

# A study from depression to recession to contraction

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**ABSTRACT--***The black swan event seen by way of the outbreak of the coronavirus has rattled all the economies. The countries have been affected to a varying degree but regaining the lost GDP and employment has to come with extra stimulus and each country might not be fully capable of overcoming the losses on account of employment and GDP. The advanced countries have learned to apply several other measures and their flexibility in taxation and adopting innovation quickly may take back them to normalcy early. But the developing countries who have limited head rooms and also the interest escalation is fast, the surging appears to be somewhat tardy. India is a victim of the large military of migrant workers most of which move from the low growth centers to high growth centers but the reversal means the same treatment to migrant workers who had faced the hardships when they were forced to move out of the cities. While decongestion is the demand of the ecosystem and there were immense opportunities as China who had churned for the last three decades but failing to deliver high growth must be easily accessed by India.*

**Keywords--** Demand, Employment, GDP, Migrant workers.

## I. INTRODUCTION

The world war culminated into depression and its textbook meaning is the least output on the negative side. This had happened due to the collapse of the currency system and trade. The economies were expected to come up using different principles that were envisaged by classical economists i.e supply creates its demand. But the situation is contrary to the principle. There is a dip in demand because the unemployment situation is worsened too acute, the workers are thrown out of jobs because of the destruction all around. The private industries dare not to engage the employees as they would not be paid first and then they would consume to complete the production and purchase cycle. The entirely different way of functioning was needed and credit goes to Lord Keynes that it is the demand first which needs to be propped up. The demand should be generated from the government sides as the purpose of the government is to indulge in public welfare. Therefore any public spending of the type roads, schools, colleges, hospitals, canals, recreation facilities would accompany employment and hence the wages would be paid by the government and side by side the government should be paying loan to the factories at a cheaper rate of interest to engage workers so that demand and supply both would be generated of course, not at full scale but gradually till the maximum number of workers get back to full employment, the principle which the classical economists had assumed.

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## **II. OBJECTIVES**

The main objectives of writing the paper are:

- a. To understand the terms like depression, recession, and contraction
- b. To analyze the situation of the financial recession of 2008
- c. To compare the situations of 2008 and 2020, how much difference we can find and solutions to bring the economy on track.

## **III. ABOUT THE TOPIC**

Keynes had refuted the classical economist argument that the economy keeps operating at full employment and unemployment, in general, is a rare phenomenon. On the contrary, Keynes was of the view that full employment is a rare situation and it could be achieved at the cost of inflation. As the depression caused due to world war and collapse in the trade and currency system, the economies were euphoric to keep increasing the employment, standard of living, and achieving prosperity. Soon the cooperation and cooperativeness among the major economies resulted in the creation of the three international organizations viz, World Bank, International Monetary Fund, and General Agreement on Tariff and Trade. All three organizations were expected to work across the globe and three different types of purposes were being served by the three different organizations. World Bank was meant to provide the development assistance to developing countries, IMF was expected to provide international monetary assistance to maintain the trade needed for employment and economic growth and GATT was expected to perform the intermediary role in the trade augmentation necessary for increasing the employment and economic growth.

With these three organizations working in an orderly manner for many years, many economies had learned the art of growing in an orderly fashion and worked best to reduce poverty and backwardness. The developed countries according to their demographic structure and their easy adjustment with the market tenets, their economic growth kept improving and reasonably sound economic strength got built up in the advanced countries. However, with time the countries in the same region succeeded in forging the bloc for sharing their factors of production and get the best advantage out of the pooled resources. The governments had learned to make the financial system as strong as possible as it is the need of each monetary transaction across the borders. The movement of capital from one country to another kept increasing once countries began to trade and earning surplus. At one point in time, the global trade was multiple of the world GDP, the reason being the movement of goods and humans needed many support services and provided services.

ASEAN bloc of countries is the largest block after EU group of countries, the countries in it could not visualize the danger in the huge foreign investment and therefore it suffered damage in dealing with the foreign investment and thereafter the rules were reframed and since 1997 when currency meltdown happened the financial system is functioning perfectly all right. China had come out of hideout as it was struggling hugely with poverty for the last three decades, but since 1978, China had started working focusing on the mitigation on poverty, overcoming the backwardness and restrictions on fertility. During the last three decades, China has surged so strongly and attracted the attention of all the progressive countries to get the competitive advantage of setting up the business there. As many branded companies took their place there, the quality of products along with the

reduction in prices was the main pushing force for trade, and the system was so designed that export maintained great outpace with import to earn foreign exchange to prove strength in military and economic power. The confidence in the export with cost competitiveness has provided China to maintain exchange rate stability. Being larger in size in terms of area and population and unique way of political administration, China has retained a permanent position as second-largest economy next only to the US, but with a difference that its niche is felt in the small scale sector but the US which has given up to Japan, ASEAN and China, is left with large industries skewed towards the service sector.

The urge for strong human capabilities and continuing the status of a free-market economy, the US by the year 2000, has started facing the budget deficit issues and started to phenomenal borrowing, and the problem has been worsening due to heavy expenditure on defense as it had to fight with Osama Bin Laden whose outfit had pulled down the World Trade Centre. To cover up the budget deficit, the ill-designed real estate development had to be put in operation due to which heavy investment in the sector kept coming in, and in 2008, trillion of a dollar invested by the investors and financial institutions were burnt and the financial sector was brought to bowl. The budget deficit was already creating trouble, and the ruin of the financial system became an added woe in 2008. Therefore, the financial system was expected to be capitalized. The role of the Central Banks was called in. Since the damage to the financial system was huge, the central banks of eurozone, Japan, and the US continued with bond-buying and kept interest rates low up to the point when the economy started gaining momentum and interest rates were expected to be raised. The emerging market economies felt the impact due to capital reversal but largely within four to five years when the financial systems were adequately capitalized the inflow resumed. The global economy was coming back to the terms but still, the global economic growth was running low compared to the pre-crisis level. Since many economies particularly united States or where the exchange rate was not satisfactory to them and issues of employment were still lingering, these countries started restricting the import and the larger source of import being China and ASEAN, the economic growth of China had seen huge contraction i.e it has fallen from 12% to pre-crisis level to 6 percent last year.

For a long time, the emerging economies had not to face any black swan event and larger economies had to go through the uneven phases due to military and refugees problems, the present pandemic known as Covid19 has rattled all the economies across the globe particularly the one which has a significant presence in trade and aviation is facing the brunt. India particularly which is large in size in terms of population and economy was expected to strike the balance between lives and livelihood has taken bold decision to impose stretched lockdown 21 days of the lockdown of 40 days and allowed some additional economic activities to go on after 21 days of lockdown period, the issue of insolvency of small companies and demand to transfer cash to workers who lost jobs is becoming paramount. In any case, the people at the helm of affairs must be conscious of containing the disease as early as possible as it is also impacting the livelihood of millions of people. A wise decision must be in the waiting before the lockdown in staggered or total is removed.

As the global economies had witnessed a contraction in 2008 and since the pace of globalization was not picking up like in pre-crisis period as during the last three decades a new group of countries G-33 has come to be created out of their sheer progress and their leaning towards market-led structure and these are called emerging market economies. The virus which is too lethal has emerged from Wuhan city in China and it is still not clear as to whether it is artificial or natural but the news of virus outbreak was delayed by 20 days the European countries

and US are severely unhappy with China that it had been hiding the information. The US has thrown questions on WHO, which has not played its required role in disseminating the information and also not helping the countries. As immediate fallout of the indictment, the US has threatened to stop the grant to WHO and the same hours' China has consented to increase the grant manifold. All the agencies which were created in the period following ruled based cooperation in 1944 and UNO in 1945, to which WHO belongs have come under the wrath. Earlier IMF was touted as the agent of the US and it has not performed the role of the true ultimate monetary institution during the financial crisis of 2008 when many countries were facing the balance of payment crisis and interest rates were abnormally high. The GATT which had given rise to WTO with same functions with more being added powers appears to have not played the role as expected to have been played by the novel multilateral trade organization and the present trade imbalances with China particularly maintaining substantial trade surplus and other struggling with the trade and budget deficits were coming under a scanner and Us has been delaying to appoint the Judges on adjudicating board of WTO. The allegations on IMF, WTO and WHO indicate that most of the countries among G-33 are developing aversion against them.

It is important to take into account that most of the emerging economies are dependent on the capital inflow but China is an exception as it depends very minutely on the capital inflow. China is an outlier in this case because it had created a system whereby the foreign investors could be invited permanently i.e by setting up the production units. China has created world-class public facilities and infrastructure and it has proved good to its people in a variety of ways and signs of distress to show that the Communist system is causing pain to the people are not visible. But for any reason, the fall in growth rate indicates that many companies are not finding themselves as profitable working there. Gradual movement out of China has already started. The cause of the outbreak is being investigated but one thing which has been badly exposed that Chinese are consuming any type of animal and the coronavirus with multiple strains is the outcome of the consumption without looking to the pros and cons. Even before, the issues of global warming had been causing stress on farmers and livelihood. The countries which are keen on reaping the fruits of capital inflow but doing very little export so that the exchange rate remains range-bound. The emerging market economies generally rated weak in terms of technology but also depend on manufacturing, waste management is also not included in their priorities. While there is a rush for importing ever fresh and first-hand metal and mineral the second-hand produce is not utilized or reprocessed to save on the cost of the production. The MNCs are always interested in using fresh raw material because of the less botheration and reprocessing is avoided. Similarly in a country like India where the agricultural production is either scarce or a surplus lot of agriculture produce of low value is thrown in the drains, whereas the people in the remote areas are begging for the minimum food needed for their safe survival.

In nutshell the global ecosystem is not conducive for fossil fuel burning, lacking waste management and deforestation, etc, the combined effect of all these is the adverse impact on agriculture, loss of food, the temptation for fresh products without recycling the products, and ecology. Therefore the diseases and outbreak are the results of over globalization in the race of achieving prosperity and at the same time increasing inequality. As the decongestion in China is taking place and industries are moving out for a variety of reasons, there is an ample scope that all the emerging economies which had made themselves dependent on China should intensify the Foreign Direct Investment while keeping manufacturing and infrastructure at the center of renewed development strategy. The emerging market economies had a tough time to handle the pandemic and loss in GDP and

employment appears to be difficult to be recouped with any type of stimulus unlike in advanced countries. This very stimulus is different from the earlier unconventional monetary measures the difference is that in the latter it was bond-buying at a cheaper rate of interest but in the present situation it is without compromising with the prevailing rate of interest. The respective governments shall be using it for the public expenditure or supporting the small companies and central banks directly lending to big corporate. The debt which has been created has to be repaid in limited time and it is possible for these countries as they tend to alter the taxation and have the huge potential of exports. However, India has the luxury of borrowing from the market or deficit financing using the mode of monetization. The recovery no doubt would be gradual and in the meantime, the huge number of workers who have been rendered jobless getting absorbed in the same manner as they were displaced are going to face a difficult situation. The precautions to maintain ecology and keeping rivers and air as much as clean as possible which during lockdown have proved themselves to be cleanest, and keeping in view the plight of the migrant workers who were completely uprooted and stranded, every effort is expected to be made to change the style of operations within the cities which are overcrowded. The nature of the virus is such that its second and third wave is still possible till next year and hence the economy bouncing back soon has a low probability. The workers as they had gone back to their States are mostly from the low growth States like Bihar, UP, West Bengal, Orissa, MP, etc, and social distancing not possible in the crowded factories and cities would have to be absorbed in their places as the governments should be speeding up any social infrastructure and accommodating them in the suitable activities sponsored by the government. The earlier reforms of 1991 have resulted in the crowding of the cities because of the division of labor and the increase in service activities. Since they could not be given safety net while working in the cities and away from home proved of limited stability in these cities, repeating the same thing does not seem plausible. Secondly, the world has entered the phase where automation, cloud computing, data analytics, 3D printing, EV, solar energy, etc, is the demand of the technological ecosystem, recasting the industries is severely needed. It is the right time that India should treat the outbreak as a great opportunity to transform the economy as if it is the second generation reforms after the economic reforms in 1991.

#### **IV. CONCLUSION**

After the impact of Covid19, the bounce back is certain in little over one year but India, as has been examined, would not be at ease to retain the same structure because of the threat from global warming and changing technological environment underlined by automation, artificial intelligence, and big data analytics. Some extra measures are needed for providing or reemploying the workers moved out of the cities.

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