Review

Causes and effects of economic crisis in history

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The economic crisis which started in the U.S. (one of the biggest economies of the world) has spread all over the world. Wavelength made it global by affecting financial market. We analyzed crisis under three main titles in this study: Firstly, we studied economic crisis in history; secondly, we analyzed causes of recent global crisis; and thirdly, we analyzed the effects of financial crisis on developed and developing countries. There are some similarities in the causes and effects of economic crisis on Ottoman Empire in the 1929s, and in the recent one. This study’s aim is to highlight the importance of economic crisis through an historical process. Economic crisis signified its destructiveness in the last four years like in history. The cause of the last crises was identical, but its effects were at different severities as compared to the different economic levels of several countries. It was seen that the recent crisis’ effect was more severe in developed countries than in developing ones, such that the world’s production decreased, unemployment rate increased, and lots of corporations went into bankruptcy.

Key words: Global crisis, cause, effect, history, world economy.

INTRODUCTION

When we look, in retrospect, at economic theory, it is accepted that the economy never grows smoothly. Any country’s economy may enjoy several years of exhilarating economic expansion and prosperity; although this situation cannot go on forever. This accomplishment might be followed by a recession, depression or financial crisis. When the economy faces recession, depression or a financial crisis, the national output falls, profits and incomes decline, unstable price of goods and services occur and unemployment rates jump to uncomfortably high levels, after which the economy reaches its lowest ebb and the recovery begins. This situation can be termed as “Business Cycles”, where the economic fluctuations seen in the total national output, income and employment generally last for a period of 2 to 10 years, marked by widespread expansion in most sectors. However, the upward and downward movements in national output, inflation level, interest rate and unemployment rate form the business cycle which characterizes the whole market economy (Paul and William, 2001). In order to give right political advice, economists should know the causes of boom and crisis.

If a boom or crisis is as a result of spending or price shock, GNP will be away from its potential. In this situation, the government should interfere with the economy to speed the return to its potential. So, the government uses monetary policy (money stock) and fiscal policy (taxes and spending) to solve the economic problem as demand shocks (Hall and Taylor, 1991).

Causes and effects of crisis, which have occurred in various times in history, can be similar or identical. For example, the crisis that took place in Ottoman Empire had internal and external causes, such as: the purchasing power and national income which decreased due to the invasion of the American silver and the British and Dutch alternative trade route to Ottoman Empire. These causes are similar with those of the recent one, such as: the failure to pay on time loans collected from banks due to mortgage internally, and the imbalance of consumption and production of the world externally. Secondly, according to Genc who is a Turkish historian, the main reason for crisis is war because crisis and war occurred at the same time since the 17th century. The USA’s total cost of war in Iraq is predicted to be very much, or maybe more. This can be another reason why the American economy is weak. Crisis in history and crisis in immediate history has a common similarity. However, the unskilful labor force is another reason for crisis in Ottoman Empire. In the study’s opinion, this

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reason is also valid for the recent financial crisis. Someone who is responsible for the economy of any country should have foresight and take precautions. We have to comprehend well the importance of crisis, because Ottoman Empire and USSR have fallen down due to crisis. Soviet Union had negative GNP as -15% (Turan, 2007) in 1990 and -8% (Sancak, 2009) in 1993; as such, it could not catch the speed of technological development and its old system could not be integrated. Nonetheless, crisis in the stage of history is going to be analyzed subsequently.

CRISIS AND ITS HISTORY

Ottoman Empire

Economic prosperity as well as economic crisis had been experienced in every stage of history. We will briefly discuss crisis in history and focus on the causes and effects of recent crisis. Although Ottoman Empire (a welfare state) reached the summit of the welfare, it also faced many economic crises. The period in the beginning of the second half of the 16th Century and which extends till the 1970’s was termed as crisis, transformation, changes and dissolution of Ottoman Empire by historians. In this period, different solutions were proposed for the problems and causes that led to this crisis.

When we look at the political and economical condition of Ottoman Empire at the end of the last quarter of the 16th century, the following were observed:

1. According to historians like B. Levis and H. Inalcik, the spread of Ottoman Empire reached its natural limits.
2. Ottoman Empire controlled a vital territory endowed with silk and spice routes. At the beginning of the 17th century, British and Dutch established dominance on the Mediterranean and Red Sea, and discoveries of alternative trade routes weakened the importance of the Mediterranean trade that caused Ottomans’ losses.
3. Invasion of American silver in the cities that were controlled by Ottoman in the 1570’s gave rise to the increase of commodity prices in Mediterranean countries.
4. Innovations of the modern era war weapons and strategies.
5. Agricultural production fell behind the growing population in the second half of the 16th century. Correspondingly, there was increase in unemployment due to rural-urban migration. Additionally, there were changes in the upbringing style of the Sultans, and from Timar system to Iltizam system. More so, military members who could not get enough charges resort to banditry, which adversely affected the lives of the community in Ottoman lands.

Internally, increased population pressure, changes in bureaucratic structure and excessive taxation of the peasants deeply affected social order, while externally, price increase of the American silver deeply affected social order (Oz, 1997).

However, precautionary measures, taken to unravel the dissolution, can give us information about the effect of reforms.

We observed that solutions were proposed in the Asaf-name book by Lutfi Pasha for the increased rate of bribe and the decreased rate of purchasing power due to the deteriorating economy. To solve this problem, educated, sophisticated and a skillful labor force should be appointed, and the official who heads a provincial treasury and Mukataa should be given emanet instead of iltizam.

According to Nushatü’s - selatin, scholars’ popularity was lowered, bribe became popular and unskillful administrators came into power in government. As such, this caused a reduction of the revenue in the treasury (Oz, 1997).

According to Hasan Kafi, the deteriorating social-economic situation in the territory was caused by: high level of bribery, unskillful labor force, decreased scholar’s popularity and underdevelopment of the military industry (Oz, 1997).

The reason for the widespread of Iltizam (Tabakoglu, 1997) is that government chose taxation and Iltizam to increase revenue in order to cover for government’s high level of expenditure. Spending on soldiers and bureaucrat was a great part of the total government expenditures, so Mukataa was given as Iltizam instead of their wages as seen in the following (Genc, 1997) (Table 1):

“I agree to what was said about causes and effects of crisis in the foregoing. Nevertheless, it is said that Ottoman’s income was Mukataa, Cizye and Avariz (tax), while expense was Mevacip (military), Teslimat (sultan and palace) and has (vizier, admiral). In this situation, expense was increasing while income was decreasing due to the defeat observed in the 1774 Kucuk Kaynarca war with Russia and that in the 1854 Kırım war. Finally, Ottoman Empire went into debt burden which is another reason for crisis.”

Recent global crisis

It is expected that the policy makers must have learnt the lessons of history. Ben Bernanke, the chairman of the Board of Governors of the Federal Reserve System, is a student of the Great Depression. He understands that political mistakes were responsible for the economic crisis of the 1930s. The economic downturn was underway in the second half of 1929, but not until 1933, significant steps were taken to halt the fall in prices, stabilize the banking system and encourage investment spending.

The views of the current generation of policy makers are very much informed by this historical episode, when the Fed for several years made relatively little use of
monetary policy, allowing deflationary expectations to set in, and failed to execute its responsibilities as a lender of last resort, allowing the banking system to collapse.

The crisis erupted in August 2007 when the Fed began flooding financial markets with liquidity. As such, the expansion of its balance sheet was unprecedented. The U.S. economy in the early 1930s was more heavily bank based than today; however, the current crisis has been a crisis not just for banks but for insurance companies, for hedge funds and for the security markets themselves (Eichgreen, 2010). The Great Depression of 1929 is related to the current Financial Crisis in that they both originated in the U.S and they damaged the world economy at a frightful scale. For example, the financial crisis has taken a heavy toll on the US in just a few months by $5 trillion (Financial Forum, 2009a). According to The Institute of International Finance’s (IIF) "Capital Flows to Emerging Market Economies (EME)", a report was issued in January 2009, and a forecast was made that net private capital flows to 28 EMEs would drop sharply to $165 billion in 2009 from $466 billion in 2008 following the record level of $929 billion in 2007 (Erdilek, 2009). It was also observed that Spain, a country in Europe, hit the record numbers of unemployed. Spain government says the jobless rate stands at 11.3%, although the EU’s statistical agency put it at 11.9%. In every respect, Spain has the highest unemployment rate in the 27-member EU countries (Financial forum Spain, 2009b).

In the study’s opinion, one of the many reasons of financial crisis is war. The Great Depression of 1929 emerged from the ashes of the First World War whose cost was evaluated at $337000.000.000 by British economist and statistician Edgar Grammond. What about today? It is the same mistake of history; the same manifestation was repeated at the dawn of the 21st century with America’s war in Iraq. In 2008, Linda J. Bilmes and Joseph E. Stiglitz of the Washington Post estimated the total cost of this war at $3 trillion “and more”. In their words: “The Iraq adventure has seriously weakened the U.S. economy, whose woes now go far beyond loose mortgage lending” (Fowale, 2009).

### Causes of recent global crises

The current financial turmoil is attributed to the sub-prime mortgage sector in the USA. The crisis could be ascribed to the persistence of large global imbalances, which were the outcome of long periods of excessively loose monetary policy, especially in the advanced economies during the last decade. Global imbalances have been manifested through a substantial increase in consumption in the US, which is the cause of the current deficit. On the other hand, a substantial surplus in Asia, particularly in China and in oil exporting countries in the Middle East and Russia caused global imbalance which was the major underlying cause of the crisis (Mohan, 2010). The causes of recent crises can be seen as follows:

1. The bursting of the housing bubble causing a reallocation of capital and a loss of household wealth and drop in consumption.
2. A sharp rise in the equity risk premium (the risk premium of equities over bonds) causing the cost of capital to rise, private investment to fall and demand for durable goods to collapse.
3. A reappraisal of risk by households, thereby causing them to discount their future labor income, increase their savings and decrease consumption (Mckibbin and Stoeckel, 2009).

Firstly, if the circumstance is proper, the household can choose investment in a capital good. The household capital stock combines housing and other durable goods. When we look to the past, we see that the Federal Reserve cut interest rates by a total of 550 basis points in a series of steps between 2001 and 2004. The housing bubble was the result of a long period of low interest rates by the US Federal Reserve. From 2000 to 2006, house prices in some areas doubled for it to subsequently collapse. While house prices were rising so strongly, credit was supplied liberally to meet the demand as perceptions of risk fell. The rising wealth boosted confidence and spending. These changes in some areas have generated dramatic news headlines, but in overall, the United States index of house prices have fallen by 6.2% in real terms from the 1st quarter in 2008 to the same quarter in 2009. Falling house prices have a major effect on household wealth, spending and defaults on loans held by financial institutions. Finally, we saw that housing bubble bursting fuelled financial crisis. Here, one can ask: why did the USA cut interest rates? The answer is that low interest rates were due to fears of deflation which led to a boom in US housing. Also, the US bond yields were low because of low world interest rates (for example, Japanese bond yields were a little above 1% and the short term interest rates were at 0%). There was

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (akce)</th>
<th>Expenses (akce)</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>1698- 1999</td>
<td>1,148,250,641</td>
<td>1,211,379,266</td>
<td>-63,560,888</td>
</tr>
</tbody>
</table>

Table 1. Budget of Ottoman Empire (Genc, 1997).
also an international aspect, where Japan and Europe also affected the US to keep their interest rates low (Mckibbin and Stoeckel, 2009). Secondly, due to the bankruptcy of the Lehman Brothers in September 2008, the current economic and financial environment of the world economy, the global financial system and the central banks have been faced with difficult times (Mohan, 2010).

Lehman has held large positions in the subprime and other lower rated mortgage markets. The Lehman Brothers’ failure was primarily due to the large losses they sustained in the US subprime mortgage market. Losses of $2.8 billion have been reported by Lehman in the second fiscal quarter in 2008; as such, it was forced to sell off $6 billion of its assets. The failure of Lehman Brothers affected equity risk premiums across markets (Mckibbin and Stoeckel, 2009). Thirdly, firms’ reappraisal of risk has discounted households’ labor income which fuelled the increase in savings and decrease in consumption. This situation is also another cause of financial crisis.

EFFECTS OF FINANCIAL CRISIS IN THE WORLD ECONOMY

According to Paul A. Samuelson, recession has some characteristics. Firstly, consumers decrease their consumption. Due to these, producers (investors as well as foreign investors) react by curbing production; so, real GDP falls. Secondly, if producers curb production, it causes no need for more labor force, which is finally followed by layoff and higher unemployment. Thirdly, when demand for raw materials is low, this decreases their price. Finally, we see that business profits fall sharply in crisis (Paul and William, 2001). Theoretically, financial crisis affects the economy. However, an analysis will be made on the impact of the recent global and financial crisis among countries.

Effects of crisis on developed countries (USA)

As everyone knows, the United States has been facing its greatest financial crisis since the Great Depression of the 1930s; although there are speculations on how American capitalism will be fundamentally changed by the crisis. First of all, we see that the United States is in the midst of its most serious banking crisis in seventy years, stirring terrible memories of panics, bank failures, bankruptcies and mass unemployment. The two largest US mortgage providers - Fannie Mae and Freddie Mac - were holding over $5 trillion in mortgage debt (Dornbusch and Fisher, 1994); then, the Lehman Brothers’ problem…… The facts are that financial firms (for example, Lehman Brothers, Merrill Lynch, Bear Stearns, Goldman Sachs, etc.) were significantly exposed when they came to the cycles of the economy. As long as the economy was expanding, their exposure was protected. However, when the housing industry began its radical decline, the exposure became potentially lethal. According to Samuelson, Lehman Brothers was a typical example. In late 2007, it held almost $700 billion in stocks, bonds and other securities. Meanwhile, its shareholders’ investment (equity) was about $23 billion. All the rest was supported by borrowings (Eckman, 2008).

The recent report on profit loss by firms (Citicorp, Merrill Lynch and the Bank of America) is scaring a lot to spread fear around the globe. Citicorp and Merrill Lynch each reported $10 billion loss in their profit, thereby causing massive layoff of 21,000 employees. On the other hand, the Bank of America also joined to layoff 1,100 employees, which was followed by 500 Fortune corporations (Lee, 2008). This impact was seen in Brazil when 65,000 jobs were lost in December as the global crisis hits Latin America’s largest economy. The worst affected sectors of this country were the industry, agriculture and construction (Financial forum, 2009c). As a result, America’s domestic and foreign debt continued increasing. It was seen that both the US current account deficit and its debt-financed housing boom were unsustainable; it was unclear whether the dollar or the housing bubble would collapse first (Skidelsky, 2009).

Beginning with the failures of large financial institutions, the US rapidly evolved into a global financial crisis, deflation and sharp reductions in shipping, thereby resulting in a number of European bank failures and declines in various stock indexes, and large reductions in the market value of equities (stock) and commodities worldwide (Jica, 2009).

Fundamentally, the outcome of the current financial crisis is clearly evident among countries. Stock markets stopped working properly all over the world, with a declining range from 40% to 35% over the past 12 to 18 months in developed countries and even more in most emerging markets. The crisis has also induced significant limitations to investment banking in the United States during the past decade, and a severe recession in most advanced countries and much slower growth in emerging markets. This is likely to be the worst economic recession since the 1930s (Salvatore, 2009). It is clear that global financial crisis affected the developed countries, such that GDP growth rate was 5.2 (2007), 3.2 (2008) and -1.3 (2009) for US and 2.7 (2007), 0.9 (2008) and -3.8 (2009) for European countries (Akrasanee, 2009). According to the least developed countries’ report in 2009, it was argued that the impact of the global economic crisis is likely to be so severe in the least developed countries (LDCs) that “business as usual” is no longer possible (UN, 2009).

Effects of crisis on the developing and least developed countries

Global financial crisis is hitting developing countries very hard. The financial crisis is not a natural disaster; it was
made by people, and is the product of decisions made by companies and the governments. Although developing countries did not make this crisis, it is clear that they are in the firing line when it comes to suffering its effects. For example, Action Aid has calculated that Africa will suffer a real drop in income which is predicted to reach US$49 billion between the start of the crisis in 2007 and the end of it in 2009. If we compare the two recent crises, we can see that the relative impact to GDP is nearly double that of the Asian financial crisis in the late 1990s (Action Aid, 2009).

Generally, the level of potential output in developing countries could be reduced between 3.4 and 8% over the long run, when compared with its pre-crisis path (World Bank, 2010). There are several transmission channels by which financial crisis is spreading around the world. Moreover, with recession looming in the industrialized world, which accounts for more than 60% of the world output, exports from developing and emerging countries will take a hit. A slowdown of world growth will also affect energy and commodity prices, which in turn will affect energy and commodity exporting countries, while importers will get some relief.

Last, but not the least, the crisis has already affected remittance flows from industrialized to developing countries, which is an important source of income for many countries (GDI, 2010). When we look carefully, we can see the countries that are most affected among the 16 low and middle-income countries. Every single country in our sample, and the sub-Saharan Africa as a whole, is predicted to see a real drop in inflows between 2007 and 2009 (Action Aid, 2009) (Table 2).

Financial crisis affected factors such as bank lending, equities and foreign direct investment. Of all the money that flows into developing countries, it is bank lending that has been hit the hardest. According to the Institute of International Finance (IIF), foreign bank lending to developing countries dropped sharply. In other words, net flows to developing countries were actually negative. The turmoil in financial markets has also had an impact on developing countries’ equity markets and FDI (Table 3). On the other hand, we highlight that the losses were mainly from trade revenue, and would depend on each country’s mix of exports and main trading partners. However, for some low income countries, the predicted trade losses varied from a fall of about 25% to a lesser percent in export earnings between 2007 and 2009 (Action Aid, 2009).

One more tragic story from the World Bank Report shows a 50-year-old grandmother recalling the difficulties of reduced wages before she found her new job:

“It was really hard to live on 200 baht (approximately 6 USD) a day when I had to buy food and milk for a child, and still had to pay rent as well as other expenses, but I never had any money left back then. Now I can relax a little bit and save a little every month.”

We can face such kind of tens of millions of stories such as Nils’ - and some far worse - each echoing the pain of a historically deep and synchronized recession, in which virtually no country has remained untouched by the bursting of a global financial bubble, while the poorest remain the most vulnerable.

According to a new World Bank report, “Global Economic Prospects 2010: Crisis, Finance and Growth”, the crisis is having serious cumulative impacts on poverty. Researchers Jed Friedman and Norbert Schady estimated, for instance, that an additional number of children between 30,000 and 50,000 may have died of malnutrition in Africa in 2009 because of the crisis (World Bank, 2010).

What about inflation in developing countries? In 2008, a sharp rise was seen in food and fuel prices, but in 2009, commodity price has resulted in the inflation rate falling dramatically. For instance, inflation in low-income countries

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**Table 2. Financial inflows and export earnings from 2007 to 2009 (current US$, millions).**

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub Saharan Africa</td>
<td>368,373</td>
<td>371,536</td>
<td>1</td>
<td>319,007</td>
<td>-13</td>
</tr>
<tr>
<td>South Africa</td>
<td>118,022</td>
<td>95,203</td>
<td>-19</td>
<td>62,307</td>
<td>-47</td>
</tr>
<tr>
<td>Korea</td>
<td>391,344</td>
<td>391,437</td>
<td>0</td>
<td>243,458</td>
<td>-38</td>
</tr>
<tr>
<td>Turkey</td>
<td>167,316</td>
<td>147,739</td>
<td>-12</td>
<td>109,871</td>
<td>-34</td>
</tr>
<tr>
<td>Brazil</td>
<td>255,005</td>
<td>219,845</td>
<td>-14</td>
<td>176,816</td>
<td>-31</td>
</tr>
<tr>
<td>Russia</td>
<td>481,195</td>
<td>500,475</td>
<td>4</td>
<td>338,667</td>
<td>-30</td>
</tr>
<tr>
<td>India</td>
<td>247,932</td>
<td>222,852</td>
<td>-10</td>
<td>175,344</td>
<td>-29</td>
</tr>
<tr>
<td>Nigeria</td>
<td>95,900</td>
<td>115,777</td>
<td>21</td>
<td>71,133</td>
<td>-26</td>
</tr>
<tr>
<td>Venezuela</td>
<td>68,934</td>
<td>94,021</td>
<td>36</td>
<td>52,862</td>
<td>-23</td>
</tr>
<tr>
<td>Malaysia</td>
<td>193,857</td>
<td>199,362</td>
<td>3</td>
<td>161,791</td>
<td>-17</td>
</tr>
<tr>
<td>China</td>
<td>1,372,763</td>
<td>1,446,750</td>
<td>5</td>
<td>1,075,844</td>
<td>-22</td>
</tr>
</tbody>
</table>

countries peaked at 15.4% in the middle of 2008, but in July 2009, it declined to 3.4% (World Bank, 2010).

When the business cycle was visualized, it was observed that the world economy has been at the bottom of fluctuation; then, after 2009, the data showed that global GDP has began to improve. Thus, the output grew rapidly during the second half of 2009 and is expected to do same during the first half of 2010. However, as a positive contribution to growth is seen from the fiscal stimulus, the growth will slow in part because spending by households and the banking sector will be less buoyant as they rebuild their balance sheets. As a result, global GDP growth, which is projected to be 2.7% in 2010 (after an unprecedented 2.2% decline in 2009), is expected to accelerate only modestly to 3.2% in 2011 (World Bank, 2010).

According to the World Bank data, recovery is seen as the GDP growth rate in developing countries is projected to grow by 5.2% in 2010, after a modest 1.2% rise in 2009 (-2.2% if India and China are excluded) and a relatively weak 5.8% rise in 2011 (Table 4). GDP growth is improving, but it will take a long time to fully improve. The strength of the recovery depends on the private-sector’s demand and fiscal and monetary stimulus. An estimated 64 million more people may be living in extreme poverty by the end of 2010 due to the crisis. Thus, developing countries need to anticipate scarcer and more expensive capital (World Bank, 2010).

**DISCUSSION AND SUGGESTIONS**

It was observed that economic crisis has been in the making for years and is largely due to lack of regulation and enforcement within the financial system. Moreover, a lack of confidence on how the international financial institutions are governed has also become severe. Each country, of course, is different in many ways, but each faces global financial crisis and each one wants to avoid financial instability’s destruction. Central Bank is responsible for financial stability in any country which can pursue a cautious monetary and fiscal policy and can prevent financial risks within the country as a result of regulatory and supervising implementation. World economy is more dependent and more interrelated due to the phenomenon of globalization. In response to the

<table>
<thead>
<tr>
<th>Region</th>
<th>2007</th>
<th>2008</th>
<th>2009 (^e)</th>
<th>2010 (^f)</th>
<th>2011 (^f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>3.9</td>
<td>1.7</td>
<td>-2.2</td>
<td>2.7</td>
<td>3.2</td>
</tr>
<tr>
<td>High-Income Countries</td>
<td>2.6</td>
<td>0.4</td>
<td>-3.3</td>
<td>1.8</td>
<td>2.3</td>
</tr>
<tr>
<td>Euro Area</td>
<td>2.7</td>
<td>0.5</td>
<td>-3.9</td>
<td>1.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Japan</td>
<td>2.3</td>
<td>-1.2</td>
<td>-5.4</td>
<td>1.3</td>
<td>1.8</td>
</tr>
<tr>
<td>United States</td>
<td>2.1</td>
<td>0.4</td>
<td>-2.5</td>
<td>2.5</td>
<td>2.7</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>8.1</td>
<td>5.6</td>
<td>1.2</td>
<td>5.2</td>
<td>5.8</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>11.4</td>
<td>8.0</td>
<td>6.8</td>
<td>8.1</td>
<td>8.2</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>7.1</td>
<td>4.2</td>
<td>-6.2</td>
<td>2.7</td>
<td>3.6</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>5.5</td>
<td>3.9</td>
<td>-2.6</td>
<td>3.1</td>
<td>3.6</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>5.9</td>
<td>4.3</td>
<td>2.9</td>
<td>3.7</td>
<td>4.4</td>
</tr>
<tr>
<td>South Asia</td>
<td>8.5</td>
<td>5.7</td>
<td>5.7</td>
<td>6.9</td>
<td>7.4</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>6.5</td>
<td>5.1</td>
<td>1.1</td>
<td>3.8</td>
<td>4.6</td>
</tr>
<tr>
<td>Excluding transition countries</td>
<td>8.1</td>
<td>5.6</td>
<td>2.5</td>
<td>5.7</td>
<td>6.1</td>
</tr>
<tr>
<td>Excluding China and India</td>
<td>6.2</td>
<td>4.3</td>
<td>-2.2</td>
<td>3.3</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Source: World Bank (2010). Note: e = estimate; f = forecast. Growth rates were aggregated using real GDP in 2005 constant dollars (Real GDP growth, percentage change from previous year).
global financial crisis, central banks and governments have taken different measures to rectify the problems and put financial markets and the economies back into the right path. Corrective measures have to be taken collectively to reduce the severe effects of global crisis.

International institutions and treaties like IMF, WTO and WB should play active role in balancing global trade and markets. Other internationally accepted institutions can be established and empowered to regulate and monitor activities of international companies. Ethical practices should be rewarded. Governments should focus on their fiscal spending and stimulus packages on infrastructure and construction activities which will lead to economic growth rather than bail-outs and subsidy programs.

New global financial systems should be established together with new internationally accepted organizations. These new institutions should have resources and play a major role to balance world economies. Creation of new financial instruments should be evaluated and monitored thoroughly. These new institutions should ensure that a new strong global financial system will not permit for future collapses.

1. Nations should implement economic regulatory and legal policy reforms instead of protectionist and nationalist policies.
2. Government can take over the burden of a new worker who becomes employed for the first year. This can make the burden lighter for business and can lessen high rate of unemployment.
3. Domestic demand for goods and services can not be enough, so export should be encouraged to cope with this, since countries, especially those having very much reserve of cash, can give credit with very low interest.
4. Some strong countries should sacrifice and attract foreign direct investment to a country which was affected deeply.
5. Government can ensure loan guarantee between the banks of member states to establish the confidence.
6. Government can stimulate the private sector under a developed region by curbing tax or giving credit with no interest.
7. In this study’s opinion, the greed of Wall Street and the speculative transactions played another role in the global crisis. All the world economies and related parties should put their shoulder under this burden. Nonetheless, developing and underdeveloped countries’ concerns should be stated too in this new global financial system.

CONCLUSION

It was seen that there are internal and external causes of crisis in Ottoman Empire and the recent one. To solve the economic problems (crisis), lots of remedies were proposed by thinkers, such as: skilful labor force should be appointed in government institution and Mukataa should be given as Emanet instead of Iltizam. About the low purchasing power, we cannot say that the sole reason for inflation is the American silver, because there was a change in the fiscal and demography policies which lasted for a long term. So, agricultural product was behind the increase observed in the population, and the high level of government expenses could be one of the main reasons too.

Basically, it was also seen that there are many causes of the recent global financial crisis. In this paper, we faced the main reasons, such as: the bursting of the housing bubble, a sharp rise in the equity risk premium and a reappraisal of risk by households. In the study’s opinion, another reason for crisis is the imbalance of consumption and production in the world. In the West, consumption was vast, while in the East, production was vast. These caused the persistence of large global imbalances called the greatest financial crisis in USA and spread to the other countries. If we say that no country was affected by crisis, we are not making a mistake. Developed countries, especially USA and European countries, were affected more than developing countries. Most of the countries’ GDP dropped sharply, while some huge corporations went to bankruptcy and the unemployment rate increased. It is assumed that the economy saw the lowest level. Global macroeconomics must be more balanced and global financial market must be more stable. If the aforementioned suggestions are taken into consideration, they can be remedies for globally disrupted world economies.

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