



THE PROTRACTED ECONOMIC CRISIS IN THE GLOBAL ECONOMY AND WHAT LESSONS IT TAUGHT

Erniyazova Salamatovna Shakhnoza¹, Khamdamov Shavkat Kamilovich²

¹ Republic of Uzbekistan, Tashkent, "Tashkent institute of finance", student

² Republic of Uzbekistan, Tashkent, "Tashkent institute of finance", teacher

<https://doi.org/10.5281/zenodo.4717261>

ARTICLE INFO

Received: 19th April 2021

Accepted: 21st April 2021

Online: 23rd April 2021

KEY WORDS

black Tuesday, a range of crisis management tools, the mystery of the Great Depression, the invisible hand of the market, the Austrian business cycle theory, the gold standard, tight monetary policy

ABSTRACT

The countries are connected with each other, both economically and politically. Therefore, when making any decisions in the state, politicians should pay attention to how this can affect not only the economy of their country, but also the economy of nearby countries. What economic changes take place in one state are reflected in another, sometimes even a small part of political decisions can entail serious consequences, let alone if there is a crisis of a global size, like the Great Depression in 2008. This crisis has greatly affected the economy of not only a small number of countries; no, almost all countries have felt it. The purpose of this article is to study the root causes of the crisis, its impact on the economies of countries and study the so-called "mystery" of the Great Depression.

October marks 90 years since Black Tuesday. There have been many Black Tuesdays in the past decades, but for an economist, October 29, 1929 is the most important Black Tuesday in world history. The Great Depression began - an economic crisis in the United States and the rest of the world, still the largest economic crisis in peacetime. The Great Depression not only influenced the course of world history in a decisive way - without it, there might not have been World War II. In trying to explain what is happening, economists have actually re-created economics, making it one of the most important scientific disciplines of the 20th century, and developed a number of crisis management tools that governments still use today. Of course, like any mega-event, the

Great Depression gave birth - along with new theories and practice - many myths.

Economic disaster. The sharp drop in stock prices that began in the fall of 1929 was not likely to be the cause of the depression, but it is a convenient starting point. In the first three years (1929-1932), industrial production in the United States fell by 46%, in Germany - by 41%, in France - by 24%, in Great Britain - by 23%. Unemployment has grown almost 6 times in the US, more than 3 times in France and Germany, more than 2 times in the UK. The decline in production was accompanied by an unheard-of - more than 30% - fall in prices, which only intensified the crisis: the more prices fell, the less willingly citizens were to spend the remaining money, further reducing demand.



The depression affected almost all countries of the world - world trade fell by more than 50%. The grave crisis also affected those countries that were not directly connected with global markets. In Soviet Russia in 1929-1932 the largest humanitarian catastrophe in its history occurred, famine, which, according to various estimates, took away from 5 million to 8 million people. The traditional export sectors of the American industry - automobile, metallurgical, chemical - were affected. American farmers have lost a third of the markets for their products [2]. Despite the scale of the tragedy, its causes are just beginning to be fully studied - and, possibly, further research will point to the connection between the Holodomor and the global economic crisis. (For example, it is possible that the record volumes of grain forcibly confiscated from dying peasants and exported abroad in 1930-1931 were associated with a sharp drop in food prices as a result of the Great Depression - the fall in prices was compensated by increased exports.) Over the years of the crisis, the volume of foreign trade decreased threefold, the export of capital was almost completely stopped [1, p. 151-153].

The riddle of the Great Depression. The mystery of the Great Depression, which prompted the best economists to reject the then dominant economic theories, is that the slump in production, the record rise in unemployment and the rapid - by historical standards - falling prices began without major external shocks. Factory machine tools and conveyors, tractors and combines, power plants and roads have not disappeared, the technologies developed and implemented have not become obsolete, the workers have not lost any skills - everything remained the same, and production and consumption began to decline sharply. Of course, the crisis in the

stock market led to the collapse of individual banks, but banking crises happened regularly in the previous 100 years and the economy always quickly, in a year or two, returned to growth. The "invisible hand of the market" - presumably - quickly returned the economy to long-term equilibrium: business bought cheaper production facilities, hired labor at lower wages and restored production. But somehow, during the Great Depression, the recovery was delayed for many years.

Globalist: The Efficiency of Quiet Leaders. The then fashionable "Austrian business cycle theory" believed that it was a matter of inappropriate investment and unnecessary production capacity accumulating towards the end of the previous boom. The twenties in the leading industrial countries of the world were indeed a period of rapid growth in labor productivity - electrification, the widespread introduction of conveyor production, the motorization of agriculture made it possible to produce more with fewer workers. But this was not accompanied by high inflation - in the United States, the main driver of industrial progress, inflation was low in the 1920s. In accordance with the theory of a business cycle that generates "unnecessary" production, the American government at first calmly watched the collapse of businesses and banks, hoping for a healing effect of the crisis, but nothing came.

Following the same flawed logic, the monetary authorities made a gross mistake - instead of increasing the amount of money, defeating deflation and saving falling banks at the expense of extremely cheap credit, they, on the contrary, tightened monetary policy. As it turned out, the sooner countries abandoned the gold standard, an instrument for fighting inflation, which at that moment did not threaten anyone, the faster the



recovery began. The rise of protectionism has led to even worse consequences as countries rushed to impose prohibitive tariffs and other barriers to international trade. As always, protectionist measures made the citizens of the country poorer and, therefore, reduced the demand for products produced domestically. In 1933, the volume of world trade was one third of the volume of 1929.

Ninety years of discussing the mysteries of the Great Depression were not in vain. Now economists understand what “multiple equilibrium” are and what role the expectations of economic agents, citizens and firms play in determining which equilibrium, good or bad, an economy is in. Under the same external conditions, with the same level of technology development and the same level of human capital, banks can issue loans, factories can work, workers can get paid and buy products manufactured by factories. Or they may not receive a salary and not buy the products of factories, making production unprofitable and ruining the banks that issued loans.

Another way to look at the problem of the economy breaking out of bad equilibrium is through money. This view of the Great Depression is associated with the names of Irving Fisher, a Yale professor, Milton Friedman and Robert Lucas from Chicago, and already in the 21st century. - Princeton professor and Fed chairman Ben Bernanke. Fischer was the first to describe the role accumulated debt can play during a crisis: the more prices and incomes fall, the higher, relative to income, the indebtedness of individuals and firms. To pay off debt, everyone cuts expenses, thus reducing the income of everyone else. (In This Time It Will Be Different! Harvard economists Carmen Reinhart and Kenneth Rogoff showed how this mechanism has historically

hampered and slowed recovery from financial crises.) Friedman showed how the tight monetary policy of 1929–1932. amplified, rather than eliminated, the negative effects of deflation and rising relative prices for debt. Bernanke explained how Fischer's debt mechanism, which is relatively harmless on a small scale, can cause prolonged recessions when prices fall rapidly. And then he used this lesson, choosing the optimal monetary policy during the Great Recession that followed the global financial crisis of 2008-2009.

In Germany, the Great Depression and its aftermath became the backdrop for Hitler's rise to power - with dire consequences for Europe, the world and Germany itself. But in other countries - the leaders of world economic development, no less affected by the Great Depression, the collapse of statehood did not occur. In the United States, after three difficult years - the unemployed stood in lines for free soup, and in the capital, the police had to disperse the marches of veterans - Franklin Roosevelt, an energetic populist who managed to immediately change the mood of citizens, became president. Roosevelt, the president of rare - by American standards - popularity, became a kind of defense against "American Hitler." In Britain and France, systems of parliamentary government have also survived and survived the crisis, and without any charismatic leaders. He also noted that “It is completely wrong to call our measures government control over farming, industry or transport. Rather, it is a partnership between government and farmers, between government and industry, between government and transport. The partnership is not in the sense of profit sharing, since the profits will continue to go to private citizens,



but in the sense of joint planning and implementation of plans." [3, c. 37-38].

The fact that a severe economic crisis may not lead to a political catastrophe is one of the lessons of the Great Depression.

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