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The Next Great Collapse 2020-2022

Mohamad Abdulrahman Qutait*

Business Administration, Paris Graduate School of Management, Paris, France

Abstract

The world has witnessed several financial crises directly affected the economic growth rates and contributed to the impact of the main indicators of this growth starting from the Great Depression 1929 followed by the Second World War, the Bretton Woods crisis, October 1973 war, the 1987 and 1989 crisis, the Second Gulf War and the Asian Tigers crisis 1998 and the mortgage crisis 2005-2007. The study aims to establish the determinants and foundations of financial crises, as they are all similar in their timing almost every decade once and accompanied by an economic bubble in a particular sector of the economy such as the industrial sector in 1929, the oil industry 1973, the financial sector 1998 and the real estate sector 2008 and the end of the bubble the crisis occurs. What we are witnessing in the current year 2019 is the end of the economic cycle and a big bubble witnessed in the services and financial derivatives sector, where we can say that all crises centre on exchange rates and the lack of GDP development in proportion to the population, inflation rates, exchange rates, interest rates, stocks and the strength of Dollars as an intermediary currency for international exchanges.

The study is considered as highly authentic, although studying crises is commonly conducted by thousands of researchers, however, in most cases, they studied one or two of the crisis causes. Most researches did not establish more than two or three components of the crises, since the previous crises had only one economical factor, such as a mortgage, which had effects on the banks' assets of securities. The Dow Jones collapsed and the world economy collapsed in 2008-2009 followed by the dramatic collapse of the world economy with direct falling like dominoes.

The most important points which prove the authenticity of the research can be summarized as follows:

1- Study all factors that led to financial crises after 1929.

2- Introduce the DXY index in the study which is considered as one of the most significant indicators at all that portends the existence of a crisis related to the amount of the global central banks' confidence in the US dollar.

3- This study coincides with the arrival of the price boom in global stocks, especially Dow Jones to historical prices with a barrel of oil price at $52 on 11/10/2019 for Nymex trading and with reducing the global economic growth rates to less than 3.2%. All these factors indicate that the global economy entered in a recession phase preceded a collapse similar to the Great Depression of 19292).

Keywords: Crises • GDP • Econometric

Introduction

The past repeats and reiterates itself with its financial crises, but in different dimensions and successive times similar in terms of causes but with different consequences and disasters it causes on the economies of countries, as they often caused a sharp deterioration in financial markets and a decline in GDP and currency values which leads to unemployment and malfunction of the banking system and the departure of some companies from markets and their bankruptcy. Governments then seek through their central banks to alleviate these crises by traditional banking policies such as interest rates and exchange and by non-traditional ones such as quantitative easing and the total or partial acquisition of these failing institutions. The world has witnessed several financial crises directly affected the economic growth rates and contributed to the impact of the main indicators of this growth starting from the Great Depression 1929 followed by the Second World War, the Bretton Woods crisis, October 1973 war, the 1987 and 1989 crisis, the Second Gulf War and the Asian Tigers crisis 1998 and the mortgage crisis 2005-2007.

Methodology

The financial crisis: a sudden disorder in the economic balance in a country or several countries. This term refers in particular to the disruption arising from the imbalance between production and consumption, and it is either slow or rapid, and either local or global.

**Address for Correspondence: Mohamad Abdulrahman Qutait, Business Administration, Paris Graduate School of Management, Paris, France, Email: qutait.mohamad@yahoo.com*

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My definition is: sudden shock to economies of all kinds resulted from economic accumulations related to payments disordered balance, exchange rate disorder, lack of coordination between interest rates and monetary offer, unrealistic rise in the value of assets as speculation concentrates on them, leaving markets without government intervention, economic openness which is inappropriate to the existing resources nature and lack of GDP growth with a rate higher than inflation and the population increases with steady State revenues.

DYX Index: the index of measuring the US dollar in a basket of foreign currencies is the Euro, sterling, Japanese yen, Swiss franc, Swedish kronor and Canadian Dollar. It started trading in 1973 at 100, i.e. the rise above this value means that the dollar exchange rate against this basket of currencies has risen and vice versa.

Real GDP: It reflects the value of all goods and services produced by the economy in a given year, expressed in base year prices, usually referred to as "fixed price", GDP "corrected inflation", or "GDP in constant dollars", unlike GDP, real GDP can be responsible for changes in the price level and provide a more accurate figure for economic growth. While nominal GDP is taken in total without reducing the rate of inflation, usually GDP consists of consumption, government spending, investments and trade balance.

Inflation: it is an increase in the general level of prices resulting from a gap between the volume of income available for spending and the mass of finished goods. While my definition, according to economic research submitted to the Higher Institute of Population Studies and Research in Syria in 2009 which examines the relationship between economic inflation and population, is every increase in the amount of the exchanged funds resulting in an increase in aggregate demand for the total offer of goods and services in a certain period of time, which leads to an increase in the general level of prices.

Quantitative Easing: it is a non-traditional monetary policy (printing money) used by central banks to stimulate the national economy when

traditional monetary policy becomes ineffective, where the central bank buys financial assets to increase the amount of funds set in advance in the economy. This policy is distinguished from the more usual policy of buying or selling financial assets by maintaining interest rates in the market at the defined target value. The Central Bank carries out quantitative easing by buying financial assets from banks and private sector companies with new funds created electronically and this action increases the bank surplus reserves, as well as Increases the purchased financial assets prices, and consequently reduces their returns.

Research problem

The growing domestic outputs of States and their economic stability depend primarily on their dependence on their resources, their optimal utilization and the maintenance of economic components with a balanced inputs and outputs.

- Hasan Alnajafi – Baghdad 1977 – Economic Crisis, Page 89.
- World Bank, economic terms, https://trading-secrets.guru/ terminology / real-gross-domestic-product% C2% A0, 2019.
- R. Sayery, Central Banking in Underdeveloped Countries Cairo, National Bank of Egypt, 1956, P.3
- Wikipedia, Quantitative Easing, https://en.wikipedia.org/wiki/QE, 2019.

However, global capitalism and its penetration into all countries, as well as globalization in the present world with the help of technical progress impose on all economies dependency, control or to integrate with each other which makes the ignition of one match in this large box ignites everyone. The previous financial crises and through the introduction mentioned above have elements that contribute effectively to their creation. Each crisis has highlighted several elements of growth in GDP, inflation rates, US interest rates, population, US stock prices and public debt.

The research problem can be summarized by the following question:

What is the impact of the financial crisis on the global economy growth?

From this question we can draw the following:

1. What is the nature of the inflation impact as one of the financial crisis indicators on the global economy growth?
2. What is the nature of the population growth rates impacts as one of the financial crisis indicators on the global economy growth?
3. What is the nature of the US stock prices impacts as one of the financial crisis indicators on the global economy growth?
4. What is the nature of the US interest rates impacts as one of the financial crisis indicators on the global economy growth?
5. What is the nature of the DXY prices impacts as one of the financial crisis indicators on the global economy growth?
6. What is the nature of US public debt impacts as one of the financial crisis indicators on the global economy growth?

Research objectives

The study aims to establish the determinants and foundations of financial crises, as they are all similar in their timing almost every decade once and accompanied by an economic bubble in a particular sector of the economy such as the industrial sector in 1929, the oil industry 1973, the financial sector 1998 and the real estate sector 2008 and the end of the bubble the crisis occurs. What we are witnessing in the current year 2019 is the end of the economic cycle and a big bubble witnessed in the services and financial derivatives sector, where we can say that all crises center on exchange rates and the lack of GDP development in proportion to the population, inflation rates, exchange rates, interest rates, stocks and the strength of Dollars as an intermediary currency for international exchanges.

Importance of the research

This research is unlike other researches which highlighted the financial crises in general, however, the study focuses on the causative factor at each stage and we have seen that the crisis of 1929 was the result of low demand and a large depression resulted from the significant mechanization of industry and the entry of exchange rates and inflation as factors in the crisis. Exchange rates alone were the cause of the Asian tiger crisis, while the energy crisis was the cause of 1973 and 1991 crises and what creates the crisis at certain time might be the result of a crisis later.

Everyone focuses on the crisis results in his research, but with limited concentration on the causes and signs of emergence, especially that the observations and studies of the global economy at the present time are carried out through statistical programs, financial theories and advanced software proved effective and that it is capable to reach results which contribute to the prevention or mitigation of these crises.

Research hypothesis

The basic hypothesis: the negative impact of financial crises on the global economy growth

The following hypotheses can be derived:

- The negative impact of inflation on the global economy growth.
- The negative impact of population growth on the world economy growth.
- There is a negative impact of the Dow Jones rise on the global economy growth.
- The negative impact of the negative US interest rates on the world economy growth.
- There is a negative impact of the high DXY index on the global economy growth.
- There is a negative impact of the US debt rise on the global economy growth.

Research or study authenticity

The study is considered as highly authentic, although studying crises is a commonly conducted by thousands of researchers, however, in most cases they studied one or two of the crisis causes. Most researches did not establish more than two or three components of the crises, since the previous crises had only one economical factor, such as a mortgage, which had effects on the banks' assets of securities. The Dow Jones collapsed and the world economy collapsed in 2008-2009 followed by the dramatic collapse of world economy with direct falling like dominoes. The most important points which prove the authenticity of the research can be summarized as follows:

1) Study all factors that led to financial crises after 1929.

2) Introduce the DXY index in the study which is considered as one of the most significant indicators at all that 3) portend the existence of a crisis related to the amount of the global central banks confidence in the US dollar. This study coincides with the arrival of the price boom in global stocks, especially Dow Jones to historical prices with a barrel of oil price at $52 on 11/10/2019 for Nymex trading and with reducing the global economic growth rates to less than 3.2%. All these factors indicate that the global economy entered in a recession phase preceded a collapse similar to the Great Depression of 1929.

Methodology of the Research

4) Philosophy of the Research: The epistemological positivistic model will be used. Access to truth can be achieved by understanding its governing relationships and laws and which link the different variables.

The relationship between GDP growth and the crisis components has become known through the economic cycles the world witnessed over the past decades.

We can also say that the prediction of crises has become known through economic phenomena, the existence of which will be considered as the beginning of a financial crisis, same as the negative curve of the US interest at the moment, October 2019.

5) Research Method: The historical recovery approach will be used as the research deals with crises since 1929 until the mortgage crisis 2005-2008 and to identify the causes of these crises and develop solutions to them. We will also use the descriptive analytical method for the purpose of analyzing the items of previous crises. This approach is indispensable in any research committed to objectivity, accuracy and credibility.

6) Research Strategy: The sample is ready and its numbers are present, we have just developed hypotheses and we want to test them.

Ninth: Limitations of the Research

Timeline observations of the study's variables were taken from the World Bank's website related to the impact of crises on global economic growth from 1975 to 2018.

In other words, the research was based on official World Bank figures and a 44-year observation period of global economic growth. Some of the major crisis indicators were taken from the US economy as the engine of the international economy.

Tenth: Previous Studies

First: Local Studies: There is a study prepared by Professors Ali Al-Ziyadat and Faris Al-Kharabsheh, published by the Islamic University Journal for Economic and Administrative Studies, Volume 21, First Edition, January 2013.

1 **Research Title:** the impacts of the financial crisis on the world financial markets.

2 **The Objective of the Study:**

Analyze the crisis of financial markets collapse causes.

Establish statistics showing losses of international and Oman stock exchanges.

Develop efficient methods to raise the efficiency of stock exchanges in line with crises.

To know the impact of the crisis on global stock prices and the Dollar index

3 **Time Limits of the Research:** 2013.

4 **Spatial Limits of the Research:** Global Financial Markets and Oman Financial Market Case Study.

5 **Research Hypothesis:**

First Hypothesis H0: There is no statistically significant relationship between global financial crisis and financial market efficiency at 5% level.

Substitute Hypothesis H1: There is no statistically significant relationship between the global financial crisis and its impact on commercial banks at 5% level.

6 Research findings and recommendations

Recommendations: The researcher has concluded to several recommendations that can be summarized as follows:

- It is advisable for Arab countries to give more attention to the economic development sector through the establishment of development projects by which they can double production and income and reduce unemployment rates.
- Arab countries with surpluses should direct these surpluses to be invested in their countries rather than directed towards Western financial markets, in order to avoid financial and economic crises imported from developed countries.
- It is advisable for Arab countries to give more attention to the economic development sector through the establishment of development projects by which they can double production and income and reduce unemployment rates.
- It is desirable to join efforts in the implementation of economic policies, including financial, monetary and trade policies to serve the economy through coordination between governments, central banks and productive sectors.
- More attention should be given to the real economy sectors, which creates and adds real values that increase productive capacity, expand its base, reduce the problem of unemployment and provide new incomes.
- Impose restrictions and tighten procedures for the functioning of financial markets by requiring dealers not to speculate and gamble and avoid them, and easing the work of securitization and financial engineering tools.
- The need to search for an alternative economic system more equitable and competitive in the economic relations between developed and developing countries alike, which is a system of social justice that can exploit all available economic resources and provide material goods and delight all mankind.
- The need to adopt effective financial policies that can stimulate effective aggregate demand, both for consumers and investments.
- Reconsider the dollar currency and look for other means such as special drawing rights (SDRs) and find an alternative to the World Bank and the International Monetary Fund.
- The need to find immediate and quick solutions to the external debt crisis of the developing countries and to address the problem of poverty and widespread unemployment and alleviate the disparity between developed and developing countries alike to stimulate demand and to exploit available economic resources.
- It is advisable for the global economies not to rely on the dollar as the main currency, and to move towards a basket of currencies including gold, Euro and Yuan and the currencies of some oil surplus countries and currencies of India and Brazil, which have large reserves in the balance of payments.

Second: World Studies

A study by economist researcher Jim Ellert, who studied previous recessions and crises in the world. He said in his introduction that (out of 469 recessions since 1988, the IMF economists predicted only four of them by the spring of the previous year). In other study, 153 recessions in 63 countries from 1992 to 2014, only five recessions were predicted by consensus of private-sector economists in April of the previous year. It is not easy to predict the timing of a recession even prior nine months . In the context, this reminds me of an old Arab wisdom that says: (Who predicts lies in the future).

Research Title: Predict the global financial crisis and recession

Result and Discussion

Analysis that the next financial crisis will result from a global debt crisis. The study reviews the developments that have occurred since the collapse of Lehman Brothers in the fall of 2008 with focusing on the evolution of sovereign debt obligations of the country since 2007, the degree of preparing major US and European banks to face other financial crises implications of changes in the composition of borrowers' profiles in the international non-financial corporate debt market, changes in global household debt composition, some ideas about timing, possible causes and potential possibilities. The severity of the upcoming global financial crises and recession and some ideas on how well the major economies or regions are prepared to address the consequences of another financial crisis and/or recession.

The result is that excessive overall levels of global debt, the changing composition of debt offerings in international debt markets, the continued possibility of aggressive U.S. central bank interest rate policy and the potential refinancing challenges for non-investment borrowers are likely to push us into the next global financial crisis and recession. Trade wars can be a contributing factor as well as destabilizing the geopolitical situation in the Middle East. Brexit should not create a regional or global financial crisis. Emerging countries can suffer the most from the financial crisis and recession. With current levels of public debt, policymakers in developed countries are not well placed to provide sufficient fiscal or monetary incentives in the event of another global financial crisis and economic recession. In the long run, growing inequalities in the distribution of income and wealth may challenge the social acceptance of the capitalist model of wealth creation and sharing.

Time Research Limits: 2019

Spatial Research Limits: Global Financial Markets and the US Market Case Study.

Research Conclusions and Recommendations:

The researcher's findings regarding the causes of the coming global financial crisis can be summarized in the following points:

- US and European sovereign debts.
- Evolution of the mortgage crisis.
- Evolution of non-financial corporate debt obligations
- Developments of household debts.
- The sovereign debt crisis in Greece, loans granted to it and its default
- Preparing for Britain exit from the European Union.
- Trump's trade war.
- Pockets of concern within emerging market countries such as Saudi Arabia, Turkey, Qatar and the UAE
- US Stock Prices
- Interest rate policy can extend US economic expansion and the growing stock market.

In an interview with Bloomberg on July 2, 2019, Nouriel Roubini said that (US differences with China and Iran will divide the world and lead to a global recession in 2020. The consequences of this trade war, the technical war and the Cold War are the beginning to eliminate globalization and separate the global economy, and we will be required to re-supply the global technology supply chain. At the end of next year, if this escalates, it will be a global recession, as I mainly believe that the US-China trade and technology war will get worse. Manufacturing is already suffering from a global recession, it is affecting services, the technology sector is slowing down. Further, Roubini has expressed his concerns about the proposals of the "modern monetary theory" proponents to finance additional government spending on social initiatives by printing money. (We will have the equivalent of dropping money helicopters), he added. Think about the next financial crisis and global recession: globally, especially in the United States, some European countries, and China, everyone is concerned about the high levels of income and wealth inequality that have emerged over the last two decades. The levels of inequality that we see today in modern economies are higher than the excessive levels reached during 1929 in the United States. According to the New York Times, the richest 1% in the United States now have a wealth of more than 90% of GDP and this situation is unsustainable and its resolution may be more troublesome than the next global financial crisis and recession.

The practical framework of the study: The practical framework of the study complements the theoretical framework. In this chapter, the relationship between the variables representing the most important indicators of the previous financial crises will be studied, taken from international data and the American economy being the first economy in the world during the years covered by the study, and the economical growth shown by the real GDP, in order to reach to the study objectives and to test its hypothesis.

First: Normal distribution test

The normal distribution of the test variables was conducted (Table 1).

Source: EVIEWS, 10 Results: According to the above table, we can say that the real GDP , inflation and the rate of population change were not distributed naturally, while the rest of the variables data is distributed naturally.

Second: Descriptive statistics of the study variables

The following table represents the descriptive statistics of the study variables. It shows the mean and median, the highest value, the lowest value, the standard deviation, the curve and the elements of each variable (Table 2).

The basic hypothesis: the negative impact of the financial variables representing the financial crises on the growth of the global economy.

The following hypotheses can be derived:

Sub-hypothesis 1: the negative impact of inflation on the growth of the global economy:

Discussion: According to a long-term model, there is a positive impact of inflation in the growth of the global economy, but not significant.

Resolution: We reject the first sub-hypothesis.

Sub-hypothesis 2: the negative impact of population growth on the growth of the global economy

Discussion: According to a long-term model, there is a positive effect of the rate of population growth on the growth of the world economy and it is significant.

Resolution: We reject the second sub-hypothesis.

Sub-hypothesis 3: there is a negative impact of the rise of the Dow Jones on the growth of the global economy

Discussion: According to a long-term model, there is a positive effect on the growth of the Dow Jones in the growth of the global economy.

Resolution: We reject the third sub-hypothesis.

Sub-hypothesis 4: The negative impact of negative US interest rates on the growth of the global economy

Discussion: According to a long-term model, negative US interest rates have a negative impact on global economic growth and are not significant.

Resolution: We reject the fourth sub-hypothesis.

Sub-hypothesis 5: The negative impact of rising DXY on global economic growth

Discussion: According to the long-term model, there is a negative impact of the rise of the DXY index on the growth of the global economy.

Table 1. Test of the normal distribution of study variables.

Variable	Probability	Jarque-Bera Test	Normal Distribution
Real GDP	0.2	3.2	No normal distribution
Inflation	0.35	2.07	No normal distribution
American Interest Rate	0.004	10.87	Normal Distribution
American General Debt Growth Rate	0	443.59	Normal Distribution
DYX Index	0	34.1	Normal Distribution
Dow Jones Index	0.035	6.65	Normal Distribution
Population Changes rate	0.075	0.17	No normal distribution

Table 2. Descriptive statistics of the research variables.

WORLD_INF	USA_IR	USA_DEBIT_GRO	DXY_USA	DJI30_USA	POP_CH
0.062166	0.0496	0.083674	95.35773	8228.198	0.014759
0.0572	0.0494	0.077476	92.205	7178.285	0.0139
0.1335	0.189	0.376583	151.47	24719.22	0.0189
0.0184	0.0007	0.014934	76.7	1546.67	0.011
0.028861	0.041479	0.056766	15.22061	6091.571	0.002702
0.509464	1.0066	3.146886	1.559581	0.948442	0.226031
2.692296	4.37	17.22501	5.97876	3.173247	1.382149

Resolution: We accept the fifth sub-hypothesis.

Sub-hypothesis 6: The negative impact of rising US debt on global economic growth

Discussion: According to a long-term model, there is a negative impact of rising US debt on the growth of the global economy and is not significant.

Resolution: We reject the sixth sub-hypothesis.

Thus, one of the six sub-hypotheses of the basic hypothesis was accepted and therefore the basic hypothesis cannot be accepted (the negative impact of the financial variables representing financial crises on the growth of the global economy).

Conclusion

The most important results can be summarized as follows:

- There is a common integrated relation between the variables of financial crises and real GDP in the long and short term.
- There is no negative impact of the financial variables representing financial crises in the growth of the global economy, where the positive change resulted from the length of the study period.
- The rapid return of the real GDP variable towards its long-term equilibrium value, where in each time period the ratio of the imbalance of the period (t-1) to its long-term equilibrium value, the equivalent of 93% of this imbalance in the period t is corrected. To reach equilibrium in the long run after about a year in the long term.
- the values of transactions financial variables is very large and this indicates that any disturbance in the value of these variables, increase or decrease will lead to change and disturbance in the value of real GDP in large values.
- The nature of the equilibrium relationship between the variables of the financial crises and the growth of the global economy is likely to occur a major collapse in the global economy as a result of the large fluctuations of these variables and this large collapse needs from one to four years as a maximum.

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