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THE GREAT DEPRESSION AND THE CONTEMPORARY GLOBAL ECONOMIC CRISIS. A COMPARATIVE APPROACH

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Abstract: *The present society has had its share of misfortunes of natural, social and ideological nature. However, one of the greatest fears within the human mind in the contemporary world is the economic crisis and this is because the idea of 'money' has gained a spectacular power. Once again we face this danger. Many solutions have been suggested in order to overcome the situation and many have failed. Therefore, there is high time for an in-depth analysis of the real causes regarding this event and this can only be achieved by looking back in time to a quite similar issue, that is the 'Great Depression'. This comparison between the two might offer us not only a greater knowledge and a better understanding of this phenomenon, but also a 'bullet-proof' solution, exactly what the world is searching for at present. Certainly, there are both similarities and dissimilarities between the two, but the thoroughgoing study might offer us new views upon the previously mentioned topic. The economic development in society, before and after the crisis, the steps followed in both cases, the real causes that have led to depression, all these are important aspects which should be taken into consideration when dealing with this comparative analysis. A diachronic approach, history itself might help us to identify the answers we are looking for.*

Keywords: *society, economic crisis, causes, results, historical approach, solutions.*

1. INTRODUCTION

The present society has found itself in a rather difficult situation since 2007 and there still are some countries that are struggling in their attempt to overpass the current state. This danger has a name and it is called the economic crisis.

Many theorists called it the modern crisis, but we have to disagree, because we believe that there are not so many surprises between today's crisis and the *Great Depression* and

we will try to demonstrate this point in the present paper.

Certainly, society has a nature that is in a continuous change and there are many factors that could determine an entirely different development of the crisis, but it seems that there are more similarities between the two happenings than there are differences. In our attempt to identify these elements of resemblance, the most important aspects taken into consideration will be their similar nature and development.

2. SIMILAR ELEMENTS

2.1 Origin

At this particular moment, the world needs to be aware of the fact that society itself may very well be the main cause, the origin of this problem, both now as well as in 1929-1933.

It is a well-known fact that society develops in an economic system, the two cannot be separated and they influence each other to the same extent. This idea is important because there were many economists who agreed on the fact that we can certainly name both the modern economic crisis and the *Great Depression* capitalist crises.

Thus, the main fault is that of the economic system. The idea is quite accurate, if we take into consideration the fact that capitalism was found at a starting point in both cases.

While in 1929 capitalism was making its way inside the American economy, being on the verge of changing the entire perspective from which we understood the economic system, thus society was gaining a new dimension, at present capitalism is changing into what we can call now the global version of capitalism.

Therefore, the economic crisis, according to many experts in this domain, appears in such moments, as a natural stage in the implementation of the new concept. Capitalism was not well-viewed upon from the very beginning, being considered as a superficial and problematic system.

But a question still remains: Why did we continue in adopting the capitalist system, if we saw the effects? The answer is rather simple: because we lack an alternative, because no one has identified a stronger view upon economy so far.

According to Krugman [2], this situation will not last forever and certainly, there will appear new ideologies, new dreams; and this will happen soon, rather than later if the current crisis persists and deepens. For the time being, capitalism reigns unchallenged in the world.

2.2. The Global Nature of Both Events

The global aspect of the two crises is the same in effect, but different in cause. Once an

economic crisis overpasses the borders of a specific territory, it is more difficult to keep it under control.

Therefore, it is preferred that this kind of problem is taken care of as quickly as possible. The causes are truly distinct. In 1929, we could not talk about global society, the concept of a global economy could not even be imagined, but there was a certain aspect that seemed to lead in this way, that is, *the gold standard*. This is up to a certain point the ancestor of the globalization instruments. The countries that gave it up, recovered from the crisis more rapidly.

On the other hand, America defended the system and endured one of the strongest crises in the economic history. The *gold standard* means that bills in circulation are covered by an amount of gold. The gold would leave the United States of America in case dollars were used outside the country. Because the problem began in America, the amount of dollars used abroad diminished considerably.

The present crisis developed in a different setting, but with the same effect. The danger of this event spread rather quickly because we are dealing now with a global economy, a global society and any wrong decision, taken in America for example, can affect Germany or France or even smaller countries like Romania. This only led to the worsening of the economic situation, transforming a moment of economic downturn into a tragedy.

Indeed, the instruments were definitely not the same, the context in which the two events occurred is not similar.

What is more interesting is that there can certainly be identified here a clear difference between the two. But what is important is the effect, which is identical. From a '*garden crisis*', it turned into a global tragedy.

2.3. Similar Development

According to Hrebenciuc [1], by studying the crises throughout history, we can notice that all of them follow the same pattern, the only significant difference being that almost every time we find a new support or asset on which to overbid.

The *Great Depression* surprised the entire world with its power and tremendous force



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and it turned from a common economic downturn to a true tragedy. Society did not learn much from this, because the same happened in 2007 when, even though there were some that had foreseen the crisis, the world was totally surprised by the event. This could be also the cause for the fall of many businesses, which appeared to be doing well.

If in 1929 the problem regarded the uncoated stocks, in 2007 the property frenzy seemed to fit perfectly the role of the speculation bubble. In both cases, we are dealing with a speculation bubble, a quite severe one. After the fall of these markets, the share market as well as the property market, the development of these events seemed to be almost identical, leading to another similarity.

It all began in that well-known historic moment, the *Black Thursday*, on October 29, 1929, when 12 million stocks were put on sale. It is worth to mention that in that period of time, many people in search of a quick gain usually bought these shares with loans secured by a fraction of shares. Therefore, the price dropped considerably.

The banks were strongly affected by this happening, the first impulse of many being serious withdrawals. Actually, the starting point of the entire tragedy was the bankruptcy of important and apparently safe businesses like the General Bank, followed by 'Bercovici' Banks.

From that point on, all the other domains felt a powerful decrease in the level of production. And of course, the domino effect led to unemployment, poverty, despair and eventually social crisis.

Analyzing the year 2007, the 'zero' moment in the current crisis, it can be noticed that the steps seem to be perfectly copied.

There is the speculative bubble, the basic need for a property, which soon managed in becoming a luxury for many, due to the high prices encountered on this market. Even though we are dealing with another type of temptation, there is something of a great importance that is worth to be mentioned. The way in which many properties were purchased was based, just like in 1929, on a loan culture. This means that the person who wanted that particular object did not have the necessary amount of money to acquire it, thus the bank offered a loan. In both cases, when the bubble burst, the banks would suffer the most.

This type of crisis usually takes advantage of one of man's greatest defects, greed. This is why in the end we managed in building certain bubbles and the system that we created helps us in these times, only later to realize the terrible consequences of our actions.

Another aspect worth mentioning once again proves that people never learn from their past mistakes.

Before the crisis in 1929, changes had been made by economists, who speculated the earnings of a loaning company. The conditions for granting a loan were less harsh.

In 1999, through the Graham-Leach-Bliley Act, the same thing happened, thus setting the perfect context for a crisis of such a magnitude to develop properly.

2.3. Solutions

Trying to identify the perfect solution would manage to end the misfortune. This is exactly what happened in the case of the *Great Depression*. Besides the fact that America had a complex program, the *New Deal*, which addressed the problems accurately, there is another aspect that represents the key in this

matter. The Glass-Steagall Act refers to the crisis from a different perspective, that of a banking crisis. Therefore, for the society to recover, the banking system had to be reformed. The two congressmen who sponsored the act tried to fight problems, such as interest rates, combined economic activities realized by the same banking institution and so on.

The Banking Act of 1933 made a huge change in the way in which banking activities were performed. Before this act, America chose the German banking system which allowed a bank to engage in two very different areas of expertise, commercial and investment banking.

The Glass Steagall Act built the reform on this particular change, passing over to the English model, which separated the two, considering the association as being risky and dangerous. It is still considered as one of the most important financial acts, even though the banking community manifested a negative attitude towards it.

Because the banks had access to the deponents' money, they invested considerable sums in the commercial activities, such as: insurance business or shares. In a moment of crisis, people panic and their first reaction is to withdraw their money, but once they are invested, the banks find it difficult to satisfy the demands of their clients. It is now when a financial crisis begins. This danger can be avoided only if a bank chooses its status. It can either deal with deposits or investments.

Because of this reform, the entire financial system recovered from the depression and it is worth to mention that this act enforced the system, keeping the society away from similar dangers.

However, in 1999, through the Gramm-Leach-Bliley Act, sections 16 and 17 were taken out of the Glass Steagall Act, the action being motivated by the fact that this was keeping the American economy from growing and also that many other countries have a combined banking system. The next thing that happened was the present economic crisis.

The connection is relevant because the Obama administration, being in the middle of the disaster, was forced to find a strong

remedy, looking back in time. Due to this analysis, a new act was made, which is very similar with the Banking Act of 1933 (The Glass Steagall Act). It is called the Dodd-Frank Law.

According to the Dodd-Frank Wall Street Reform of 2010, *'the failures that led to this crisis require bold action. We must restore responsibility and accountability in our financial system to give Americans confidence that there is a system in place that works for and protects them. We must create a sound foundation to grow the economy and create jobs'* [5].

What the act really does is rather simple. It mainly restores the powers of the two very important sections of the former Glass Steagall Act, 16 and 22, which forbid the association of commercial and investment activities, performed by a single banking institution. It also deals with problems concerning consumer protection, ends the famous *'too big to fail'* bailout and it sets up an advanced warning system.

This idea - *'too big to fail'* - is another aspect that the banking system has inherited from the *Great Depression*. It is actually an attitude towards strong banks, or at least apparently strong, which having serious problems are saved from bankruptcy by the state. This happened in 1929-1933 and in 2008.

It is worth to mention that the Banking Act of 1933 and the Dodd-Frank Law stand as a proof of the resemblance between the two economic scenarios. They represent very accurately the solution to the same problems.

2.4 Other Similarities

Throughout the paper, the major common aspects have been identified, but beside them, there are other smaller points in which we can find the importance of such a comparative analysis. For example, the most obvious one is the geographical setting of this disaster: the United States of America. It is not a coincidence, the American economy is one of the strongest economies in the world, if not even the strongest one, it is one of the largest countries and with the largest population. It is understandable why the effects of this crisis as



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well as those of the *Great Depression* could have such a powerful effect.

Also, both crises developed from a financial one to an economic one and managed in producing several social crises, unemployment, poverty being one of the most appropriate contexts of such problems.

It is a known fact after all that an economic crisis is very much connected to a conflict and in this case it can be discussed the importance of World War I, the 1920 America being a postwar country, the Cold War, the multiple terrorist attacks in modern America.

The most important consequence, the economic crisis in general, is a clean rather safe, healthy new economy, because a powerful crisis can easily wipe out any dysfunctional businesses. *The Great Depression* set the first examples much as it could, because the system felt necessary to rescue some banks that were not at all 'healthy', not many. Still, the new economy proved to be safer than before the crisis, as the next similar tragedy came 75 years later. It is much too early to observe the new economy, there are certain signs that point in the same direction. It might be even safer, due to the Dodd-Frank Law perspective.

It is worth to take into consideration the means of propaganda because they can increase a disaster, panic the public and even worsen the actual situation. In the case of the *Great Depression*, these steps were properly followed. The newspapers increased the fear of the population leading them to major withdrawals, bringing banks in bankruptcy.

Nowadays, there are many economists who believe that the current crisis might not even be as strong as we might expect. This could be, in their opinion, the work of different

journalists, having clear purposes. In our modern society, there is another instrument used in the manipulation of minds, the Internet, having an incredible speed, information traveling very fast, almost uncontrollably.

3. CONCLUSIONS

According to Hrebenciuc, the evolution of mathematics, physics, chemistry and the social-economic and political studies can create the illusion that man can control all the phenomena existing in nature and society. In reality, this is only an illusion, which might turn into a dangerous one.

Dangers increase at the same pace as society and technology evolves. It is without question that knowledge and the good use of it remains man's priceless power.

The interest for the economic crisis has moved to a larger group, made up not only of economists, but also of common people, who have realized that any negative change inside economy affects us.

Knowledge remains in this sense the most important power that man holds, only with the use of it, we can identify the true problems inside our system and solve them once and for all.

History has given us the raw material, the connections are still to be made. This is why an analysis of the two crises is welcome and even encouraged.

With further investigations in this area, appropriate solutions may be found. It is a proven fact that by searching the nature of a phenomenon, many alternatives to solve it can be found.

The *Great Depression* and the current crisis are still a serious source of information for those who are interested.

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