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Economic Crises in the 20th century: Brief Review and Comparison

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Abstract: This study aims to review major economic crises throughout the centuries, in order to see what valuable lessons can be learned from re-examining them. As the 20th century was marked by tremendous economic turmoils, that changed the world economy of today, we will focus on the Great Depression of 1929 and the Oil Crisis of 1973, comparing them also with the 21st century global crisis of 2008. Through a lens of historic and periodic analysis, content analysis, and comparative analysis, this study seeks to unravel the intricacies of these financial crises, their similarities, differences and what went wrong in each case and what role the Federal Reserve's System played in in shaping economic outcomes. The findings underscore the significance of macroeconomic imbalances, poorly regulated financial markets, and inadequate risk management in amplifying the impact of economic events. Policymakers' responses and reforms after each crisis are examined, highlighting the recurring theme of claims of increased preparedness for future scenarios. The study concludes by urging a re-evaluation of the Federal Reserve's policies, emphasizing the need for a proactive and informed approach to address potential future crises and advocating for a better understanding of the global impact of national policies.

Keywords: economic crises; 20th century, qualitative analysis**,** review and comparison
JEL Classification: G01, G18, G38

1. Introduction

Financial or economic crises have been troubling economies for years, if not centuries. They persist in echoing across time, manifesting under varied yet interconnected circumstances. Crises have been the topic of discussion for a plethora of studies throughout the years, with researches worldwide trying to find the causes, effects and aftermath of each crisis (i.e. Kindleberger & Aliber, 2005; Barro & Ursúa, 2008; Bordo & Meissner, 2016; Kirman, 2010; Choi & Douady, 2012). Characterized by tumultuous fluctuations, economic crises possess the disruptive capacity to derail otherwise robust financial systems by impinging on the delicate balance of the investment process, pushing economies away from equilibrium (Mishkin, 1991).

This paper embarks on an exploration of the financial crises that unfolded throughout the 20th century, which stand as monumental chapters for global economic history. Within this century, marked by two world wars, the global economy faced a formidable challenge in maintaining its health and stability. Consequently, a myriad of crises unfolded across various countries and periods, reshaping economic landscapes. However, we will focus on two particularly important crises of this century which changed the course of events; the Great Depression of 1929 (Bernanke, 2000; Metaxas & Trompatzi, 2015; Oana & Cosmin, 2018) and the Oil Crisis of 1973 (Merrill, 2007; Mitchell, 2010; Corbett, 2013), comparing them also to the 21st century Global Crisis of 2008 (Ivashina & Scharfstein, 2008; Schwartz, 2009). We will begin with the opening section of the 20th century, with post World War I America, and how the Great Depression occurred, collapsing the United States stock market and economy. Transitioning to the mid-century, the Oil Crisis of 1973 brought forth a new dimension to economic turmoil. Triggered by geopolitical events in the Middle East, this crisis witnessed a quadrupling of oil prices, causing ripple effects across the global economy (Akins, 1973; Oana & Cosmin, 2018; Mitchell, 2010). Fast-forwarding to the 21st century,

the Global Financial Crisis of 2008 emerged. Caused by the collapse of the high-risk mortgage market in the United States, this crisis unleashed a cascade of repercussions, exposing the fragility of financial institutions worldwide (Acemoglu, 2009; Swedberg, 2013; Schwartz, 2009).

Through a lens of historic, periodic case study and comparative analysis, this study seeks to unravel the intricacies of these financial crises. By delving into the causes, environments, effects, aftermath and governmental responses to the crises of 1929, 1973, and 2008, it aims to discern patterns, similarities, and differences. Ultimately, the critical exploration seeks to elucidate why history appears to cyclically repeat itself in the realm of financial and economic crises, offering valuable insights for future policy considerations and academic inquiries into the complex interplay of economic forces.

2. **The theory behind financial crises**

Definitions as to what an economic crisis is, vary. Based on Oxford Reference by Oxford University press, a financial crisis is a disintegration to the price of financial obligations and liabilities, which can lead to an economic collapse. It is a complex phenomenon characterized by a sudden, widespread disruption in economic activities, often leading to a sharp decline in key economic indicators, such as gross domestic product (GDP), employment, and investment. These crises transcend mere economic downturns, evolving into multifaceted challenges with far-reaching social, political, and cultural implications. In literature however, according to Mishkin (1991), views on financial crises are split into two categories. The first one being monetarists who support that financial crises derive from bank panics and their effect on the money supply, while the second one is a broader definition (Minsky, 1972), with a financial crisis involving sharp declines in asset prices, failures of both large financial and nonfinancial firms, deflations or disinflations, disruptions in

foreign exchange markets, or some combination of all of these. (Schwartz, 1986). Monetarists do not view events such as these as real financial crises, with Schwartz (1986) characterising these situations as "pseudo financial crises". Oana & Cosmin (2018) mentioned that the banking system also plays a complex role in multiple ways, acting on the overall economy, by leveraging financial resources from deposits and capital to generate profit. However, the significant diversification of their operations influences the overall economic system in various ways, as highlighted in the 2008 global crisis.

Economic crises are seldom the result of a singular event; rather, they are intricate interplays of various factors that converge to create a perfect storm. Mishkin (1991) notes that there is asymmetric information on financial crises and their consequences for the economy. His approach indicates that financial crises have greater effects compared to those resulting from banking panics. One primary catalyst is the fragility of financial systems, where interconnectedness between institutions can amplify shocks. Neal and Weidenmier (2003) concluded that each crisis case is different, depending on the government's weaknesses. However, countries prone to budget deficits were well advised not to lend freely at a penalty rate, but instead should have maintained their previous discount rates so they could lend judiciously with side conditions to only the most solvent of their customers. This did not happen, leading to risk-taking by the local banking establishment, causing damage to the country's economic growth. Poorly regulated financial markets, excessive risk-taking, and inadequate risk management practices can magnify the impact of adverse economic events. Additionally, macroeconomic imbalances, such as high levels of debt, trade deficits, and inflation, can act as precursors to crises. The intricate dance of these factors sets the stage for the unpredictable and often devastating economic crises that have punctuated the 20th century. With

two world wars and a financial system not so equipped as today, it is expected that the previous century had its fair share of crisis throughout the globe.

3. Setting the backgound in brief by period

3.1 1900 to 1950

Starting of the century, the Bank Panic of 1907 was a financial crisis that occurred in the United States (Metaxas & Trompatzi, 2015). It was triggered by a series of events, including the failure of the Knickerbocker Trust Company and a run-on banks. The panic highlighted the need for financial reforms, eventually leading to the creation of the Federal Reserve System in 1913 (Bordo & Prescott, 2019). Following this event, World War I, also known as the Great War, began in 1914 (Prior & Wilson, 2000). The conflict involved major world powers and alliances, with the Central Powers (Germany, Austria-Hungary, Ottoman Empire) facing the Allied Powers (France, UK, Russia, and later, the United States). The war saw trench warfare, new military technologies, and significant loss of life. It ended with the signing of the Treaty of Versailles in 1919. The period between World War I and World War II saw economic challenges, cultural changes, and political upheavals. The Treaty of Versailles imposed heavy reparations on Germany, contributing to economic instability. During the 1920s, there was economic prosperity in some areas (Zeitz, 2017) but that ended with the Wall Street Crash of 1929. Some believe that the Wall Street crash led to a severe worldwide economic downturn, named the Great Depression, which lasted globally for around a decade. It resulted in widespread unemployment, poverty, and a decline in industrial production (Bernanke, 2000; Metaxas & Trompatzi, 2015). Governments worldwide struggled to address the economic crisis, and the Depression had profound social and political consequences. In 1939, another major global conflict begun, World War II, which involved the majority of the world's nations, with the Axis

powers, Germany, Italy, and Japan, fighting against the Allies, consisting of the UK, the Soviet Union, China, and later, the United States (Harrison, 1998). The war saw major battles, atrocities, and the development and use of nuclear weapons. It ended in 1945 with the unconditional surrender of Germany and Japan, marking the beginning of the post-war era, in which the Cold War between the United States and the Soviet Union begun (Schlesinger, 1967). Another major event of the late 1940s, was the establishment of the International Monetary Fund (IMF) in 1944, helping economies in crises worldwide (Adams, 1983).

3.2 1950 to 1980

The 1950s were marked with the beginning of the Korean war, which lasted until 1953 (Lee, 2002). North Korean forces, backed by the Soviet Union and China, invaded South Korea. The United Nations, led by the United States, intervened to support South Korea. The conflict ended in 1953 with an armistice, but a formal peace treaty was never signed, leaving the Korean Peninsula divided into North and South Korea. From 1955 to 1975, another war was taking place, this time in in Vietnam, Laos and Cambodia, named the Vietnam War, an ‘economically trivial event' as mentioned by Riddell (1989). North Vietnam, supported by the Soviet Union, China, and other communist states was fighting against South Vietnam, supported by the United States and other anti-communist allies, making it a major conflict of the Cold War, which was still ongoing between the US and the Soviet Union (Schlesinger, 1967). The conflict was characterized by political tension, military buildup, and the threat of nuclear war and it shaped international relations for much of the 20th century, with proxy wars, the space race, and the arms race as key features. The Space Race was a competition between the United States and the Soviet Union to achieve significant milestones in space exploration (Siddiqi, 2000). In 1957, the Soviet Union launched Sputnik 1, the first artificial satellite,

initiating the space age. The United States responded with the creation of NASA (National Aeronautics and Space Administration) in 1958. A little over a decade later, the oil crisis and oil embargo of 1973 was triggered by geopolitical events in the Middle East, particularly the Yom Kippur War between Israel and a coalition of Arab states (Bernanke, 2000; Merrill, 2007; Mitchell, 2010; Corbett, 2013). This crisis had significant economic implications and prompted efforts to reduce dependence on foreign oil and increase energy efficiency.

3.3 1980 to 2000

The 1980s and 1990s were riddled with economic and political conflict. In 1987, a global stock market crash occurred. On Black Monday, October 19th, stock markets worldwide experienced a rapid and severe decline in value, remaining in history as the day with the largest stock market declines of all time (Oana & Cosmin, 2018). The exact causes of the crash remain complex and debated, but factors such as program trading, overvaluation, and economic uncertainties contributed to the sharp downturn. Despite the crash, the markets eventually recovered. The late 1980s and early 1990s are marked by the end of the Cold War, which ended with the collapse of the Soviet Union, with the fall of the Berlin Wall in 1989 symbolizing the end of the ideological divide between the communist and capitalist worlds (Schlesinger, 1967). Following Oana and Cosmin (2018) point of view, the rest of the 1990s had three important crisis. Starting with the Mexican crisis, occurring in 1994, which was triggered by a sudden devaluation of the Mexican peso, leading to a financial crisis. The crisis had widespread economic repercussions in Mexico and other emerging markets. To stabilize the situation, Mexico received financial assistance from the IMF. Then, in 1997, the Asian Financial Crisis began, when, yet again, a series of currency devaluations and financial collapses hit several East Asian economies, including Thailand, Indonesia, South Korea, and

Malaysia. The crisis was fuelled by a combination of economic imbalances, high levels of foreign debt, and speculative attacks on local currencies. Lastly, the Russian Financial Crisis of 1998, which was triggered by a combination of factors, including a sharp decline in oil prices, the financial meltdown in Asia, and domestic economic mismanagement. Russia defaulted on its debt, and the crisis resulted in the devaluation of the Russian Ruble and economic turmoil. The IMF provided financial assistance to help stabilize the situation, yet again.

3.4 2000 to 2020

The new century unfortunately begun with a terrifying event. On September 11, 2001, a series of coordinated terrorist attacks took place in the United States, when two hijacked planes crashed into the Twin Towers of the World Trade Centre in New York City (Makinen, 2002). Most of the Wall Street area had no utilities or communication services and was covered in debris and the attacks had profound and lasting effects on global politics and security. Following the attack, in 2003, the United States, supported by their allies, invaded Iraq, citing concerns about weapons of mass destruction and links to terrorism, but the aftermath of the invasion contributed to instability in the region (Hinnebusch, 2007). After some years of stability and economic growth in the United States, in 2008, a mortgage crisis due to a speculative bubble in the housing industry. This led to a severe worldwide economic downturn, causing widespread unemployment and affecting various sectors (Ivashina & Scharfstein, 2008; Schwartz, 2009). Governments around the world implemented measures to stabilize financial markets and stimulate economic recovery. After the global financial crisis, the world experienced a period of economic recovery and growth, with emerging markets playing a significant role. China, in particular, emerged as a major economic power during this period, contributing to global economic expansion (Zhu, 2012). However, there were regional

variations in economic performance. But the 2010s ended with something no one could have predicted. In late 2019, coronavirus SARS-CoV-2 emerged, starting the COVID-19 pandemic (Maital & Barzani, 2020; Estrada et al, 2020). Governments implemented various measures, including lockdowns and travel restrictions, to curb the spread of the virus. The pandemic had profound effects on public health, daily life and most importantly, economies (Reisinger & Mavondo, 2005; Ayittei et al, 2020)

4. Methodology

The purpose of this paper, as many before it, is to conduct a comprehensive review of the financial crises that unfolded in the 20th century. By investigating into the intricacies of each crisis that was previously mentioned, the ultimate goal is to unravel the systemic flaws within the global financial architecture and offer nuanced insights through some further analysis.

The basic research question of this study is what valuable lessons could we gain by re-examining such major events such as global financial crises. It is a well-known fact that history repeats itself and by delving into these phenomena, we could potentially fortify our financial systems against the recurrence of similar catastrophic scenarios in the future. This question serves as a guide to direct this paper's finds to potentially give insight and aid to policymakers, economists, and financial practitioners.

To unravel the complexities contained within each crisis, this paper's methodology consists of a qualitative approache combining case study and comparative analysis across the three selected case studies: the Great Depression of 1929, the Oil Crisis of 1973 and the Global Financial Crisis of 2008. First, with a case study analysis. Case studies can involve either single or multiple cases and multiple levels of analysis (qualitative (e.g. words), quantitative (numbers), or both (Priya, 2021;

Lindgreen et al., 2021). Following Starman (2013) point of view, case study is a ticket that allows us to enter a research field in which we discover the unknown within well-known borders while continually monitoring our own performance; scalability; and our own, as well as general, existing knowledge. Secondly, comparative study is also applied, which is a methodology of scientific research. Comparative case studies are conducted over time and emphasize comparisons within and across contexts. They may be chosen when it is not feasible to conduct an experimental design and/or when there is a need to understand and explain how context characteristics affect the success of program or policy initiatives. This information is valuable for tailoring interventions to support the achievement of the intended results. Comparative case studies involve the analysis and synthesis of similarities, differences, and patterns in two or more cases that share a common focus or objective. The rationale for selecting specific cases is directly linked to the key evaluation questions (KEQs) and therefore to what needs to be explored (Gelderblom & Trivellato, 2018; -Haupt & Kocka, 2004).

Although the focus of this paper is the crises that occurred in the 20th century, the 2008 crisis is also examined to showcase events that get repeated through the centuries. The deliberate choice of these crises is grounded in their proximity to major historical events, primarily wars involving the United States and the fact that all three of them either started or majorly affected the US' economy. Additionally, they all caused a chain reaction effect in the worldwide economy, prompting shifts in policies and cascading crises in nations with less financial stability. By comparing the events and the aftermath of these crises, we aim to discern patterns, similarities, and divergences, shedding light on their global ramifications.

It is important to be self-aware and acknowledge the limitations and weaknesses of this paper. As there is a plethora of opinions and an abundance of previous studies on the topic of what goes

wrong in an economy to cause such massive crises, it is a challenge to come to one conclusion as to their causes, due to the several divergent perspectives. Also, as this paper lacks empirical evidence and only focuses on previous studies and theories, the results of the analysis could be up for interpretation or be considered ambiguous by some.

The 20th century was marked by a plethora of intense rivalry, conflict and economic challenges, which influenced geopolitics, economies, and societies on a global scale. Although it is worth analysing the majority of the crises that took place in the last 120 years, this paper will focus on the three following.

5. The case studies

5.1 The Great Depression (1929)

The economic catastrophe that started in 1929 commonly known as the Great Depression, serves as a haunting reminder of the vulnerability inherent in global economic systems. According to Bernanke (2000) and Romer (1990), although it started in the United States, it quickly affected the worldwide economy, making it the biggest, longest and deepest downturn in the modern industrial economy. The end of the Great Depression is debated, as in a lot of countries it wasn't as severe, had less effects and had ended by 1931. However, in the United States the contraction persisted until 1933, and although there was some hope for recovery, the economy mostly remained stagnant until 1935. It was not until 1937 that a continued growth started appearing, but that was cut short with the beginning of World War II.

As the economic bloom of the 1920's came to an end, a major American stock market crash occurred in the autumn of 1929, named the Wall Street Crash. After the collapse of the shares, bankruptcies began to appear, marking the beginning of the Depression. But the association between the two is

still questionable, as there was already a recession taking place in the United States' economy, and according to Cecchetti (1997), the two events were not caused by one another, but rather hindered the financial situation. The most enduring impact of the Depression was the transformation of the federal government's role in the economy. Although the Federal Reserve existed, several policy mistakes rendered its efforts ineffective at the time (Metaxas & Trompazi, 2015)

Wheelock (1995) argued that during this time, around 9.000 banks defaulted, meanwhile following to Smiley (2008), in 1929 to 1933, 10.763 of the 24.970 commercial banks in the US had defaulted. US industrial production dropped by 47%, real GDP declined by 30%, the General Price Level Index fell by 33%, and the unemployment rate surpassed 20% (Metaxas & Trompazi, 2015).

Economists have long debated the causes of the Great Depression, with discussions in the 1980s and 1990s particularly focusing on the role of bank failures (Wheelock, 1995). Bernanke (2000) and Cecchetti (1997) specifically attribute the crisis to the actions of the Central Bank, the Federal Reserve System, and the gold standard. The gold standard, an outdated monetary system where the economic unit of account was based on a fixed quantity of gold, served as the foundation for the international monetary system from the 1870s until 1971, when the United States ended the convertibility of the US dollar to gold. Cecchetti argues that the financial system's collapse could have been avoided if the Federal Reserve had understood its role as a lender of last resort and had effectively countered deflation, which exacerbated the recession rather than providing relief. Bernanke contends that the Federal Reserve's leaders, though acting in what they believed to be the public interest, ultimately harmed the economy further due to their disagreements on the best response, resulting in the failure to implement effective policies.

At the time, the Federal Reserve's decision-making structure was decentralized and often ineffective, as the Board lacked the authority and tools to be autonomous and to understand what

had gone wrong. When governors would agree, monetary policy would be extremely effective. Unfortunately, they often disagreed, which led to confusion and potentially taking the wrong course of action (Richardson, 2013). Richardson argues that the Fed could have averted deflation by preventing the banking system's collapse or countering it with an expansion of the monetary base, but it failed to take these actions. Although Congress granted the Federal Reserve the necessary authority in 1932, allowing it to aggressively expand the monetary base, it was too late to save what had already collapsed.

In previous depressions, unemployment was caused by a decrease in wages, but for the Great Depression, that was not the case (Richardson, 2013). Due to President Herbert Hoover’s new economic policies, wages would not fall and consequently, employers started laying off workers, leading to even higher rates of unemployment, which eventually led to business failures. Bank failures also started occurring and Hoover’s fiscal policy only accelerated the decline. They raised taxes and tariffs on imports, tried to balance the budget by cutting government spending, reduced the money supply, and allowed numerous banks to fail, leading to a sharp decline in household and firm expenditures (Metaxas & Trompazi, 2015). It is believed that the US Central Bank permitted or caused the significant drop in money supply partly to maintain the gold standard (Romer, 1990). In 1931, following Great Britain’s exit from the gold standard, investors worldwide were waiting for the US to either devalue the dollar or also exit the gold standard, otherwise the dollars in their possession would be deemed worthless. If the Central Bank had adopted an expansionary policy, foreign investors would have lost confidence in the US commitment to the gold standard, leading to significant outflows of gold reserves and forcing a currency devaluation. Many economists, following the Keynesian view, also blamed the Depression on inadequate demand and argued that

it was the government's responsibility to stabilize the economy to prevent the Depression (Metaxas & Trompazi, 2015).

In 1933 bank runs and bank failures kept ongoing, and for that, new president Roosevelt decided to declare banking holidays, closing down financial sectors (Richardson, 2013). Thanks to his decision, the runs and failures ended and the economy started to slowly recover. But by 1937 the recovery was at a halt, with a new contraction, which ended around June 1938. It is thought that World War II in 1939 provided the stimulus to aid the US economy to exit the Great Depression, but for consumers, true recovery finally came at the end of the war. People truly suffered during those years, as thousands lost their jobs and homes, living below the poverty line for close to a decade, perhaps even more.

During the Depression, the flaws of the Federal Reserve became extremely apparent, leading to reforming of the entire financial system, which is still in works today. Bernanke believed that due to these reforms, it would be very unlikely that a depression of such size would occur again, as policymakers now had the tools to prevent it from happening.

5.2 ***The Oil Crisis (1973)***

In the early 1970s, the world experienced another seismic shift in economic dynamics with the onset of the Oil Crisis of 1973. There is not such a plethora of papers for this crisis, due to the fact that its causes were not as ambiguous as the Great Depression’s were. It begun in the Middle East, because of the Yom Kippur War between Israel and a coalition of Arab states. It started when the Organization of Arab Petroleum Exporting imposed an oil embargo on the US and other nations supporting Israel in the war. Oil-producing countries used this natural resource as leverage, increasing the price per barrel from $3 to $12, which triggered an energy crisis in many countries

(Oana & Cosmin, 2018; Schwartz, 2009). Although the embargo was officially lifted in March 1974, the elevated oil prices persisted (Merrill, 2007).

Corbett (2013) notes that non-OAPEC oil sources were declining as a share of the global oil industry, allowing OAPEC to gain a larger market share and thus greater influence. This shift enabled OAPEC to dominate price-setting mechanisms in the oil market since its formation in 1960 [8]. Corbett also highlights that the devaluation of the dollar in the early 1970s was a key factor in OAPEC's price increases. As oil prices were quoted in dollars, the dollar's decreasing value reduced the revenues for OAPEC nations, prompting them to price their oil in terms of gold instead of dollars (Hammes & Wills, 2005).

Similarly to the Great Depression, a key factor here was the Federal Reserve and how it handled the situation. According to policymakers, the 1973-74 oil crisis further complicated the macroeconomic environment, particularly regarding inflation (Corbett, 2013). In 1979, Federal Reserve Chairman Burns attributed the inflation to several factors: the Vietnam War, the dollar devaluations in 1971 and 1973, the global economic boom of 1972-73, the crop failures and subsequent surge in world food prices in 1974-75, and the sharp increase in oil prices. Policymakers at the time collectively agreed that cost-push inflation, which arises from an increase in the prices of inputs to the economy, was beyond the influence of monetary policy (Romer & Romer, 2013).

Economists have since understood the role a central bank can play in such situations. Corbett (2013) points out that a central bank can influence the impact of supply shocks on inflation, but it faces a trade-off. Higher oil prices lead to both inflation and slower economic growth because oil is a highly sought-after commodity, resulting in a short-term inverse relationship between the two factors. Bernanke (2004) argues that monetary policy cannot simultaneously counteract the recessionary and inflationary effects of rising oil prices. He emphasizes that the choice to tighten or ease

monetary policy depends on how policymakers weigh the risks associated with achieving employment and price stability.

The oil crisis and the oil embargo were extremely important, although unpleasant, events for the trajectory of the United States and global economy. The inflation and devaluation of the dollar that occurred, led to policymakers in the Federal Reserve to re-evaluate their power once more and ponder on what the central bank can do to offset such domino-effect phenomena.

5.3 The Global Financial Crisis (2008-2009)

Fast-forwarding to the 21st century, the world witnessed yet another economic upheaval with the advent of the Global Financial Crisis in 2008. Stemming from the collapse of the subprime mortgage market in the United States, driven by an asset price bubble during the housing boom, the crisis saw Lehman Brothers, Inc. declare bankruptcy, Merrill Lynch acquired by Bank of America, and Goldman Sachs and Morgan Stanley transitioned into bank holding companies (Schwartz, 2009). This crisis swiftly spread to financial institutions globally, profoundly shaking the worldwide economy and triggering crises worldwide, with some nations still grappling with its repercussions to this day.

According to Schwartz (2009), at least three factors contributed to the emergence of the global financial crisis. First, she mentions the expansive monetary policy that was placed by the Federal Reserve, which caused the asset boom. The policy made it appealing to individuals to take mortgages in order to get a new home, but there was no regulations regarding borrowing. It reacted rather slow to the situation that was happening, delaying tightening the monetary policy until it was too late. The rate cuts begun in 2007 and an even bigger reduction occurred in 2008, in a very hasty manner. The second factor that Schwartz mentions, was the adoption of flawed financial innovations, including securitization, derivatives, and auction-rate securities, before the markets

fully understood their fundamental design flaws, which was the challenge of determining their price. Banking innovations, particularly in the derivatives industry, contributed to mortgage lending problems by introducing complex risk-shifting practices that were poorly understood by both designers and buyers. The difficulty of determining the price of derivatives and mortgage-backed securities, combined with the spread of securitization beyond the mortgage industry to other loan categories, further complicated the financial landscape. Credit markets face significant hurdles when accurate pricing for assets in a borrower's portfolio is elusive. This should have prompted investors to exercise caution with untested innovations, particularly concerning mortgage-backed securities and other novel asset types. Schwartz identifies the collapse of certain financial instruments as the third and final factor. One such instrument was the auction rate security, a long-term investment where interest rates are periodically reset through auctions. Initially utilized by municipalities, hospitals, museums, student loan finance authorities, and closed-end mutual funds, these securities faced challenges when auctions failed. Up until 2007, failed auctions were rare, however that changed due to banks' reluctance to support auctions amidst credit losses from the subprime mortgage market collapse. Consequently, investors withdrew funds from auction rate securities, causing borrowing costs to soar and market chaos to ensue. Schwartz concluded that investor losses would stall market operation until overall credit market stability and tranquillity returned and weaknesses were rectified. However, this didn't materialize for all institutions, with many banks forced to close.

Ivashina and Scharfstein (2008) through examining empirical evidence, understood that in order to truly grasp the genuine impacts of the financial crisis, researchers must examine the investment decisions and performance of potential borrowers, rather than solely focusing on lenders, as most studies have done. Despite this, researchers discovered a significant decrease in new lending across

all loan categories during the financial crisis. This reflects the fact that businesses refrain from expanding during a recession, therefore a drop in loan demand. Additionally, there was a supply affect, as Ivashina and Scharfstein note, since smaller banks had to reduce their lending as they has less to deposits and reserves.

The 2008 crisis left many consequences behind it. After the collapse of the US market and economy, many other countries followed, making it a global crisis.

6. Comparative analysis

At this point, all of the three previously mentioned crises will be analysed simultaneously, in order to aid in the finding of their similarities and differences (see Table A1).

The ***1900 to 1950*** time period faced a lot of challenges, with bank panics, World War I, the Great Depression, World War II and the beginning of the Cold War. In 1929, a pivotal moment in global economic history was marked, as the Great Depression begun. It originated in the United States and it quickly affected the worldwide economy, making it the biggest, longest and deepest downturn in the modern industrial economy. It could be linked to the Wall Street Crash of 1929, but the association between the two is debatable, since there was already a recession taking place in the country. During this time many banks failed. Its causes are attributed to various factors, including the operation of the central bank, the Federal Reserve's policy mistakes and the gold standard. The Fed should have implemented an expansive monetary policy, in order to prevent the collapse of the banking system and deflation. However, such an occurrence would likely erode foreign investors' confidence in the US commitment to the gold standard, potentially triggering substantial outflows of gold reserves and necessitating a devaluation of the US dollar. There is speculation that the Central Bank facilitated or contributed to the significant decrease in money supply partly to maintain the gold standard. The shortcomings of the Federal Reserve, which

became extremely apparent during the Depression, prompted a comprehensive reform of the entire financial system.

From ***1950 to 1980***, world economy yet again had to face wars and financial imbalances, such as the Korean War, the Vietnam War, the ongoing Cold War and the 1973 Oil Crisis. It emerged from the Yom Kippur War in the Middle East, leading to an oil embargo by the Organization of Arab Petroleum Exporting Countries (OAPEC). The crisis resulted in a fourfold increase in oil prices, as the OAPEC were the sole influencers for the price setting mechanism, impacting global economies. The devaluation of the dollar at the time also played a key role, as the price of oil was denominated in dollar terms, causing a drop in the revenues that OAPEC nations were getting from their oil. The Federal Reserve faced challenges in managing the situation, as inflation had resulted from the war of Vietnam, the devaluations of the dollar and the sharp increase in oil prices and drop in oil supply. Policymakers at the time believed that there was nothing they could do, since a cost-push inflation 'was outside of monetary policy'. Since then, the central bank's role in such cases has been re-evaluated, as there are certain things the Central Bank can do to provide some stability in the economy, however they have to sacrifice economic growth for the inflation to be dealt with.

The new century, from ***2000 to 2020***, also had its fair share of financial imbalances. It begun with the 9/11 terrorist attacks, followed by an invasion to Iraq by the United States, then the Global Financial Crisis, and after some years the pandemic of COVID-19, which brought down many economies that were still trying to fully recover from the crisis in 2008. It erupted from the downfall of the subprime mortgage market in the US, spreading globally, causing worldwide economic turmoil. Once again, one of the major factors contributing to the crisis included the Fed's expansive monetary policy, which caused the asset boom. The Fed reacted very slowly to the situation that was happening, delaying tightening the monetary policy. Maybe the asset price boom could have

been avoided if a restrictive monetary policy had been applied in time. Another factor was the flawed financial innovations, which contributed to mortgage lending problems due to their poorly understood risks by both designers and buyers, teaching investors that they need to be cautions when innovations have not been properly tested. One more factor was the collapse of financial instruments such as auction rate securities. Failed securities had been rare, but as banks started defaulting, that changed, furthering worsening the conditions of the American and worldwide economy, as many banks had to shut down. The aftermath led to a decline in new lending, reflecting reduced business expansion during the recession. Also, new policies were implemented worldwide on who can borrow and how much they are allowed to borrow.

Table 1: Comparative Analysis Results

Great Depression – 1929	**Oil Crisis – 1973**	**Global Financial Crisis – 2008**
Originated in the US.	Originating from the Middle East affecting the US.	Originated in the US.
Occurred close to a war (WWII).	Oil embargo due to a war in the Middle East.	Mortgage related crisis.
Banks failed.	Devaluation of the dollar and inflation.	Banks failed.
Caused by the US's decision to stand by the gold standard.	Now measuring price of oil in gold instead of USD.	Failed financial innovations and collapse of financial instruments.
The Federal Reserve should have implemented an expansive monetary policy but kept an expansive one.	The Federal Reserve did not apply any monetary policies	The Federal Reserve had an expansive monetary policy, instead of a restrictive one.
Policymakers claimed to have understood their mistakes.	Policymakers claimed they understood their mistakes.	Policymakers claimed they understood their mistakes.

Source: Authors

Certain similarities and differences can be noticed throughout the crises. Each of them highlights the significant role the Federal Reserve's System has in shaping economic outcomes. They are all critical milestones in economic history, influencing the trajectory of financial systems and prompting

reforms. The 1929 and 2008 crises both originated in the US and although the 1973 oil crisis started due to actions in the middle east, it greatly affected the US economy. After the US' economy was compromised, it started a chain event of crises worldwide, in all three cases. The only crisis fully connected to a war, is the 1973 one. The other two are also connected to major events happening at the time, but they are not associated with them. A similarity between the 1929 and the 1973 crisis, is the role that gold plays. In 1929 it is speculated that the Central Bank permitted a substantial decrease in the money supply to uphold the gold standard, and in 1973 the US dollar got devaluated due to the price of oil being measured from USD to gold. A main resemblance between the 1929 and 2008 crises, is the resulting bank fails that derived from them.

There was one constant parallel occurring across all cases, and that is the role the Federal Reserve's system had in each and one of them. In 1929 the Fed should have implemented an expansive monetary policy, but didn't, as that would push investors away. However, in 2008 it should have implemented a restrictive monetary policy, and it took too long to restrict the expansive one, because it was making it easier for people to get loans and buy property. In 1973 the Fed did not even try to battle the inflation taking place, as policymakers claimed that cost-push inflation could not be fought with monetary policies, due to the fact that they did not want to sacrifice economic growth to battle the inflation. After each and every case, policymakers claimed they came out more knowledgeable, understanding what they did wrong and reforming the system to battle similar scenarios in the future. Specifically, in 1929, they reformed the Fed's policies, in 1973 they comprehended what they have to do in situations like that to provide stability, and in 2008 new borrowing policies were implemented worldwide.

7. Conclusions

As previously mentioned, the purpose of this research is to shed light on what went wrong in the crises that took place during the 20th century. From that time period, the 1929 Great Depression and the Oil Crisis of 1973 were analysed, to try and understand the groundworks and causes of each and one of them. By also comparing them to the 2008 Global Crisis, we can make connections to the systemic changes and flaws that still batter policymakers in the 21st century. It is important to note the political and economic environment in the previous century, as many wars and financial imbalances kept occurring, making it difficult for economies to thrive.

The common nominator in the three crises that were studied, was the role the Federal Reserve played in them. As all of them originated from, or at least greatly affected, the United States' economy, it was the Fed's job to apply the correct policies in time to save the situation. However, numerous mistakes took place, turning the national crises international, as the United States was and is a major power that affects the economy of several countries throughout the globe.

After every crisis, policymakers noted that they understood what went wrong and they will be prepared for next time when a potential similar situation arises. But how is it possible that the Federal Reserve always applies the wrong monetary policy or does not try to take action at all. The claims policymakers make that they are now equipped to handle similar scenarios after the crises take place has been proven wrong over and over again. It is important to note that even though the crises bear similarities, the groundworks for them to occur and the way they affected the economy was different in each case. However, that does not mean the Federal Reserve is not supposed to be aware of the events taking place and how to battle them. In one case, they should have implemented an expansive monetary policy, but didn't, because it wasn't 'worth it', as investors would be driven away. In another case, they didn't take action at all, as that would worsen the

country's economic growth. Lastly, when they should have implemented a restrictive monetary policy, they didn't, to keep interest rates low.

Perhaps it is time for the Federal Reserve's System to begin truly re-evaluating its policies and courses of action. The policymakers need to understand that it is better to make some sacrifices in order to aid the economy in the long run and they need to keep in mind the power their country holds and how it affects the worldwide economy. It is not as easy as in theory to make such decisions when the time comes, but nowadays the tools and knowledge economists have at their disposal should aid them in choosing the correct approach. There is hope for the future, when a new crisis will eventually arise, potentially stemming from the United States or another powerful nation, that its policymakers will quickly choose the correct approach to manage the situation, even if some sacrifices have to be made.

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