

Early 1990s Recession: A Critical Analysis

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Introduction

The world went through a period of economic recession in the early 1990s which affected most part of the western world.¹ The NBER's Business Cycle Dating Committee defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income, and other indicators. A recession begins when the economy reaches a peak of activity and ends when the economy reaches its trough."²

The major force behind this was the restrictive monetary policy and the workings of the business cycle. The major rise of recession was in October, 1987 when market crash around the whole world was seen due to Stock Market Slump. The pushing of the interest rates by Japan and West Germany gave rise to the US to increase the rates which led to a huge sell off of shares of the USA. The recession was experienced by 17 of the 18 major OECD economies.³ The coming of recession was in two waves with the United States, the United Kingdom, Canada, Australia, New Zealand, Finland and Sweden, going into recession in 1990,

1 NBER BUREAU OF ECONOMIC RESEARCH, <https://www.nber.org/March91.html>(last visited January 5, 2018).

2 Stijn Claessens and M. Ayhan Kose, *What is a Recession*, INTERNATIONAL MONETARY FUND(January 5, 2018, 9:29 PM), <https://www.imf.org/external/pubs/ft/fandd/2009/03/basics.htm>. ³*Id.*

followed by the Continental European countries some time later.⁴ The deepest stagnations were seen in Finland and Sweden due to their recent fiscal deregulations.⁵ This recession showed the world the mounting significance of financial markets to the American and world economies.⁶

This recession could be attributed to the following factors:⁷

Restrictive monetary Policy by the Central Banks in response to inflation concerns.

1. The loss of consumer and business confidence as a result of the 1990 oil price shock,
2. The end of the Cold War and the subsequent decrease in defense spendings⁸
3. The savings and loan crisis and a slump in office construction resulting from overbuilding during the 1980s
4. High Interest Rates which limited the investments and employment.

Recession in USA: The USA recession lasted for 8 months ending in march 1991. The signal was given by the crash of the world stock markets on October 19, 1987. This was indicative of the repercussions of the large budget deficits of the US. The recession was not that strong as compared to the other past and future recessions. The fact that bothers here was the jobless recovery. Even after recovery, the unemployment continued to rise which is reflected by the National Bureau of Economic Research's data that only eight months long, the early 1990s recession gradually recovered after that; unemployment peaked in June 1992 at approximately 8%. Bill Clinton won the presidency in 1992 as a result of the economic slowdown in the United States, and he blamed George H.W. Bush for this poor growth.⁹

The reasons for recession in USA were diverse which includes:

Weakness of the American housing market due to the passing of the Tax Reform Act, 1986 Collapse of the S&L crisis which affected the households

4. Iyan Macfarlane, *The Search for Stability*, RN(Dec. 03, 2006, 5:00 PM) <https://www.abc.net.au/radionational/programs/boyerlectures/lecture-4-the-recession-of-1990-and-its-legacy/3353124#transcript>. ⁵*Id.*

⁶ 1990-92 *Early 1990s Recession*, SLAYING THE DRAGON OF DEBT, http://bancroft.berkeley.edu/ROHO/projects/debt/1990_srecession.html. ⁷*Id.*

⁸ Walsh, Carl, *What Caused the 1990-1991 Recession?*, 2 ECONOMIC REVIEW, 33-48 (1993), https://www.researchgate.net/publication/5047315_The_2001_Recession_How_Was_It_Different_and_What_Developments_May_Have_Caused_It. ⁹*Id.*

Government bailout

US Federal Reserve's effort to raise the interest rates in the late 1980s due to the Iraqi invasion of Kuwait.¹⁰

This led to the loss of faith of the consumers and businesses which was aggravated by the 1990 oil price shock.

Effects:

This recession could be termed as a culmination of the longest peacetime economic expansion of the USA in July 1990.¹¹ It was estimated by the labour department that the economy cast off 1.23 million jobs which also equals to 1.3% of non-farm payrolls. The hard hit sectors were the construction and manufacturing. The regions that were affected the most were the New England states and the West Coast.¹²

AUSTRALIA:

The recession in the 1990s could be categorised as worst since the Great Depression. During the 1980s, the country was in a vulnerable state, its GDP, imports, commercial construction were rising on the other hand the inflation and was also growing and so was the borrowings by the corporate sector.¹³ It was described by the Governor of Reserve Bank, Ian Macfarlane that "the financial excesses of the 1980s were of such a scale that they made the 1990s recession inevitable", describing Australia's economy at the end of the 1980s as overstretched and vulnerable to contractionary shock."¹⁴ Financial Institutions also collapsed in Australia like State Bank of Victoria, the State Bank of South Australia, etc. as well as several merchant banks, a mortgage trust, and a friendly society.¹⁵

The major reasons for the recession in Australia was Shift from Economic Protectionism to economic deregulation.¹⁶

¹⁰ *Id.*

¹¹ WALSH, *Supra* note 8. ¹² *Ibid.* ¹³ Ian, *Supra* note 4.

¹⁴ *The real reasons why it was the 1990s recession we had to have*, THEAGE (Dec 02, 2006, 11:00 AM), <https://www.theage.com.au/business/the-real-reasons-why-it-was-the-1990s-recession-we-had-to-have-20061202-ge3pce.html>.

¹⁵ *Id.* ¹⁶ *Id.*

A record period of economic growth was experienced by Australia after this recession. Unemployment reduced from 8% to 5% between 1996 and 2005. Several other reformatory policies were introduced to strengthen the economy.¹⁷

CANADA:

The recession in Canada occurred in the second quarter of the 1990. This was preceded by slow real economic growth. The inflation was persistent in the year 1970s and 1980s.¹⁸

Reasons:¹⁹

- The recession in USA further aggravated the situation as both the economies had significant trade linkages.
- Huge Budget Deficits led to the large public debt.
- Anti- inflationary policies of the government and Bank of Canada
- Many Canadians invested in housing markets and indexed wage contracts whereby these transactions were financed by borrowing or debt.
- Canadian companies didn't fine tune itself to the increasing globalisation and technology.
- Sales Tax Reforms affected the economy negatively and reduced the real GDP by 0.8- 0.9% over 1991-92

The aftermath have been positive for Canada the monetary growth have resumed, the sales tax reforms have also settled²⁰ The performance has improved economically. The influence of globalisation and Technology is now in favour of Canada. The debts of government declined due to fiscal restructuring, employment and income is on a high.²¹ The economy now has a strong foundation for future challenges.

JAPAN:

¹⁷ *Id.*

¹⁸ Gordon Thiessen, *Canada's Economic Future: What Have We Learned from the 1990s?*, BANK OF CANADA (Jan. 22, 2001), <https://www.bankofcanada.ca/2001/01/canada-economic-future-what-have-we-learned/>. ¹⁹ Thomas Wilson, Peter Dungan, *The Sources of the Recession in Canada: 1989-1992*, GLOBAL ECONOMIC HISTORY (April 4, 2018), <http://econposguerra.blogspot.com/2018/04/recesion-de-1993-1993-por-carlos.html>.

²⁰ *Id.* ²² *Id.*

²¹ <https://www.bankofcanada.ca/2001/01/canada-economic-future-what-have-we-learned/>

The Japanese economy suffered an elongated recession followed by the collapse of the so called economic bubble in 1980s. This “lost decade” came to an end in 2002. Financial institutions faced serious downturns in profits after collapse of markets.²²

Reasons:²³

- Huge reduction in value of yen against dollars.
- Expansionary Monetary Policy.
- Extreme loan growths due to the policy of Central Bank of Japan.
- Upsurge in inter-bank lending rates that led to crash in the stock market.
- Deflationary efforts further led to debt.

The wider economy of Japan is still not back on the pre- crash position. It was a global leader in gross output and labour efficiency but now it has lost this position.²⁴

UNITED KINGDOM:

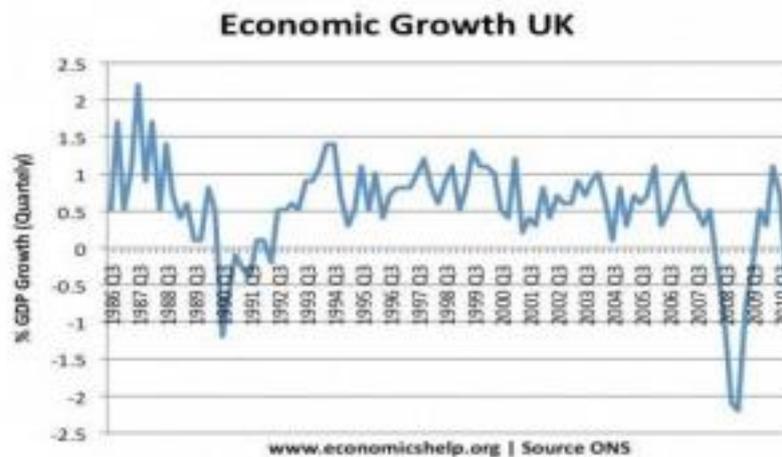
The recession in UK was after the late 1980s economic boom which was a period of contradictions implying high economic growth and increasing inflation.²⁵

Reasons:²⁶

- Reduction in Income tax for the high earners.
- Miscalculations were there, the government thought that it's a supply side miracle but instead it was due to consumer borrowing and spending.
- Membership of Exchange Rate Mechanism which reduced the rate of economy.
 - To protect the value of Sterling the interest rates were increased.
- Rise in borrowing costs, fall in house prices.

²² Gordon Thiessen, *Canada's Economic Future: What Have We Learned from the 1990s?*, BANK OF CANADA(Jan. 22, 2001),<https://www.bankofcanada.ca/2001/01/canada-economic-future-what-have-we-learned/>.²³

<https://worldview.stratfor.com/article/recession-japan-part-1-lost-decade-revisited> ²⁴ RA Washington, *The Japanese Tragedy*, THE ECONOMIST(Aug 3, 2012), https://www.economist.com/free_exchange/2012/08/03/the-japanese-tragedy.²⁵ ECONOMICS HELP, <https://www.economicshelp.org/macroeconomics/economic-growth/uk-recession-1991>.(last visited January 5, 2018).²⁶ *Id.*



Role of International Organizations:

One of the most striking features of the twentieth century is the development of inter-governmental organizations. This has increased the cooperation, coordination and harmonization among the nations. These organisations are an instrument of global, political and social change. This can be very well reflected in the role of the various international organizations after the 1990s recession.

Role of UN:

The role of UN could be understood through various key events and documents during 1990- 1999.

In 1992, “the United Nations Conference on Trade and Development(UNCTAD VIII)” was held. The theme included multi-lateral cooperation and sustainable development in the light of new challenges. The declaration mentioned that “The United Nations system has a large role to play in international co- operation for revitalising the development in the 1990s. The UN is a unique forum in which the community of nations can address all issues in an integrated manner. Its specialised agencies make an indispensable

contribution to development. They have a major responsibility in the great task of revitalising the growth and development in the 1990s.”²⁷

The “18th Special Session” of the UN General Assembly was held in 1990.

In this session the “Declaration on International Economic Cooperation, in particular the Revitalisation of Economic Growth and Development of the Developing Countries” was

²⁷ UN LIBRARY, <http://research.un.org/en/docs/dev/1981-1990> (last visited January 2018).

passed. This declaration focused on the challenges imposed by the recession in 1990s and proposed to strengthen the world economy. This Observing the recession that occurred in the 1990s, the declaration mentioned that the “late 1980s saw external and fiscal imbalances whose economies have the largest impact on the world economy.”²⁸ The declaration called for “concerted and committed effort by all countries.” The declaration said that “The state members of the United Nations will endeavour to take all necessary steps to reverse adverse trends of the 1980s and address the challenges of the 1990s and move into a more productive decade.” This declaration focused on the international debt problems, “to improve the international economic environment in order to ensure success of national policies”.²⁹

Report of the Second United Nations Conference on the Least Developed Countries, 1990.

In this report also, there was discussion about the recession of the early 1990s but it was focused on the least developed countries.³⁰

The representative of Japan said that “during the 1980s the world economy had undergone momentous changes.”

“For the 1990s it would be imperative to create a new Programme of Action under which it was ensured that global resources were invested to reap prosperity for all countries.”

The representative of Mali said that the” economic situation of the LDCs had generally worsened in the 1980s. It was, therefore, necessary to consolidate whatever had been achieved, to put an end to economic recession, and to promote durable and self-sustained growth.”³¹

Role of IMF

IMF is a autonomous organisation which have entered into relationship with the UN under article 57 of the UN Charter. The main objective of the IMF is to “provide for financial stability, relying on fixed exchange rates.” The IMF have played significant role in the 1990s in an effort to overcome the debt crisis in various countries like Mexico, Russia, Argentina, etc. “The IMF granted new loans to the countries on condition that borrowing countries implemented changes in their economic policy. These conditionality were laid down in Structural Adjustment .”²⁸ *Id.*

²⁹ *Id.*

³⁰ *Id.*

³¹ SIR IVOR ROBERTS, SATOW'S DIPLOMATIC PRACTICE 7(OUP Oxford 2016).

Programs, which were later replaced by Poverty Reduction Strategy Papers that the borrowing countries had to submit”³²

Role of the World Bank:³³

The World Bank is related to the UN through article 63 of the UN Charter.

International Bank for Reconstruction and Development (IBRD), as the main institution of the World Bank Group was originally founded with a view of “reconstructing economies after World War II.” As envisaged in “Art. I Articles of Agreement of the IBRD ([done and entered into force 27 December 1945] 2 UNTS 134)”, the IBRD is

“[t]o assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries”³⁴

IRDB is involved in “development politics by providing for financial and organizational assistance.” “The World Bank funds two basic types of operations. Under the first—so-called Investment Operations—loans are provided to governments to cover specific expenditures related to economic and social development projects. Being project-oriented, this type of operation respects the traditional division of functions between the IMF and World Bank. The second type of operations—called Development Policy Operations—provides untied, direct budget support to governments for policy and institutional reforms aimed at achieving a set of specific development results.”³⁵

STATE PRACTICE AND CHANGES IN INTERNATIONAL LAW:

Law is all about change and this is also how the international law works. After the early 1990s recession, there was impact on the relationship between the states and various new alliance

³² Christian Walter, *Debt Crisis*, OXFORD PUBLIC INTERNATIONAL LAW(JULY 2014),

<http://opil.oup.com/view/10.1093/law:epil/9780199231690/law-9780199231690-e1516?rskey=nzBcOG&result=22&prd=OPIL>.

³³ *Id.*

³⁴ *Id.*

³⁵ *Id.*

were formed. The International Law has also changed after the early 1990s recession to some extent.

This could be observed in the economic policy of the USA. After the early 1990s recession, the US's policy changed from redressing inequities to pursuing opportunities and the object of the then President Clinton's government became "the use of economic tools to advance the US interests abroad."³⁶

The G8/G7:

Globalisation was budding during the early 1990s recession. The reason for recession in some of the countries like Australia was also not being able to cope up with the globalisation. Given these circumstances of globalisation, the states formed collective groups to deal with the new challenges. The Group of Eight(G8), (now, G7) "is an informal international forum and as such has no permanent headquarters, secretariat, or budget. The G8 comprises seven of the world's leading industrialized nations (US, Japan, Germany, France, UK, Italy, Canada) and Russia (which was suspended after Russia's annexation of Crimea in March 2014). The leaders of these countries meet annually at summits to coordinate loosely their economic and financial policies, in particular to encourage global economic growth and adopt conclusions on major financial and related issues."³⁷ This group originated due to oil crisis and global economic recession of the 1970s.

The G20:

The G20 was formed in the year 1999. It was formed originally by "finance ministers and central bank governors from nineteen of the world's twenty largest national economies, plus the European Union (EU)." It receives support from international organisations, which provide advice and identify policy gaps.³⁸

The International Energy Agency (IEA):

It was established in 1974 in answer to the 1973 oil shock. It is linked with OECD but its a separate entity. It focuses on "energy security, economic development, environmental awareness, and engagement worldwide."³⁹

³⁶ Lael Brainard, *Trade Policy in the 1990s*, BROOKINGS(June 29, 2001), <https://www.brookings.edu/research/trade-policy-in-the-1990s/>.

³⁷ SIR IVOR ROBERTS, *Satow's Diplomatic Practice 7*(OUP Oxford 2016).

³⁸ *Id.*

³⁹ *Id.*

Influence on the International Law:

Establishment of World Trade Organisation: The GATT, 1947 was the existing framework before WTO but it was not proving to be effective in 1960s to 1990s. Thus, through the Uruguay Round Negotiations, the WTO was sought to be established. The Uruguay negotiations observed the ineffectiveness of GATT and the poor situation of trading system in the early 1980s. The Uruguay negotiations were completed on 15th December, 1993, after 7 years of negotiation. The early 1990s recession did not directly led to the establishment of WTO but it happened during the time when negotiations were going on, thus it certainly played a role in favour of establishment of WTO.⁴⁰

The lesson of the 1990s was that it had become necessary to think differently about international trade, namely, that trade that had always been the main economic link between national societies was now being integrated into a broader set of relationships that included foreign investment, corporate alliances, and other forms of collaboration. As one observer summarized it, the reality is that global companies competing in global markets ultimately require global rules ...'.³³In this way globalization created a perceived need for global rules, which in turn was a powerful incentive to complete the Uruguay Round.⁴¹

The WTO came into effect on 1 January 1995. WTO is a member- driven organisation. It has 153 members.

Its major tasks are- “to promote trade negotiations. The WTO Agreement obliges the organization to ‘provide a forum for negotiation’ on matters arising under the Uruguay Round Agreements, and on further issues concerning the multilateral trade relations of the Members.”⁴²

HIPC Initiative:⁴³

The HIPC initiative was initiated by the IMF and the World Bank. The object of the program is- “to provide debt relief and low-interest loans to a country on the basis of a two-step process. In the first step—the so-called decision point—the countries must be eligible to borrow from the

⁴⁰ *Id.*

⁴¹ Christian Walter, *Debt Crisis*, OXFORD PUBLIC INTERNATIONAL LAW(JULY 2014), <http://opil.ouplaw.com/view/10.1093/law:epil/9780199231690/law-9780199231690-e1516?rskey=nzBcOG&result=22&prd=OPIL>.

⁴¹ *Id.*

⁴² *Id.*

⁴³ *Id.*

World Bank’s IDA, which provides interest-free loans and grants to the world’s poorest countries, and from the IMF’s Poverty Reduction and Growth Facility, which provides loans to low-income countries at subsidized rates. Further, they must face an unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms, and they must have established a track record of reform and sound policies through IMF and World Bank supported programmes. Finally, they are required to present a Poverty Reduction Strategy Paper, which must have been established through a broad-based participatory process in the country. The second step—the so-called completion point—requires that the country establish a further track record of good performance under programmes supported by loans from the IMF and the World Bank, the satisfactory implementation of certain key reforms agreed at the decision point, and the adoption and implementation of its Poverty Reduction Strategy for at least one year.”⁴⁴

INTERRELATIONSHIP BETWEEN NATIONAL AND INTERNATIONAL LAW:

There is a relationship between international law and domestic law, and this relationship contours the global economic order in many ways. The goals and objectives of international law are implemented through national laws. ⁴⁵ The recession of the early 1990s has played an incidental role in extending this relationship between national and international laws. As has already been seen, various new cooperative groups were formed after the 1990s recession, which has enhanced the relationship between national and international laws. This relationship could also be observed in global investment arbitration.⁴⁶

DISPUTES BETWEEN STATES:

It cannot be said as such that the early 1990s led to conflict between states, but specific instances can be noted in this regard.

China and USA:

Data have shown that after the 1990s, the USA increased Temporary Trade Barriers (TTBs) in China. This is a continuous trend. “the overall number of TTBs implemented by the U.S., holding

⁴⁴ *Id.*

⁴⁵ MATHLAS HERDEGEN, PRINCIPLES OF INTERNATIONAL ECONOMIC LAW 07(OUP Oxford 2016). ⁴⁶ *Id.*

constant various microeconomic factors, has decreased. While Time shows this is a continuous trend,”⁴⁷



Civil Conflicts:

There were internal conflicts after the early 1990s recession. The 'structural adjustment programmes' implemented in the 1980s and 1990s led to civil disputes. Even though IMF and World Bank promoted policies, they led to violence in Venezuela and Morocco.⁴⁸

IMPACT ON GLOBAL ISSUES:

1. Economic Development:

As has already been seen that the early 1990s recession had an impact on most countries. Unemployment was high during that time, and wages and GDP were declining.⁴⁹ GDP: In the USA, the GDP grew at a weak pace. It produced only 3.8% from its lowest point through the first half of 1992.⁵⁰

Unemployment: In most countries, unemployment increased increases during the period of recession. The employment growth rate was meager in the USA in 1991.⁵¹

⁴⁷ Gross, Donald, *The China Fallacy: How the U.S. Can Benefit from China's rise and Avoid Another Cold War*, BLOOMSBURY, <https://www.bloomsbury.com/us/the-china-fallacy-9781441147899/>.

⁴⁸ Macartan Humphreys, *Economics and Violent Conflict*, 7-13(2003), https://www.unicef.org/socialpolicy/files/Economics_and_Violent_Conflict.pdf.

⁴⁹ Thomas Nardone, *1992: Job Market in the Dolodrums*, MONTHLY LABOR REVIEW, 3-20 (1993), <https://www.bls.gov/opub/mlr/1993/02/art1full.pdf>.

⁵⁰ *Id.*

⁵¹ *Id.*

Labour Market: In late 1991, unemployment increased, and the labour force increased sharply. Factory jobs declined in the USA as manufacturing employment fell by about 1.5 million. This decline accelerated during the last half of 1990 and the first part of 1991.⁵²

White-Collar Workers: white-collar employment was stagnant from 1990 to the end of 1991, shockingly, which had continued to grow in the previous years. The rate of unemployment of white workers was the same as blue workers.⁵³

2. Human Rights and Humanitarian Issues:

A study showed that suicide rates increased during the recession of the 1990s.⁵⁴

Loss of Earnings: In most of the countries hit by the early 1990s recession, workers' wages were reduced. E.g. In the USA, the unemployment rate was 7.3% in 1992, which was higher than the previous year.⁵⁵

Gender Equality: According to a study, "women's employment continued to rise in the US while employment for men and young people were hard hit".⁵⁶

It was also shown that "men have lost at least nine times as many jobs as women and claim that "this fact is primarily attributable to the distribution of male and female employees in the various industries and the degree of cyclical job loss in each industry during recessions"⁵⁷

Another study shows that "employment rates for women and men declined during the early 1990s recession, but the impact on parents was not equal. Figure 2 shows that even though the recession. employment rates more when comparing mothers and fathers, the impact was greater on women."⁵⁸

Impact on Children: Studies show that "Children by the millions were immediately and directly affected by the recession (more than other vulnerable groups, such as the elderly), and many.

⁵² *Id.*

⁵³ *Id.*

⁵⁴ Oyesanya, M., Lopez-Morinigo, J., & Dutta, R., “Systematic review of suicide in economic recession”, 5(2) WORLD JOURNAL OF PSYCHIATRY, 243–254 (2005), <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4473496/> ⁵⁵ *Id.*

⁵⁶ Mark Smith, *Analysis Note: Gender Equality and Recession*, FONDAZIONE GIACOMO BRODOLINI (May 2009), <https://ec.europa.eu/social/BlobServlet?docId=2839&langId=en>.

⁵⁷ *Id.*

⁵⁸ *Id.*

will suffer the consequences for life. And the impact certainly has not been spread evenly across all children in all countries”.⁵⁹

3. Health: The recession also had an impact on health. It leads to a higher risk of heart attacks and other stress-related illnesses.⁶⁰ There is not much data available to show the effect of the early 1990s recession on health.

One research on “the financial crises of the 1980s and 1990s” and health outcomes in Mexico found that “mortality rates for the very young and the elderly increased or declined less rapidly in crisis years as compared with non-crisis years. The authors suggest that this was due to reduced incomes and the increased burden on the medical sector.”⁶¹

4. Peace and Security:’

The author has already shown how the early 1990s recession led to civil wars in various countries.

State Responsibility:

The author could not find any facts to show the issue of state responsibility because there was no such violation of international law during this recession.

Conclusion:

The early 1990s recession resulted from fiscal some instances in certain cases and over-optimism in others. This recession showed a link between various nations, and an event even has ripples over other countries. This recession was mild as compared to the other recessions. The recession had many repercussions, like the formation of G8, G20, WTO, etc. The world is now moving towards a more cooperative world. The countries can’t live in isolation; this fact has been realised by most countries now. The world has a solid structural mechanisms like IMF and World Bank to meet these challenges. The early 1990s gave a slight shock to the world to let them prepare for future challenges, and the world, through its policy reforms became well prepared for future challenges till the depression of 2008.

⁵⁹ *Ibid.*

⁶⁰ Mai Dao, Prakash Loungani, *The Human Cost of Recession, Assessing it, Reducing it*, INTERNATIONAL MONETARY FUND (Nov. 10, 2011), https://www.imf.org/~media/Websites/IMF/imported-full-text-pdf/external/pubs/ft/spn/2010/_spn1017.ashx

⁶¹ David M. Cutler, Felicia Knaul, Rafael Lozano, Oscar Méndez, Beatriz Zurita, *Financial crisis, health outcomes and ageing: Mexico in the 1980s and 1990s*, 84 *Journal of Public Economics*, 279-303(2002), https://econpapers.repec.org/article/eeepubeco/v_3a84_3ay_3a2002_3ai_3a2_3ap_3a279-303.htm.