Proceedings of ICGPSH 2024 Workshop: Industry 5 and Society 5 – A Study from The Global Politics and Socio-Humanity Perspective
DOI: 10.54254/2753-7048/2025.LC20368

Implications of the Great Depression of 1929 on the Current Economic Situation

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Abstract: At the beginning of the 2020s, the world economy has experienced a long period of turbulence and challenges. The overall economic downturn requires the world to think about how to face the economic blow to the societies, and how to improve and solve the economic problems. The economic woes and the hesitancy to deal with them are reminiscent of the Great Depression of the 1920s. The purpose of this paper is to analyze the background, causes and economic impacts of the Great Depression in 1929 and the economic downturn at present. Through the results of the analysis, the similarities and differences between the two recessions are compared. The similarities between the two lie in the globalization that already exists, but the differences lie in the monetary system, the backbone industries and the speed of communication. Finally, the paper puts forward measures that can be taken to alleviate the current economic downturn, namely persistance in globalization to ensure the integrity of global supply chains and adoption of consumer stimulus measures such as consumer subsidies to the public.

Keywords: economic downturn, Great Depression, post-pandemic era.

1. Introduction

The international economic and political situation from 2022 to 2024 shows a steady decline and deterioration, which is of grave concern to the international community and observers today. The existence of this recession phenomenon has an important connection with the outbreak of COVID-19 in the world beginning in 2020. During the pandemic, there was a significant contraction in global trade due to prolonged disruptions in global supply chains because of national containment measures [1]. In addition, the process of rebuilding the global economy was largely interrupted by the Russia-Ukraine conflict that broke out in 2022, and the sharp inflation that occurred in the major developed economies. Further, due to the disruption of trade among European countries, the US and Russia, the energy crisis is also greatly affecting these countries, which has dealt a huge blow to the low-income vulnerable groups in various countries [2]. The economic depression and the epidemic have also become factors leading to unemployment, which undoubtedly expands the scale of low-income groups and vulnerable groups. In addition to the conflict between Russia and Ukraine, the Middle East, Africa and other regions also broke out a new round of conflicts between 2022 and 2024, and political and military disputes between countries have made the world economy worse in the post-epidemic era. Therefore, the attention and study of the economic situation in recent years has become a prerequisite for finding measures that can solve or at least alleviate the current economic downturn.

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Meanwhile, history often follows certain patterns, and by analyzing different historical stages, their commonalities shed light on contemporary economic dynamics.

This paper argues that there are many similarities between the Great Depression of the 1920s, which had a profound impact on the history of the 20th century and the current world economy that is worth thinking about and studying. The series of economic downturns in the early 2020s can also be viewed as a global economic crisis as important as the Great Depression and others [3]. The Great Depression, an era after World War I and the Spanish flu, in the United States, for example, was characterized by massive, prolonged unemployment [4]. In addition, the increasingly tense of the international environment caused by the world economic depression during the Great Depression, the disadvantaged groups that were negatively affected, and so on, are strikingly similar to the situation in the world today. At present, current research mainly focuses on the analysis of the economic situation of these two different eras, and relatively lacks the discussions for the common points between these two eras. Therefore, the objective of this paper is to analyze the Great Depression that began in 1929, compare it with the global economic downturn that began in 2023, and propose countermeasures by combining the historical lessons of the Great Depression with the analysis of the contemporary economic downturn.

2. Analysis of the Great Depression in 1929

As a global economic event, the Great Depression not only exerted its great influence on the global economic community, but also profoundly changed the world political pattern, and even foreshadowed the outbreak of World War II in the future. This event has an indelible memory for the people of the world at that time, especially the Americans, for whom the decade from 1929 to 1940 was full of "stories of hard luck, heartaches, and hard times." The 1930s were also considered the worst period in American history [5].

2.1. Background

Before 1929, the world had just experienced World War I and the Spanish flu; Europe was in a state of disrepair, and the United States was making a lot of capital by lending and selling goods to Europe and other parts of the rebuilding region. At the same time, the political and economic benefits gained by the victors during the war also played an important role in their development, but it still left a general war-weariness caused by the war. It is worth mentioning that this global general dissatisfaction and war weariness, combined with the potential economic recessions, led to the outbreak of many social contradictions, and many countries were faced with political crises, which also exacerbated the great changes in the global political pattern before World War II.

2.2. Causes

This paper argues that the cause of the Great Depression is partly that the governments of various countries have adhered to the laissez-faire policy for a long time, relying too much on the independent regulation of the market and the power of large enterprises. In the United States, for example, during the Great Depression in 1929, Hoover's government relied on the participation of large enterprises in the economy. Even though some of his policies were indeed like those of the New Deal in the future, he still maintained the tradition that governments around the world only gave priority to economic intervention at that time, which was dwarfed by the government's comprehensive intervention in the overall economy after Franklin Roosevelt came to power [5]. At the same time, international monetary policy was another important reason for the Great Depression. In addition, the inflation caused by wartime policies also became a fact that economists were wary of at that time. On the one hand, the government needed to solve inflation by restoring the gold standard and other means. On

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the other hand, the inevitable increase in gold demand was not accommodated by monetary policy, which led to deflation as severe as wartime inflation [6].

2.3. Economic Impact

The Great Depression was a catastrophic blow to the economies of all countries. For example, the United States, which once enjoyed great development in the post-war Coolidge boom, had been seriously challenged in its formerly decentralized economic development pattern [7]. At the same time, countries around the world must face a huge crisis of economic stagflation and national unemployment. These economies had led governments to reflect on the gains and losses of their previous economic policies and to seek solutions for recovering from the Great Depression. The abandonment of the gold standard by the United Kingdom and Japan in 1931 and by the United States in 1933, as well as foreign exchange controls by Germany, were seen as the beginning of national efforts for economic recovery [8]. Meanwhile, the United States under the administration of Franklin Roosevelt adopted the New Deal with strong Keynesian economics to restore the country and took economic measures such as relief for work, economic supervision and banking stabilization [5].

3. Post-Pandemic Economic Downturn in 2023

The economic downturn faced in 2023 till present is both the result of a series of international events that began with the COVID-19 pandemic in 2020 and arguably the cause of a potentially worse international situation in 2024 and beyond. Under huge economic pressure, countries must seek measures to break through the continuous economic downturn, whether it is to increase revenue and reduce expenditure or to find new sources of fiscal revenue. Governments must raise interest rates to deal with economic deficits that expand significantly during the pandemic [2]. This reflects the current financial predicament of various countries and the need to find a way out.

3.1. Causes

The economic downturn in 2023 can be traced back to the coronavirus outbreak that began in early 2020, resulting in a global public health event that has spread across the world. The epidemic has caused countries to face enormous pressure to prevent the epidemic, including a series of domestic quarantine measures and other necessary matters to minimize domestic pressure. In addition, rising international tensions have also led to a marked slowdown in the international economic recovery. The outbreak of the Nagorno-Karabakh conflict between Armenia and Azerbaijan in 2020 was the first large-scale regional armed conflict in the early 2000s, and since then, a series of armed conflicts have spread around the world due to international tensions. Of these conflicts, the most significant impact on the international economy is the Russia-Ukraine conflict, which began in February 2022.

3.2. Economic Impact

The intensification of the epidemic and international conflicts has had a huge negative impact on the recovery and development of the world economy. Due to the impact of the epidemic in 2020, the economic growth of developed economies in that year was hit hard; taking the United States as an example, the Gross Domestic Product (GDP) of the United States fell by 4.9% in 2020 [1]. In terms of the economy, the epidemic mainly led to higher financial expenditure of countries to ensure the operation of their epidemic prevention measures. At the same time, the epidemic prevention and quarantine measures made the import shrink, and many epidemic prevention materials such as masks were tilted, which caused the national economy to suffer a serious blow. In addition, the shutdown of the physical tertiary industry due to the epidemic has hit hard on many countries that rely on the

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tertiary industry for fiscal revenue. Even in 2021, when the epidemic was not completely over, countries around the world had high confidence in economic recovery, for example, the International Monetary Fund had predicted that the global economy would grow by 4.9% in 2022 [3]. However, the Russia-Ukraine conflict, which began in 2022, slowed down the international economic recovery [2]. The conflict between Russia and Ukraine has greatly affected resource trade, especially energy and food. This has had a significant negative impact on the economies of many countries that rely on imports of these two resources.

4. Comparisons and Policy Recommendations

A comparison between the Great Depression and the recent downturn is necessary because there are similarities and differences between the two economic crises that should not be lumped together. After the comparison between the two periods, the implications for economic countermeasures can be generated.

4.1. Differences and Similarities

One big difference between the two is the monetary system. The international monetary system on the eve of the Great Depression was still the gold standard system, while the contemporary monetary system has long been rid of the gold standard system and is dominated by the fiat currency system. During the Great Depression, many countries chose to abandon the gold standard and began to resemble today's monetary system, but the contemporary monetary system has also faced great challenges. Another big difference is reflected in the main pillar industry. During the Great Depression, the major powers in the world took the secondary industry as the pillar of their economy, and the service industry as the tertiary industry, was not as developed as it is today. During the Great Depression, the economy could rely on the real economy of the secondary industry and be revitalized again through a series of Roosevelt's New Deal or other measures. For example, during Roosevelt's New Deal, the United States carried out extensive infrastructure construction throughout the country through its secondary industry and many existing industrial workers [5]. However, the contemporary service industry, which relies on the value of service, lacks the resilience of the secondary industry.

Except for the differences, there are some similarities between the Great Depression and this decade's economic downturn. First, during these two periods, citizens had very pessimistic estimates of the economy and lacked confidence in economic recovery. This is because when they enjoyed long-term economic prosperity, sudden economic depression and the deterioration of basic people's livelihood could lead to a lot of dissatisfaction with the current situation. Second, the patterns of globalization already exist, albeit to varying degrees. From the late 19th century to the early 20th century, due to the emergence and development of the international communication system, the speed of information transmission has accelerated, and the world has become more closely integrated [9]. However, the degree of globalization between the two eras was different, the communication technology of this century is much faster than that of the beginning of the last century, and any important events in the world will be quickly known by the whole world, so the degree of globalization in this century is deeper than that of the last century.

4.2. Suggestions for Countermeasures

This paper argues that some possible solutions to the economic woes of this time could help alleviate them. First, even if the current situation is towards de-globalization, countries should still maintain the process of globalization according to the international division of labour. The reason is that if they blindly rely on reducing the volume of trade, raising tariffs and even erecting tariff barriers, they will face severe economic pain regardless of whether they remain industrialized or not. Both developing

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countries and deindustrialized developed countries that export products to developed countries are faced with the fact of incomplete domestic industrial chains. The shrinking trade volume caused by quarantine during the 2020-2022 epidemic period could be seen as evidence. Secondly, the government should take the initiative to implement economic stimulus measures, but compared with Roosevelt's measures such as food for work, today's governments can adopt consumption subsidies to stimulate consumers' consumption desire. For example, in Hangzhou in 2020, in response to the economic downturn caused by the epidemic, the local government distributed 500 million yuan of electronic consumer coupons to citizens to stimulate consumption and achieved satisfactory results [10]. In summary, both solutions depend on the market; the former is to expand the size of the market as the goal, while the latter is to ensure market confidence.

5. Conclusion

In conclusion, this paper analyzes the Great Depression of 1929 and the economic downturn of 2023 respectively and analyses the causes of the economic difficulties that exist in both periods. At the same time, this paper points out the economic impact of the two-world economic hard times, especially the economic downturn today. The discussion on the current situation is necessary for finding solutions. The gap between the two recessions is close to 100 years, thus, the purpose and results of the comparison and analysis are to help economic policymakers around the world formulate ways to deal with such recessions. This paper presents two main countermeasures, namely to insist on global trade and to stimulate the economy with consumer subsidies.

However, this paper unilaterally puts forward several reasons leading to the Great Depression and the economic downturn at present. Due to the lack of more in-depth primary literature for the current economic situation, as well as the existence of simplification for problems, the discussion may have limitations. This article makes only a rough comparison between the Great Depression and the current downturn and suggests two possible responses to today's recession. Possible research directions in the future can be developed in two directions. On the one hand, it is necessary to compare the present period with other economic crisis periods, such as the Asian financial crisis in 1997 and the Global Financial Crisis in 2008; these two crises were closer to today, which may bring more enlightenment to future research. On the other hand, more possible responses require further examination on the current economic downturn. To achieve this goal, a more in-depth analysis of today's economic, political and social conditions is needed.

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