Financial and Economic Review, Vol. 21 Issue 1, March 2022, 184–187.

Crisis Chronology of the Past 100 Years*

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Andrés Solimano:
A History of Big Recessions in the Long Twentieth Century
Cambridge University Press, 2020, p. 238
ISBN: 978-1108485043
Hungarian translation:
Nagy gazdasági visszaesések a hosszú huszadik században
Pallas Athéné Publishing House, Budapest, 2020, p. 265
ISBN: 78-963-573-007-0

The period of roughly one hundred years after World War I can be considered a period of prosperity unseen before in the global economy. Unprecedented technological progress, rapid economic growth, significant accumulation of capital and comprehensive improvement in living standards weigh in one pan of the scale. However, this was not the result of any historical golden age or unbroken economic stability: in the other pan of the scale, the period was interspersed with destructive wars, conflicts between the Great Powers and financial crises. These not only led to volatility in output, but triggered hyperinflation, decades of stagnation in development and political turmoil in a number of countries. In many cases, the negative consequences affected whole regions or were even global. As the title itself also indicates, the past 100 years were far too long in the sense that economic downturns accompanied this period in great number and various forms. The book undertakes nothing less than a full inventory of the crises in the period with the thoroughness of a taxonomic classification, giving the reader a high-definition picture of the events. In doing so, it relies on comprehensive, but at the same time detailed and comparative data, examining a total of 744 recession events in 56 countries between 1900 and 2017. It provides an overview that systematises the crises in economic terms and analyses their reasons, courses and consequences. It is also a real treat for those who would like to better comprehend the developments by browsing the statistics.

* The papers in this issue contain the views of the authors which are not necessarily the same as the official views of the Magyar Nemzeti Bank.

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The book consists of nine chapters, including the Introduction. The first two chapters deal with crises, their causes, the differences in their courses and the possibilities of crisis management in general. Partly in chronological order, partly by region, broken down by groups of countries, the subsequent chapters discuss the major crises that typically affected several countries or regions or had global impacts. Accordingly, separate chapters are devoted to i) the hyperinflation of the two world wars and the 1920s; ii) the Great Depression of the 1930s; iii) the stagflation in the 1970s and the European problems up to and including the 2008–2009 financial crisis; iv) the crises in Greece and Latvia following that; v) the periods under socialism and following the political transformation in the post-socialist countries; and vi) the crises in Latin American and Far Eastern countries. The last chapter gives the reader comprehensive answers to questions regarding the consequences of crises, including, for example, their impact on inflation.

From time to time, crises hit unexpectedly, without any clear precursors. One need only think of the latest financial crisis or the one in Asia in 1997. However, there are problems not only with predictability. The causes are obscure after the event as well, or at least there are lingering questions. The main underlying reason is that it is not always a specific series of events that triggers a crisis: they result from the combination and complicated effect mechanism of various factors. One example for this that is presented by the author is that the path leading to the Great Depression in 1929–1933, which was the biggest crisis of the past century, has still not been thoroughly investigated. Firstly, its outbreak cannot be traced back to one country or one cause. Moreover, the role and importance of the factors subsequently named by economists are also controversial. Just think, for example, of the different explanations given by the monetarist or Keynesian approaches. While listing, on the basis of various opinions, what can be considered responsible for the emergence of the crisis, Solimano emphasises here as well that understanding the international context is of vital importance, especially if the crisis event is not limited to one or a few countries. Therefore, he presents in detail how complex the decade preceding the Great Depression of the 1930s was, and that it was made particularly complicated, inter alia, by the economic and political consequences of the world war, the return to the gold standard and the related monetary, exchange rate and balance of payments issues, the surge and collapse of the US financial markets as well as the agricultural crisis. Orientation is facilitated by properly selected and elaborated statistical data in this chapter as well, exploring not only the consequences according to various aspects (regarding, for example, output, industrial production, trade, prices), but also excellently presenting and rendering comparable the different impacts on the various macro regions and the seriousness of the crisis by country as well.

In light of Hungary's economic history of the past century and the 2000s, it comes as no surprise that Hungary is mentioned and discussed in several chapters, making the book particularly interesting for Hungarian readers from this aspect as well. Accordingly, Chapter 7 is especially worth highlighting. It deals with the events of the Soviet-type socialism and the transition, discussing in detail the situation of the European countries concerned under socialism, the transformation crisis of the 1990s and finally the 2000s until the financial crisis. Here again, appropriately compiled, ample data complement the analysis, which reveals not only the similarities but the differences as well. A remarkable lesson is to what extent the growth in the 2000s was driven by debt in Central and Eastern Europe. At that time, debt grew faster in a number of post-socialist countries than in the otherwise problematic late 1970s and early 1980s. Let us not forget that Hungary did not fail to accumulate debt in any of these periods, and as in the early 1980s, Hungary ultimately needed the IMF's help in 2008 as well.

In addition to the fact that we may find many more points of interest interpreted by the author, an important aspect of the book is that during the practical overview of this long period we can review our conception and knowledge of crises in general as well. The work identifies a number of factors that may lead to economic downturn. Although all of them are known, the book allows the crisis events to be catalogued based on these factors. It is to be noted, however, that unfortunately the scope of causes belonging to the external impacts needs to be expanded due to the Covid pandemic.

We can also learn much about the frequency and intensity of crises from the abundant data provided. If we look at the past 100 years, around 10 per cent of the economic recessions turned into crises. In the first half of the century, a higher ratio of economic recessions grew into crises. In the second half, this ratio declined, while the number of cases of economic recessions increased. Actually, the decrease in the ratio of serious events is not surprising, as it shows that we have learnt a lot from the experience of previous crises. At the same time, in the author's interpretation, the increase in the frequency of recessions, which was observed starting from the 1970s in particular, was concomitant with the deregulation and globalisation of financial markets.

While he descriptively points out the fact that the severity of a crisis may be exacerbated by an inadequate economic policy response, the author also underlines that, in spite of an increase in our crisis management knowledge, accepted and proven economic policy measures of crisis management also have their constraints. The necessary fiscal expansion easily conflicts with the sustainability of debt servicing or becomes unviable because of it. In view of their dependence on foreign capital, developing countries may be especially vulnerable in this respect. This is why the IMF's policy, which put priority on fiscal tightening in the case of countries that got into trouble, taking fiscal sources from the restoration of economic growth and thus pushing them into protracted stagnation, may also be criticised. Last time, the related tragic consequences were seen in the euro area, in Greece. In terms of monetary policy, in line with the triviality of the monetary trilemma, the author considers the fixed exchange rate regime to be the main constraint, which prevents effective action for recovery from being taken. In addition, he also mentions the frequent problem that the deflationary pressure of crises renders sufficiently strong monetary easing more difficult. In general, however, he is permissive in the sense that the inflationary risks of monetary easing and the ensuing costs are exceeded by its results and benefits during a crisis.

Recently, more attention has been focused the so-called hysteresis effects, which means that a protracted recession or crisis may entail a permanent slowdown in economic growth. Solimano also notes that – contrary to a temporary downturn – recouping the macroeconomic loss may not occur after a lasting recession. While he can see these possible long-term negative effects of economic crises, the author considers the chances of fiscal and monetary policies very limited under the present circumstances, projecting a pessimistic picture for the near future. At the same time, in his closing thoughts, he believes that both economics and economic policy practice are shifting in the direction that the role of the managing of excessive indebtedness, financial market imbalances and future inequalities should receive greater attention. Nevertheless, we are now the ones who have to draw the final conclusion: more efficient defence by the state against the emergence of financial instability and excessive economic inequalities may have a positive impact on the frequency and severity of crises as well as on the possibilities of their management. Accordingly, a change in economic policy in this direction may also improve the future prospects related to crises.

Solimano's work is a great aid to orientation in the confusing history of the past century of crises. In addition to his interpretations, the book is made especially recommendable by the collection work and systematisation as a result of which we can examine crises through very detailed figures as well. The book is recommended for all who want to learn about specific major crises as well as for those who are interested in the comparison of crises.