

Five Lesser Known Financial Crises of the 20th Century

A decade has passed since the collapse of the Lehmann Brothers investment bank, triggering the worst recession since the stock market collapse of 1929. But between the 1930s and 2008, the world experienced several economic downturns, some of which had a long-lasting impact on the affected countries. Here are five less well-known crises that shaped the Twentieth Century.

The 1973 Oil Crisis

In October 1973, OPEC (Organization of Petroleum Exporting Countries) imposed an oil embargo against Israel's allies (the United States among them) in the Arab-Israeli War. The embargo involved the banning of oil exports to targeted countries as well as a 5 percent oil-production cut per month. Oil prices [quadrupled](#) in a few months, from \$3 to \$12 a barrel.

The oil supply shock together with bad fiscal and monetary policies caused a period of stagflation in the US (low economic growth combined with high inflation rates) that lasted until the 1980s. It ended when Fed Chairman Paul Volcker succeeded in curbing inflation by drastically increasing interest rates.

The Sovereign Debt Crisis in Latin America

During the 1970s, Latin American countries borrowed heavily in dollars to fund economic development. Between 1970 and 1978, total outstanding debt (of which 80 percent was sovereign debt) [increased](#), on average, by 24 percent per year. When interest rates went up in both Europe and the United States, countries like Mexico, Brazil, or Argentina saw themselves unable to service their debt.

This led to the restructuring of government debt, forcing the intervention of the International Monetary Fund to bailout the bankrupt economies. The debt crisis ushered in the so-called *lost decade*, characterized by negative economic growth, stagnant investment and increasing poverty.

The Japanese Asset Price Bubble

In the four decades after World War II, the Japanese economy moved from being a war-torn economy to catching up with United Kingdom in per capita GDP. This prosperity, however, was temporarily halted by the appreciation of the Yen in 1986, which plunged the country into recession (Japan was heavily dependent on exports).

The economic situation pushed the Bank of Japan to loosen monetary policy, which, together with a sense of over-confidence in the prospects of the Japanese economy, contributed to the creation of massive bubbles in both real estate and financial assets. The Nikkei stock index went up by 200 percent between 1985 and 1989, whereas the total value of Japan's real estate became four times higher than that of the United States.

Like the debt crisis in Latin America, the burst of the bubble in the early 1990s was followed by economic stagnation that would last two decades.

Asia's 1997 Financial Crisis

The summer of 1997 witnessed economic turmoil in East Asia. The countries most affected were Thailand, Indonesia, and South Korea, which had experienced strong economic growth in the years before the crisis. The change was drastic: they moved from growing at 5 percent annually to negative growth of up to 10 percent.

Rapid currency devaluations in several countries triggered the crisis which resulted in a loss of confidence in the Asian

economies. This increased the burden of debt, causing solvency problems in both the public and private sectors. A coalition of international organizations led by the IMF stepped in to provide capital and, thereby, avoid the collapse. In order to prevent further capital outflows, the affected countries raised interest rates and committed to restoring confidence by reducing budget deficits and undertaking structural reforms.

The Dotcom Bubble and Early 2000s Downturn

Have you ever heard the expression “irrational exuberance”? It was coined in 1996 by former Fed Chairman Alan Greenspan to refer to a situation in which investors’ irrationality results in asset-price overvaluation.

A few years later, in 2000, Yale professor Robert Schiller published a book with the same name arguing that tech stocks were vastly overvalued. A month after the publication, the stock market collapsed. In only two years, the NASDAQ-100 [fell](#) by almost 80 percent.

Irrational exuberance exacerbated by the Fed’s decision to lower the Fed Funds rate target twice in 1998 contributed to the emergence of the so-called *Dotcom Bubble*. A small economic contraction followed this stock market crash.

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