 2009. *The Return of Depression Economics and the Crisis of 2008*, New York: W.W. Norton.

The liberalisation of the financial sector also saw the rise in predatory lending. Predatory lending refers to the practice of unscrupulous lenders enticing consumers to take unsafe loan facilities thereby increasing the chances of default (Steverman and Bogoslaw, 2008).The prevailing policy in the USA of deregulation in a bid to encourage investment was also blamed for the crisis. This policy had resulted in limited oversight over the activities of banks and required minimal disclosure. The role played by investment banks and hedge funds was also ignored by the regulatory bodies. This led to a situation where such institutions were not protected against the default of large loans leading to mass collapse of such institutions leading to slow economic activity (Chan, 2011).

This crisis triggered a series of government spending that was designed to rejuvenate the national economies where major financial institutions and corporate organisations were bailed out in order to reduce the effects of the recession (Norris, 2010). These efforts began to bear fruit between the end of 2008 and mid 2009 seeing the end of Global Financial Crisis. This crisis may therefore be described as the shortest global crisis, an attribute that may be associated with the swift actions of the governments in ending the crisis. However, most of the subject actions were not sufficient. At this stage, it is possible to say there are important recovery signs at some areas of the world, moreover there are some important developments, on the other hand significant problems especially for labor markets of the developed and developing countries still exist.

Lastly, by today, it is early to state an expression like the crisis is over or it is coming to an end.

3. Effects of the Depressions

The Long Depression, Great Depression and the Global Financial Crisis had various effects on the global economy. These effects varied from country to country and region to region depending on the present economic drivers and national policies adopted before and during the recessions.

3.1. Production and Consumption

The interaction between production and consumption or demand and supply in economic terms creates the market equilibrium that determines both the pricing and the quantity of products in the market (Musson, 1959). Recessions are triggered through a drastic change in one or both of these key factors. The Long Depression was characterised by a period of increased productivity occasioned by the second Industrial Revolution. This increased productivity culminated into a situation where more goods than demanded were available in the market causing a significant drop in prices (Glasner and Cooley, 1997). The USA had faced rapid growth prior to the onset of the depression. In fact, analysts have argued that there was little adverse effect in the USA during the Long Depression apart from the fall in prices.

Table 1: The Industrial Production Growth Rates

Country	1850s-1873	1873-1890	1890-1913
United States	6.2	4.7	5.3
United Kingdom	3	1.7	2
Germany	4.3	2.9	4.1
Italy	------	0.9	3
Sweden	-----	3.1	3.5
France	1.7	1.3	2.5

Source: Cameron and Casson, 2000. *Evolution of International Business 1800-1945,* New York: Routledge.

As can be seen in the figure above, the depression followed a period of industrial growth leading to a drop in prices of products. For example, the five largest producers of iron had doubled between 1879 and 1890 halving the prices of iron (Fels, 1949). Similarly, the prices of cotton fell by over 50% in the period between 1872 and 1877. The amount of money available to consumers was also limited during the Long Depression. In the United States, the efforts of the government to return to the gold standard which amounted to a withdrawal of money from the system greatly affected the amount of disposable income at the disposal of the average consumers hence resulting in the depression (Eichengreen, 1992). The economic crisis in France was similarly as a result of a post-war agreement that France had entered into after losing in the Franco-Prussian war that saw them make large amounts in reparations to Germany (Rosenberg, 1943). This had triggered the deficit that forced them to withdraw substantial amounts from the bank of England triggering a serious crisis in their stock market. Production levels in France were further brought down by the diseases that impacted the silk and wine industries (Cameron and Casson, 2000). These reduced their productivity significantly making the effect of the depression stronger in their domestic economy.

The Great Depression affected production either singly or in combination with other mitigating factors. For instance, in Canada, the Great Depression combined with the *dust bowl* to reduce the levels of production to only about 58% of the 1929 production levels in 1932 (Bernanke, 2000). The drop was also experienced in the Great Britain with production falling to 83% of the 1929 production levels by 1932 (Romer, 1992). There was a severe decline in the Heavy industry with production falling by 90% in selected industries such as the ship production industries. However, some levels of growth were experienced in the production of electrical goods as well as a growing motor car industry which were supported by a growing population and an expanding middle class. The period of the Great Depression coincided with a major drought in the USA which greatly reduced the production of the agricultural produce (Madsen, 2001). This led to high rates of default on loans secured from the financial institutions. The end effect was a major collapse of the banking institute with over 5000 banks closing down over the same period. Many Americans were there rendered homeless leading to the growth of informal settlements across the country. This prompted the US government to undertake policy measures to encourage the construction of new homes and reduce foreclosures. Efforts were also made to stimulate the economy by providing funds through initiatives such as public works and the provision of government-secured loans to the consumers (Gauti, 2008). In Australia, falling export demand led to a sharp decrease in exports with signs of recovery only being felt after 1932 with the gradual price increments in products such as meat and wool (Lewis, 2006). The effect on the Japanese economy was only marginal due with a drop of only 8% in production being experienced over similar periods (Lewis, 2006). In fact, the Japanese production capacity is known to have doubled during the 1930s. This was made possible by their monetary policies that saw their deficit spending channelled towards their military spending and the control of inflation. Significant spending was also dedicated to encouraging the growth of local industries.

Similar changes were observed during the Global Financial Crisis which triggered the drop in production in the financial sectors and other major businesses globally. This necessitated the bailout by governments on major banking houses as well as leading companies in order to ensure sustained productivity as was the case with General Motors in the United States (Strunk and Case, 2008). The reduction of disposable income by consumers occasioned by the losses incurred in the stock markets, unemployment and consumer apathy also caused significant drop in consumption levels further pushing up the effects of the crisis.

3.2. Foreign Trade

Foreign trade was affected by the three forms of economic crises in different ways. This was mainly due to actions taken by governments to strengthen their domestic economies. Protectionist policies were adopted by many countries following the rapid decline of farm prices that were sparked by the Long Depression (Barth, Trimbath and Yago, 2004). The concepts of free trade were largely rejected with countries such as France introducing punitive tariffs to curb the inflow of farm produce from entering their domestic markets. Similar approaches were taken in Germany with Italy entering into a bitter tariff war with their French counterparts. Political events were also greatly influenced by the Long Depression with Benjamin Harrison winning the USA presidential election on the promise of pursuing protectionist policies (Glasner and Cooley, 1997). Only two countries namely the United Kingdom and the Netherlands had maintained their low tariffs during this period. The significance of these measures was felt in the global merchant marine fleets which are known to have experienced dismal growth during the Long Depression with a boom only been experienced prior to the global military crisis that ensued.

The Great Depression also led to the occurrence of similar drops in international trade. The Australian economy was greatly affected by falling international demand which greatly reduced the amount of farm products and textiles that they could trade internationally (Lewis, 2006). Canada on the other hand employed very stringent immigration policies that greatly restricted the movement of human capital across their borders (Madsen, 2001). This was followed by perceived hostility towards foreign products, a move seen as essential on promoting the growth of local industries. In Chile, export earnings dropped significantly with the earnings dropping by 27% from the levels experienced in 1929. According to a survey done by the League of Nations, Chile is believed to have been the hardest hit by the Great Depression. This is because Chile had at the time been relying copper and nitrates exports which had been accounting for a whooping 80% of the government revenue (Harold and Lee, 2004). This shock prompted the Chilean government to seek measures that could strengthen their local industries in order to cushion themselves from any likely negative developments in the international markets. By 1939, the Chilean government had put in place mechanisms to provide local industries with subsidies as well as directing investments in strategic industries (Rosenof, 1997). Protectionism also took centre-stage with most tariffs being hiked in a bid to prevent the entry of cheaper products. This measure was similar to the one taken by most of the other Latin American states. This greatly impeded international trade. The effects of the Great Depression that were felt in France paled in comparison to other countries in Europe and the USA. The French economy had been quite self sufficient and was therefore not greatly affected. However, there was experienced a rise in the levels of unemployment which caused grave political upheavals at the time. Perhaps on of the countries that seemed to register relative gains as a result of the Great Depression was Japan. Having pursued monetary policies that saw their inflationary pressures stabilised and their currency undervalued, the Japanese products became more affordable in the international markets and were able to displace the British textile products from the international markets. This greatly contributed to Japan's recovery with analysts holding the view that the country was out of recession by 1933 becoming one of the first countries to pull out of the depression (Bernanke, 2000). The United Kingdom was the most significantly affected by the Great Depression which in one way or another ended their economic dominance as evidenced by their leading corporate organisations around the world. The UK experienced a sharp decline in exports occasioned by falling international demand. By 1932, the export earnings in the UK had already dropped to 50% of the pre-depression period (Harold and Lee, 2004). This would not recover until the onset of the World War II. The introduction of protectionist policies in the USA was signalled by the approval of the Smoot-Hawley Tariff Act which was intended to raise tariffs on most of the imported goods. The aim of this act was two fold: it helped increase government revenues; and it helped encourage the consumption of American made products by making imports more expensive (Gauti, 2008). This measure was however taken negatively by America's trading partners who introduced retaliatory measures. This further impaired international trade and led to the worsening of the depression.

The Global Financial Crisis is the most recent of the three forms of economic recessions that took place in different periods. This crisis was triggered by a collapse of the real estate which was triggered by the collapsing of the housing bubble in the USA. The falling international demand saw a sharp decline in the export earnings in most countries with most of them experiencing nil or negative economic growth during the same periods. The effects of this crisis on the real sector needs to be emphasized, especially its effects in the developing world deserve attention. In Table 2, it is tried to show the relation between the percentage changes in export income and growth rates in 2007 and after, especially by 2009 in which the crisis deepened.

Table 2: Export Earnings and Economic Growth

Country	Earning 2007 (Billion $)	Earning 2009 (Billion $)	Growth 2007 (%)	Growth 2009 (%)
Algeria	55,6	43,7	4,5	2,2
Bulgaria	8,5	4,3	6,2	-5
Georgia	2,1	1,8	12	-3,9
Pakistan	19,2	18,3	5,3	4,1
South Africa	20,6	11,3	5,1	-1,8
Taiwan	215	203	5,7	-1,9

Source: www.indexmundi.com/g/g.aspx?v=66&c=ag&l=en (Retrieved 02.05.2012)

The Global Financial Crisis may be seen as the spotlight that shed light on the global nature of economic systems with the focus shifting towards cooperation between foreign governments in regulating the financial practices in their respective domestic economies. The efforts of the USA government in bailing out their failing financial institutions were accompanied by calls for other countries especially those in Europe to do the same. This was in recognition of the fact that the economies were integrated in such a way that no meaningful recovery could be made where some major economies remained behind. Weaknesses of the financial regulatory frameworks were also focussed upon with international cooperation witnessed in the pursuance of sound policies to employ in ensuring the structural weaknesses that had the plunged the world into the crisis was amply dealt with. Countries that have been known to maintain tax havens and a measure of secrecy in their banking systems were called upon to pursue transparency and accountability measures, a recommendation that most of them agreed to after considerable international pressure (Nanto, 2009). This was viewed as one of the measures to encourage financial accountability across the world- given the global nature of financial transactions that had seen the movement of capital and money move across national borders almost unchecked. The drop in international trade was however purely due to falling international demand. Countries across the world seemed reluctant to pursue protectionist policies in fear of retaliation from the trading partners (Kohler and Chaves, 2003). Analysts view this factor as one of the main reasons for the quick recovery. As would be observed, the Global financial crisis barely lasted for 2 years. This pales in comparison to the other depressions which spanned across decades and brought prolonged human suffering, presumably due to the engagement of protectionist policies that gravely impaired foreign trade.

3.3. GNP and GDP

One of the ways of monitoring the impact of various phenomena in an economy is through the monitoring movements in the Gross Domestic Product as well as the Gross National Product.

The Long Depression saw a steady decline in the GDP and GNP of most countries in Europe. The French economy was greatly affected by failing international ventures mainly in the rail roads. The French recorded a steady decline in their net national product over a period of ten years that ended in 1892. The impact in the USA was unlike other countries due to the fact that production in the USA was on a steady rise. Analysts hold the view that the USA only suffered depression in profits during the Long Depression. The net national product was on a steady increase at a rate of 3% per annum from 1869 to 1879. The real national product also registered growth at the rate of 6.8% in a similar period. The per capita net national product was however undermined by the population growth in the USA which stood at 17.5% over the same period of time (Musson, 1959).

The Great Depression was similarly characterised by slowing growth in GDP and GNP. In Canada, the total GDP fell to 56% of the pre-depression levels. The effects felt in Chile saw their GDP fall by 14% with their mining income dropping by 27% and their export earnings taking a dip by 28%. The Japanese economy shrank by a dismal 8% (Gauti, 2008). It was one of the least affected economies by the Great Depression. These minimal effects were facilitated by the proactive measures taken by the country through deficit spending that was channelled towards military spending and stimulating investments. The Soviet Union managed to escape the adverse effects of the depression thanks to their newly embraced Marxist principles in the running of their economy (Bernanke, 2000). In the UK, falling GDP and GNP was mainly as a result of declining international demand as well as the better performance of Japanese exports in markets that were previously a reserve of the Great Britain.

The Global Financial Crisis also caused similar effects in the global economy. Most countries that had been on a stable growth rate experienced stagnant growth with most countries experiencing a fall in the GDP. For instance, the first quarter of 2009 saw the annual rate of GDP decline in Germany rise to 14.4%. The rate in Japan was 15.2% with the UK experiencing a 7.4% decline over the same period. Statistics also indicate that the Euro area, Latvia, and Mexico exhibited declines at the rates of 9.8%, 18% and 21.5% respectively (Merrouche and Nier, 2010). Similar movements were observed in some of the developing countries whose steady rates of growth greatly reduced or were ground to a halt as a result of the Global Financial Crisis. An example is the Cambodian economy whose GDP growth rate reduced to zero from a strong 10% in 2007 (Chan, 2011). These GDP reductions may be attributed to falling demand that led to falling trade levels, reduction of investments, falling commodity prices, and a reduction of remittances by migrant workers.

3.4. Stock Exchange Indexes

Stock markets provide a reliable indicator of the economic well being of most economies. It is therefore one of the markets that often signal the starting or end of an economic recession.

The Long Depression was first detected upon the collapse of the Vienna Stock Exchange (VSE) which prompted its temporary closure on May 10, 1873. Upon reopening, a temporary return of confidence was experienced. The economic panic would later hit the USA as evidenced by the collapse of the NYSE in September of the same year (Glasner and Cooley, 1997). This was then followed by a second collapse of the VSE signalling the beginning of the Long Depression. The stock market indicators were also useful in signalling the beginning of the Great Depression of the 1930s. The stock market crash of October 29, 1929 on the infamous *black Tuesday* signalled the beginning of the Great Depression. Similar observations can be made about the Global Financial Crisis. Even though the genesis of the recession was the housing bubble in the USA, the crisis was only triggered after the crisis hit the stock markets. The collapsing of the housing bubble resulted in the plummeting of securities that were tied in to the real estate. These resulted in rapidly falling stock market indexes across the world. The US stock market had been at its best performance in 2007 with the Dow Jones Industrial Average index topping the 14,000 point mark. This index rapidly declined to a low of 6,600 points in 2009. This was clear indication of the economic decline over that period. This index had recovered to top 12,000 points in the first half of 2011 indicating a likelihood of complete recovery. Stock market indexes provide reliable indicators of economic performance as can be illustrated by the poor stock market performances over the last global economic recessions. For instance, the stock market index in the USA dropped by 54.7% in the first 17 months of the Great Depression with a subsequent fall by about 89% over a similar period of time (Krugman, 2009).

In Table 3, it is tried to show the figures of the period of 2007 (when most of the stock exchange market reached the highest level all over the world), 2009 (when the crisis deepened at most of the countries) and today. At this stage the reason why the Long Depression and Great Depression are not mentioned is because for the subject period there is not enough comparative stock exchange market index datas found.

Table 3: Stock Exchange Indexes

Country	2007	2009	5/2012
United States (Dow Jones)	14164	6547	12529
United Kingdom	1989	368	1010
Germany (DAX)	8151	3588	6250
Italy	28500	17215	12380

3.5. Unemployment

Recessions are closely related to unemployment levels due to their ability to influence the amount of human capital that can be engaged in production. Declining demand forces organisations to scale back their levels of production making it necessary to lay off some of the human capital resulting in unemployment (Klein, 1947). General trends can be observed in the rise of unemployment levels in most countries during global recessions.

The Long Depression shows that about 25% of the American workers were out of work in the period spanning between 1873 and 1874 with a national tally of 1 million people becoming unemployed over that period alone (Eichengreen, 1992). The unemployment effect in the Long Depression was however not as severe as that in the Great Depression and the Global Financial Crisis due to the fact that the Long Depression had been occasioned by increased production occasioned by the second Industrial Revolution. The Great Depression caused the rate of unemployment in Australia to reach the record highs of 29%. This rate resulted in the rising incidents of civil unrest occasioned by rising frustration among the consumers. Similar trends were observed in Canada with the unemployment rates rising to 27% in 1933 (Romer, 1992).

The rapid drop in the Chilean GDP also resulted in sharp rises in the rates of unemployment by 1932. The Great Depression also signalled the stopping of the USA funds that were being donated to help rebuild the German economy causing Germany to face the full brunt of the depression. Unemployment rates soared with the most unemployed persons being concentrated in the larger cities. The unemployment rate in Germany topped the 30% mark in 1932. Similar trends were observed in the UK where 20% of the insured workforce had lost their employment by 1930 (Bernanke, 2000). By 1933, 30% of the Glaswegians had joined the ranks of the unemployed with unemployment rates in selected cities topping 70% occasioned by a 90% decline in ship production. The USA was also hit by unemployment during the Great Depression. The unemployment rates rose from 23.6% in 1932 to over 25% in 1933 (Gauti, 2008). This led to a decline in the disposable incomes in the economy and a rise in the default rate in the financial institutions, a situation that only worked to worsen the severity of the depression. The recovery in the US economy was achieved by the 1936 even though unemployment rates remained a little higher than the pre-depression period at around 19% (Madsen, 2001). The USA government introduced various programs to deal with unemployment, a measure that resulted in the dropping of unemployment to just about 2%.

Similar trends were observed during the Global Financial Crisis. The massive failures by banking institutions and other businesses made it necessary for the businesses to conduct massive layoffs that led to a sharp rise in the unemployment levels on a global scale. The rate of unemployment had risen to 10.1% by 2009. This was the highest rate or unemployment in the USA in a period of three decades. Massive layoffs were also witnessed in much of Europe with the UK and Germany raising their unemployment rates significantly. Global unemployment levels are estimated to have affected about 210 million people in 2009, a 30 million increase from the 2007 levels (Norris, 2011). This led to the introduction of empowerment policies aimed at cushioning the economies against the effects of rising unemployment. Such measures included wage subsidies, tax reductions, and direct job creation efforts.

3.6 Real Wages and Wealth

Real wages were affected adversely by the Global Financial Crisis with most of the developed countries recording negative growth rates in the year 2009. This movement is however varied and is determined by the stage at which the countries mentioned were in the recovery path at the time of the data collection.

Table 4: Real Wages and Wealth

	Location and Type of Country	Country/Territory	Growth of Real Average Monthly Wages, in % p.a. 2000-2005	Growth of Real Average Monthly Wages, in % p.a. 2009
1	Europa - Advanced Country	France	0.6	-0.8
2	Europa - Advanced Country	Germany	-0.4	-0.4
3	Asia - Advanced Country	Japan	0.7	-1.9
4	Asia - Advanced Country	Korea (Republic of)	4.4	-3.3
5	Europa - Advanced Country	United Kingdom	2.3	-0.5
6	America - Advanced Country	United States	-----	1.5
7	Africa - Newly Industrialized Country	South Africa	-----	3.5
8	Asia Newly Industrialized Country	China	12.6	12.8
9	Asia - Advanced Country	Hong Kong (China)	-----	-2.9
10	Latin American and the Caribbean - Newly Industrialized Country	Mexico	3.3	-5

Source: Donnelly and Embrechts, 2010. *The Devil is in the Tails: Actuarial Mathematics and the Subprime Mortgage Crisis*, ASTIN Bulletin, 40(1), 1-33.

Recessions often result in the net worth of investments in any given economy. A glimpse into the developments in the USA reveals that an average of 25% of the net worth of the players in the US economy had been lost by November 2008. This was followed by a 45% drop in the S&P 500 Index from its 2007 levels (Donnelly, Embrechts, 2010). The dropped of the prices in the housing industry was also an indicator of the loss of the net worth of the real estate owners in the economy. Total Home equity dropped from $ 13 trillion to $ 8.8 trillion between 2006 and the mid-2008 (Nanto, 2009). Similar trends were observed in the value of retirement assets whose total value dropped by 22% from $ 10.3 trillion to $ 8 trillion within a similar period. The estimated total loss of value for assets in the US market is estimated at $ 8.3 trillion.

3.7. Politics

The influence of politics and government is crucial in determining the ease with which economies can recover from economic downturns. This is in line with the Keynesian economists who hold the view that government policies must of necessity be employed to ensure that the economies function at their optimum (Klein, 1947). Democracies worldwide made decisions based on the policy inclinations of the candidates vying for elective offices. An example of the influence of political inclinations is viewed in the manner in which countries around the world dealt with the various recessions that hit at different times. For instance, the tendency towards nationalism was common with the majority of the populations preferring to elect leaders whose policies leaned towards the protection of the domestic markets (McMurtry, 1999). The influence of this inclination can be observed in the manner in which most countries took to the adoption of protectionist policies after the Long Depression and the Great Depression. For example, in Germany, popular revolts took place to protest the entry of cheap products into their economy. This forced the president in 1879 to adopt protectionist policies in line with the wishes of the German citizens. Similar patterns were observed in France where President Adolphe Thiers was forced to prove his reform credentials by doing away with the free trade preferences of his predecessors (Rosenberg, 1943).

In the USA, protectionist policy formed the thrust of the campaign policy in the 1888 presidential election. President Benjamin Harrison was elected on the basis that he would seek to protect American industries by pursuing protectionist measures (Rosenberg, 1943). Unemployment level is also one of the key political issues that transcend the confines of economic status. Political leaders around the world have on oft times been hard pressed to do everything in their power to ensure that unemployment levels are reduced to the bare minimum. This debate has often been one of the key campaign issues in most democracies in the world. Unemployment and indeed economic stagnation has in many cases resulted in civic unrest- a key concern for political leaderships across the world. A good example is the Australian civic unrest of 1932 which were done to protest rising unemployment and poor economic conditions (Lewis, 2006). The rise of the socialist popular front in France was also triggered by unemployment and poor economic conditions (Rosenberg, 1943). This explains why politics is part and parcel of economic management. Any failure to resolve arising issues amicably often leads to serious repercussions from the voters. Having taken the decision to abandon capitalism and adopt Marxist theories in the running of their economy, the Soviet Union was largely unaffected by the economic crisis. The countries that were hit hard were mainly those that had embraced capitalism in the management of their economies. The influence of political mindsets is also evident in the manner in which the Global Financial Crisis was dealt with in the late 2000s. Having come at a time when globalisation was gaining acceptance around the world, there was little pressure to pursue protectionist policies (Krugman, 2009). The end result was a coordinated effort that saw most developed countries taking similar policy measures to alleviate the effects of the financial crisis and to strengthen regulation in the financial institutions in order to minimise the chances of such causative bubbles in the future.

3.8. Similarities and Differences

The Long Depression, the Great Depression and the Global Financial Crisis have several factors in common. To start with, these three recessions originated from the USA and Western Europe. The Long Depression was triggered by an economic panic that saw the rapid decline in the NYSE as well as the VSE (Musson, 1959). The crisis mainly affected the developed world with some countries such as Japan only facing marginal impacts on their economy. The Great Depression was also triggered by the collapse of the stock market in the USA (Gauti, 2008). This triggered an economic meltdown that quickly spread across the world only to end at the onset of the major military conflicts of the 1940s. The Global Financial Crisis was also triggered in the USA by the rapid devaluation of securities that were tied to the real estate due to a collapse in the bubble in the housing sector. This triggered massive closures of major businesses and financial institutions as well as a crippling of the financial sector prompting the government to engage in massive bailout programs for the affected businesses. The second similarity is that the effect of the recessions was felt worldwide. Even though the crises started in a particular part of the world, the effects were felt globally. The decline in consumer demand affected the international market leading to depression even in countries that had little to do with the crisis. This can be observed in the seeming uniform movement towards the increase in the rates of unemployment in different countries around the world. The slowing in the growth of GDP was also felt globally with most countries either facing a decline in GDP or slowing growth. For instance, during the Great Depression, the UK economy experienced a 50% slump in GDP while Cambodia saw its growth fall for a 10% growth rate in 2007 to zero in 2009 (Chan, 2011). The other major effect of the recessions that is common to the three recessions is in the manner that they have highlighted the role of politics and political leadership in the economic management in various countries. Issues to do with unemployment and suppressed economic growth go to the heart of the welfare of the societies. This fact informs political debates around the world with the candidates seen to be most capable of managing the economies often getting the big nod from the voters. The interventions by governments further underscore the fact that the operation of free markets can not be entirely left to the market due to certain market inefficiencies that may inhibit the performance of such markets as desired (Klein, 1947).

The three crises were however caused by different circumstances and lasted for varying periods of time. The Long Depression was caused by a panic in the markets followed by advancement in production techniques that saw the level of products available in the market surpass demand for such products (Glasner and Cooley, 1997). An example is the doubling of iron production which led to the halving of the prices. The Long Depression was triggered by a series of events which alternated between the USA and Europe. The Great Depression on the other hand was triggered by a crash in the US stock market in a categorical event on the renowned *Black Tuesday* (Gauti, 2008). This categorical event market the onset of the Great Depression which quickly spread to the rest of the world. Even though the Global Financial Crisis was closely linked to the decline in the US stock market, the underlying reason was mainly the bubble in the housing sector and unregulated practices in the banking sector that saw a rise in defaults leading to a credit crunch in the financial institutions. The periods that the recessions lasted also varied significantly. The Long Depression spanned across two decades from 1873 to the late 1890s (Fels, 1949). The Great Depression also spanned across a decade having been triggered in 1929 and ending in the early 1940s (Romer, 1992). On the other hand, the global economic crisis struck with a ferocity not witnessed in the previous two global recessions. The other major difference can be observed in the approaches that the countries affected chose to deal with the crises. While protectionist measures were taken in response to the Long Depression and the Great Depression, policy makers around the world sought to create an atmosphere of international cooperation in recognition of the fact that faulty financial systems in one country could potentially adversely affects economies beyond its national borders.

At tis stage, the Great Depression and the Global Financial Crisis will be compared, but the Long Depression will be held out of evaluation except one point. This has two basic reasons: First one is that the Long Depression followed different process and ended in different periods, at different countries. For example, while in 1879 American economy returned to its old condition, in United Kingdom since 1896 there was not any distinctive healing. Secondly, we don’t have enough healthy data about the Long Depressiın to make comparisons.

Below the studies of Rogoff and Reinhart (2011), Bordo,Goldin and White (1998) and Cecchetti (1992) are put into account and following a general evaluation is put forward.

While, the Long Depression spread to whole world after a collapse at the VSE initially, both the Great Depression and the Global Financial Crisis were American rooted and then they became global events.

While industrial production reaches the peak in July 1929 and December 2007, both two crises started in 12 months after the peak level. When we look at the world trade volume angle, the regression which has lived at the beginning of the Global Financial Crisis was faster compared with the regression of Great Depression. On the other hand, while protective measures were taken to protect domesti market in the Great Depression, no such regulations were made in the Global Financial Crisis.

When we look from the angle of money and finance politics, while in the Great Depression process the implimented finance policy was surprisingly good working, in the present crisis period the money policy is more effective. In the period of the continuing from the angle of rapid implimentation of and effectiveness important implimentation were lived for both of the policies and by June 2011 international industrial product and trade became more stabil.

When ongoning crisis, the regression of industrial production was lower than the Great Depression. In Great Depression period the industrial production was denied in European and North American countries basicly, however today, addition to these countries, Latin American, Asian and the rest of developing countries. In the Great Depression period, the decrease in 1929-Q4 and 1932-Q3 period was 36%, on the other hand in the 8 month period pf April 2008-January 2009 the decrease was 20% and that was all.

Where theme were two collapses in the Great Depression (the second was in 1931), today such a situation does not occurred yet.

In the ongoing the Global Financial Crisis period, the currency regimes of all big economy countries. In the first group, the countries who make regulations with money councils (Hong Kong and Bulgaria), in the second group the ERM II countries whose domestic currencies move related to the other currencies (Denmark and Baltic Countries) take place. On yhe other hand, in the Great Depression, the countries who were dependent to gold standards could not be able to develop money policies and forced to make financial regulations. At this period, various implementations such as gold block and sterling areas took place.

The evaluation is continued in the distiction of USA who is mentioned as the biggest economy of the world, it is possible to make this short one: In the Great Depression GDP decreased to 27% and the general level of prices decreased to 25.5%, and unemployment rate increased to 25.2% from 3.2%. Stock Exchange Market decrease to 41 from 381, in other words there was a loss of 90%. With the conjunction of the Global Financial Crisis in the period of December 2007-October 2009 GDP decreased by 4.1%, general level of prices increase by 2.5% and unemployment rate increase to 10.1% from 5%. Stock Exchange Market decreased to 6000 from 14.000, in other words there was a loss of 58%.

4. Conclusion

Depressions are known to cause adverse impacts on the economies affected. These effects are often felt in the changing rates of unemployment, falling levels of productivity, low or declining GDP and GNP, as well as suppressed prices of products. The three major global economic recessions namely the Long Depression, the Great Depression and the Global Financial Crisis are known to have affected the globe irrespective of the cause of such depressions. The Long Depression which mainly affected the USA and Europe is believed to have been caused by increased production which saw supply exceed demand leading to general falls in the price levels. The Great Depression on the other hand is believed to have been characterised by rising levels of unemployment and reduction in the productivity levels across the world with most countries experiencing significant declines in their GDP. The Global Financial Crisis on the other hand mainly affected the financial institutions with the effect quickly spilling over to stock markets across the world. The short-lived crisis led to high levels of unemployment as well as falling productivity, a phenomenon that forced governments across the world to engage in deficit spending in a bid to rejuvenate their economies. It also helped underscore the importance of taking coordinated actions across national borders as well as the importance of maintaining free trade even in the face of economic crises.

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