MacroEconomics

Term Paper

Can we avoid another Global Recession?

Written By- Mohit Saini (21HS10028)

Guided by: Prof. Narayan Chandra Nayak

A severe and widespread fall in economic activity across several nations and regions is known as a global recession, which also causes a decline in the global GDP (Gross Domestic Product) and other economic indices. It is often characterised by a reduction in global commerce, a loss of productivity and job opportunities, as well as a loss of consumer and corporate confidence. A slowdown in demand for products and services, a decline in investments, and disruptions to global supply networks are some of the reasons that contribute to a global recession. Events like financial crises, natural catastrophes, pandemics, or political unrest can all serve as triggers. Governments and central banks may put measures in place during a global recession to boost economic growth and lessen its effects. These policies may include fiscal stimulus measures such as tax cuts and government spending, as well as monetary policies such as interest rate cuts and quantitative easing.

Since it might result in a cascade of negative economic, social, and political effects, a global recession poses a severe danger to the world economy. When the world economy enters a recession, economic activity has significantly decreased, which has a negative impact on trade, investment, and employment. So, the economy would continue to slow down as a result of fewer consumer spending and less corporate confidence. A worldwide recession can have an effect on several economic sectors and result in huge financial losses for both firms and people. Governments may see a reduction in tax income due to rising unemployment rates, which will cause them to reduce expenditure and services. In extreme cases, a global recession can also trigger social unrest, political instability, and even conflict, especially in regions with fragile political and economic systems.

The impacts of global recessions can be devastating, with millions of people losing their jobs and businesses going bankrupt. Following are the some historical examples of global recessions:

The Great Depression (1929-1939)

This was the most severe global recession in history, which started with the stock market crash in 1929 and lasted until the late 1930s. It led to widespread unemployment, bank failures, and economic turmoil across the world, with the US being the hardest hit.

The Oil Crisis (1973-1975)
The Organization of Petroleum Exporting Countries (OPEC), in reaction to the US's support of Israel during the Yom Kippur War, hiked oil prices by 70%, which triggered the worldwide recession of the 1970s. Stagflation (high inflation and poor growth) and a slump in the global economy were the results of this.

The Global Financial Crisis (2008-2009)
The US housing bubble burst, which led to the following collapse of the global financial system, and thus led to the 2008–2009 worldwide recession. Widespread job losses, bank collapses, and a precipitous drop in international commerce and economic activity were the results.

The COVID-19 Pandemic (2020-2021)
The COVID-19 pandemic, which resulted in numerous company closures, job losses, and a dramatic fall in economic activity worldwide, was to blame for the global recession of 2020–2021. Since the Great Depression, no recession has affected the world as severely as this one, with several nations facing negative growth rates and record-high unemployment.

Global recessions are complicated economic occurrences that can have catastrophic consequences for people, businesses, and whole nations. Global recessions include a variety of root causes and initiators, and these factors can change from one recession to the next. Financial crises are frequently the starting point of worldwide recessions. Credit markets may decrease and economic activity may drop when financial firms suffer substantial losses and go insolvent. For instance, significant financial crises contributed to both the stock market crash of 1929 and the financial crisis of 2008. Global recessions can also be caused by economic imbalances. Unbalances that finally result in a recession can be caused by significant trade imbalances, excessive debt levels, and unsustainable economic development. For example, An over dependence on foreign money caused the Asian financial crisis of the late 1990s, which finally resulted in a dramatic decrease in asset values and economic development. Recessions can also be brought on by outside shocks like natural catastrophes, pandemics, or geopolitical crises. For instance, the COVID-19 pandemic in 2020 resulted in lockdowns and supply chain disruptions, which sharply reduced worldwide economic activity. Global recessions can also be caused by central banks making bad monetary policy decisions. For instance, it is generally accepted that the Federal Reserve's tightening of monetary policy in the early 1930s played a role in the severity of the Great Depression. Economic shocks brought on by significant technical innovations have the potential to start a recession.

The research paper "Can we avoid another Global Recession?" focuses on the fundamental question of whether it is possible to prevent another worldwide economic downturn similar to the 2008 financial crisis. To answer this question, the research paper outlines several objectives that it aims to achieve. Firstly, it seeks to examine the causes of the 2008 global recession and identify the factors that contributed to its severity. This will provide a basis for understanding the potential risks and vulnerabilities that could lead to another recession.

Secondly, the research paper will analyse the current state of the global economy to determine its health and identify potential threats. It will assess the effectiveness of the policies and strategies that were implemented in response to the 2008 crisis, examining what worked and what did not work. This analysis will be used to identify lessons that can be learned from the past, and to develop new or alternative policies and strategies that could be implemented to prevent or mitigate the impact of a future global recession.

Thirdly, the research paper aims to explore various policies and strategies that could be employed by policymakers, businesses, and individuals to prepare for and respond to a potential global recession. The research paper will propose recommendations and guidelines for policymakers, businesses, and individuals to prepare for and respond to a potential global recession. These recommendations will draw on the research conducted throughout the paper, with a view to providing practical and actionable steps that can be taken to avoid another global recession.

Global recessions have many different root causes, some of which include a drop in consumer and company confidence, decreased investment, strict monetary policies, and excessive debt levels. Global recessions can also be started by financial shocks like asset bubbles or financial crises. According to empirical data, global recessions frequently continue longer and are more severe than national ones, and they have an effect on many different economic sectors. High unemployment rates, slowing economic development, rising poverty, and social instability can all be effects of global recessions. However, some academics have asserted that international recessions may increase already existing disparities within and between nations. While formulating measures to lessen the effects of global recessions, policymakers must carefully take these aspects into consideration because they are complicated and diverse.

While the literature on the global recession is extensive, there are several gaps and limitations that exist within it. Firstly, much of the literature on the global recession has focused on the 2008-2009 financial crisis, with less emphasis on the potential causes and implications of future global recessions. As such, there is a need for more research on the factors that could lead to a future global recession, as well as the potential policy responses to mitigate its impact.

The present research on the world recession frequently adopts a macroeconomic viewpoint, which may ignore the unique experiences of many nations and areas. This may lead to a lack of complexity and specificity in comprehending how the global crisis has affected various people and economic sectors. The effects of global economic downturns on local and regional economies need to be better understood, as well as how they vary based on factors including income level, industry, and demographic features.

The literature on the global recession often overlooks the environmental impacts of economic downturns. There is evidence to

suggest that global recessions can have positive environmental outcomes, such as reduced carbon emissions and improved air quality. However, there is also a risk that recessions could lead to a delay in necessary climate action, as governments prioritize economic recovery over environmental sustainability. More research is needed to explore the complex relationship between global recessions and the environment, and to identify policy responses that prioritize both economic and environmental sustainability.
Most of the existing literature on the global recession is focused on the developed world, with less attention given to the experiences of developing countries. However, developing countries are often disproportionately affected by global economic downturns, due to their dependence on exports and limited economic diversification. There is a need for more research on the specific challenges faced by developing countries during global recessions, as well as the potential policy responses that can support their economic recovery and long-term development.

Measuring and monitoring global economic activity and risks requires a range of data sources and indicators that capture different aspects of the global economy. One key data source is national accounts data, which provides information on the economic activity of individual countries. National accounts data includes measures such as Gross Domestic Product (GDP), which is the total value of goods and services produced within a country's borders in a given period of time. Other indicators, such as Gross National Income (GNI) and Balance of Payments (BoP), provide additional information on a country's income and international trade activity. These indicators are compiled and reported by national statistical agencies and are typically released on a quarterly or annual basis.

In addition to national accounts data, financial indicators are also used to measure and monitor global economic activity and risks. These indicators include stock market indices, bond yields, and currency exchange rates, which provide information on the performance of financial markets and the strength of different currencies. Central banks and financial institutions use these indicators to monitor economic conditions and make decisions on monetary policy. Another key data source for measuring and monitoring global economic activity and risks is international trade data. This includes information on the volume and value of goods and services traded between countries, as well as trade agreements and tariffs. The World Trade Organization (WTO) and other international organizations collect and report on this data, which is used to track changes in global trade patterns and identify potential risks to the global economy. Other indicators used to measure and monitor global economic activity and risks include employment and labor market data, such as unemployment rates and job creation, as well as inflation and consumer price index (CPI) data, which provides information on the cost of living and purchasing power. These indicators are used to gauge the health of national economies and to identify potential areas of risk, such as high levels of inflation or a lack of job opportunities.

Surveys of business and consumer confidence are also used to monitor global economic activity and risks. These surveys ask individuals and businesses about their expectations for the economy, such as future investment plans and consumer spending intentions. The results of these surveys can provide insight into the direction of the economy and potential areas of weakness.

Assessing and forecasting global economic conditions and scenarios requires a range of analytical methods and tools. One commonly used tool is econometric modeling, which involves the use of statistical techniques to estimate and test relationships between different economic variables. Econometric models can be used to forecast future economic conditions based on historical data, and to simulate the potential effects of different policy scenarios. Scenario analysis involves the creation of different hypothetical scenarios that explore how the global economy could evolve under different conditions. These scenarios can be based on a range of factors, such as changes in government policies, shifts in consumer behavior, or the emergence of new technologies. By analyzing the potential outcomes of different scenarios, policymakers and economists can identify potential risks and opportunities and develop strategies to address them. In addition to econometric modeling and scenario analysis, network analysis is also used to assess and forecast global economic conditions. Network analysis involves the study of the relationships and connections between different economic entities, such as banks, companies, and governments. By analyzing the structure and dynamics of these networks, economists can identify potential sources of systemic risk and develop strategies to mitigate them.

Big data analytics involves the use of large and complex datasets to identify patterns and trends in economic activity. This can include data on consumer behavior, social media activity, and other non-traditional sources of economic data. By analyzing this data, economists can gain insights into emerging trends and potential risks that may not be captured by traditional economic indicators.

Machine learning and artificial intelligence (AI) are increasingly being used to assess and forecast global economic conditions. These technologies can be used to analyze vast amounts of data and identify patterns and trends that may not be apparent through traditional analysis. They can also be used to develop predictive models that can forecast economic conditions with greater accuracy and precision.

The results of the analysis on whether we can avoid another global recession are broadly consistent with existing literature and expectations of a potential global recession. Many studies and reports have highlighted the risks and vulnerabilities in the global economy that could trigger a recession. These risks include high levels of debt, geopolitical tensions, environmental risks, and the ongoing COVID-19 pandemic. However, the specific triggers and potential scenarios identified in the analysis may differ from those highlighted in other studies. For example, some studies have focused more on the risks associated with global trade tensions or the potential for a major financial crisis, while the analysis also highlights the risks associated with inflation and a collapse in the stock market. The analysis also emphasizes the importance of international cooperation and coordination in mitigating the risks of a global recession. This is consistent with many existing studies that highlight the benefits of global policy coordination in promoting economic stability and reducing the risks of financial crises. While there may be some differences in the specific triggers and potential scenarios highlighted in different studies, there is broad agreement among economists and policymakers that the global economy is facing significant risks and vulnerabilities that could potentially lead to a recession. This highlights the importance of taking steps to address these risks and promote greater economic stability, through measures such as fiscal and monetary policy interventions, debt reduction, and international policy coordination.

The likelihood and severity of potential global recession scenarios depend on a variety of factors, including the specific trigger of the recession and the actions taken by policymakers in response. The likelihood of a significant increase in inflation has increased due to factors such as supply chain disruptions and government stimulus measures. If inflation were to rise rapidly, it could lead to a recession by reducing consumer purchasing power and increasing interest rates. The severity of a recession triggered by inflation would depend on the extent and duration of the inflationary pressures and the ability of central banks to respond effectively.

The 2008 financial crisis showed that global recessions may have serious and enduring consequences on economies all across the world. Policymakers must put in place a variety of policies that address the underlying causes of economic instability if they want to prevent or lessen the effects of such recessions. The promotion of international collaboration and coordination between states is one of the main approaches to stop global recessions. Countries may implement policies that support stability and prosperity while lowering the danger of financial crises by cooperating. To make sure that financial institutions and markets function within acceptable bounds, authorities must prioritise financial regulation and monitoring. Putting in place countercyclical fiscal measures is another important tactic. Governments can utilise fiscal policy measures like increased expenditure or tax reductions during economic downturns to stimulate demand and encourage growth. In contrast, during periods of economic expansion, governments should work to cut deficits and pay down debt in order to create fiscal reserves that may be used in the event of future recessions. Moreover, central banks are essential in reducing the impact of global recessions. They can increase lending and boost economic activity by using monetary policy instruments like interest rate changes and quantitative easing. In order to avoid systemic shocks and advance financial stability, they can also offer liquidity to the financial markets. Investments in infrastructure, education, and human capital must be prioritised by policymakers. These investments have the potential to increase countries' long-term economic potential and foster stability. By generating employment and boosting economic activity, they can also serve to lessen the consequences of recessions.

Future research on global recessions could focus on several areas, including:

Understanding the causes and triggers of global recessions: Researchers might examine previous global recessions to find common causes for their emergence. This may aid in the improvement of crisis management plans and early warning systems for policymakers.

Developing new tools and policies to combat global recessions: To avoid or lessen the effects of global recessions, economists and policymakers might investigate novel policy instruments including targeted fiscal stimulus and international cooperation.

Investigating the impact of global recessions on different sectors and groups: Researchers might look at how diverse industries, including manufacturing, agriculture, and services, as well as various socioeconomic categories, such low-income families and small enterprises, are impacted by global recessions. This may help shape strategies that can assist these industries and demographic groups in coping with the consequences of recessions.

Analyzing the role of international institutions in managing global recessions: Global recessions are significantly lessened by the efforts of international organisations like the World Trade Organization (WTO) and International Monetary Fund (IMF). The success of their proposals and strategies in preventing and controlling global recessions might be studied by researchers.

Assessing the impact of technological advancements on global recessions: Researchers might investigate how technological developments affect the occurrence and effects of global recessions given the growing importance of technology in today's economy. This could aid in helping policymakers foresee and get ready for the ways that technology disruption would affect the state of the world economy.

Policy actions that can be taken include:

1) Coordinating the implementation of suitable monetary and fiscal policies between central banks and fiscal authorities.
2) Establishing a worldwide financial safety net that gives aid to nations experiencing economic difficulties.
3) To stop financial catastrophes, the financial industry needs better regulation and oversight.
4) Fostering global collaboration and coordination between nations and international organisations to combat the consequences of global recessions.

5) Investing in retraining and education initiatives to assist workers in acquiring the skills required in the dynamic global economy.