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The Impact of the Economic Crisis on Developing and Developed Countries

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ABSTRACT

The essence of the financial crisis originated in developed countries is the instability of the economic market and the imbalance between supply and demand. The direct reason is the lack of regulatory financial innovation in developed countries, that is, excessive credit creation [1]. The spread of the crisis is actually a result of economic globalization, that is, the global economy becomes a whole, and any problem in any country in the whole will lead to the collapse of the global economy. This paper examines the impact of the economic crisis on developing and developed countries. Some famous quotes are cited as the support of the argument. The main source of data of this paper comes from articles and analysis related to economic crisis. From the perspective of phenomenon, for developed countries, through the adjustment of market mechanism and the active intervention of the government, they will eventually get through the crisis. Of course, losses are inevitable. For developing countries, not only the financial crisis, but also the political field.

Keywords: *developing countries, developed countries, economic crisis, government intervention.*

1. INTRODUCTION

With the development of the world economy, the world economy is full of more and more instability. It is obvious to see that the economic crisis has a far-reaching impact on every country. In the last economic crisis cycle, many African countries could not even pay for the maintenance of basic people's livelihood, and countless residents suffered from severe hunger. Therefore, the top priority is to find the causes and minimize the impact of the economic crisis on countries around the world. The main concentration of this paper is to investigate the difference of impact of economic crisis on developing countries and developed countries, and the main reasons for economic crisis. Some historical documents associated with economic crisis have been included to reach the final conclusion. This investigation of economic crisis might contribute to the better life standard of people from all over the world, reducing the spread of starvations, improving the health rate of children and teenagers. Whether developed or developing countries, the difference in development level leads to the difference in the ability to deal with external shocks, and then the consequences of shocks [2,3].

2. DEVELOPING AND DEVELOPED COUNTRIES REACTIONS AGAINST ECONOMIC CRISIS

2.1 impact of economic crisis on developing countries

Indonesia in the East Asian financial crisis in 1998 was another situation. After independence, Indonesia experienced a short period of turbulence and came to the authoritarian era of Suharto. The overall unified arrangement of the country lacked procedural and ideological basis and relied too much on the effective basis of economic development performance [4,5] Although the country has made remarkable achievements in economic development, due to the decline in demand in developed countries, domestic exports have been blocked, and the financial crisis has followed. Domestic social unrest has sprung up and continued. Finally, Suharto's bleak departure and the loss of many years of development achievements in Indonesia [6].

In countries such as Thailand and Cambodia, women have experienced unemployment in large numbers during the Asian economic crisis. Developing countries' inablitiy to give subsidies to unemployed women directly causes dissatisfaction among society. Gender norms matter when considering the job positions. Women are considered inferior for employers since they are usually secondary breadwinners in the family. They constantly change their jobs to meet the needs of their family goals. This instability makes it possible for them to get fired when economic crisis comes.

Figure 1 female and male employees in Thailand (2004-2013)

For developing countries, the economic crisis has caused a sharp decline in the stock market, which means the reduction of bank capital. In this case, the funds of banks are not strong enough to support the lending market with large demand. Therefore, many individuals and enterprises can not get financial support from banks in time, which is only a threat to enterprises with a strong capital chain, but for small and medium-sized enterprises, they will eventually face the risk of bankruptcy. The direct result of the collapse of a large number of companies is unemployment. The increase of unemployment will lead to the reduction in demand for market products and further slow down the country's economic growth [7].

2.2 Analysis of impact of economic crisis on developed countries

Historically, Franklin D. Roosevelt clearly recognized the multiple consequences of the economic crisis, which can be seen from the "fireside talk" on April 14, 1938: "Democracy has disappeared in several other big countries - not because the people of those countries don't like democracy, but because they are tired of unemployment and lack of security, the chaos and weakness of the government caused by lack of leadership, watching their children starve and powerless. Finally, they are helpless. They choose to sacrifice freedom and hope to eat in exchange." From here, it is not difficult to see that the economic crisis has affected the western political system to some extent. The characteristic of democracy is the lack of government intervention in the economy. This system limits the process of economic recovery in western countries. It is obvious that under this system, bills to alleviate economic pressure need to pass complex elections and votes. Therefore, market regulation formulated by many countries Law didn't play a big role.

After Germany came out of the autocratic system, it formulated the constitution of the Republic and established a basic democratic system [8] However, Germany's international status after World War I and the deep dependence of its economy on the outside world. Finally, under the impact of the great depression in 1929, a tragic adjustment idea was recognized, the Republic was ended in a procedural way, and the German nation advocating scientific rationality began a dark history. The impact of the economic crisis was the direct inducement of the tragedy.

For developed countries, the impact seems to be focused on the aspect of education. Previously, parents from developed countries prefer to send their children to private universities, which can guarantee a high level of education. The high tuition fees make it possible for hiring more professional and experienced teachers. However, after the financial crisis, many parents face the risk of unemployment. Even if they are still employed, their wages will be largely reduced. This directly leads to their inability to pay such a high tuition fees for their children. At the same time, The public policy responded by providing student support systems[9], which included student grants, loan scholarships and various subsidies. This helped arrest drop-out from the system. In some cases these measures enhanced the motivation and incentive to enrol and continue education in the universities.

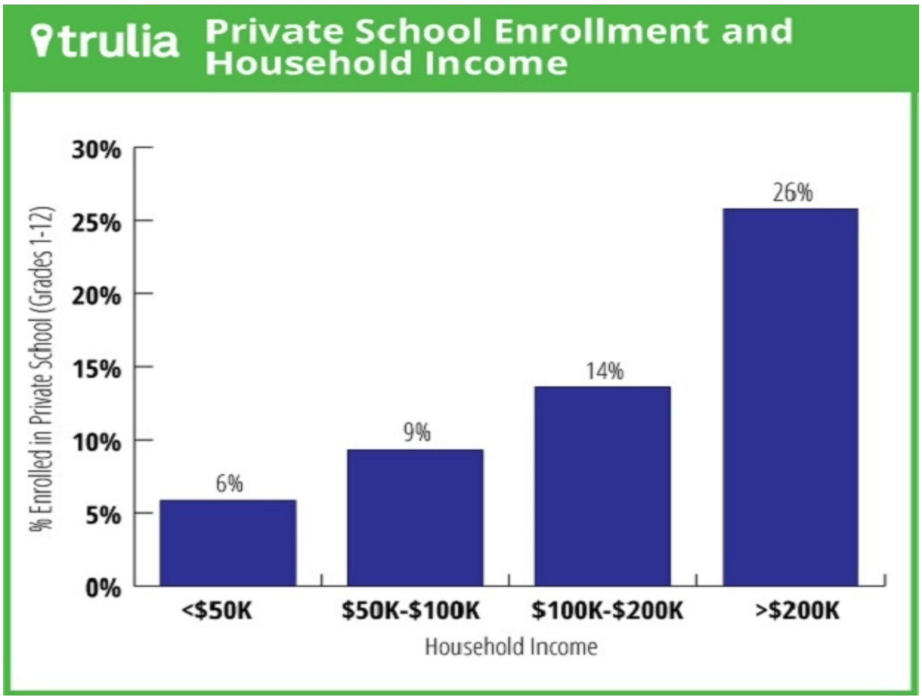

Figure 2 Private school enrollment and household income

Many countries in Europe have different countermeasures in the face of economic crisis. The economic crisis has had a serious impact on the automobile industry in Europe. For example, in Germany, when the demand for cars in Germany fell rapidly in 2008, many companies adopted a new employment model, that is, the short-time working[10]. In order to achieve the balance of the market, with the reduction of automobile demand, automobile production and supply will also decrease. This reduction in workers' working hours mitigates the company's losses to some extent, because the companies do not need to pay for full-time working wages. When workers accept the new employment agreement, the company not only avoids dismissal, but also creates positive externalities for the society, which can also be subsidized by the government. Electro sector provides for reductions in weekly working hours from 35 to 30 (western Germany) and 38 to 33 (eastern Germany). This option has been discussed in companies such as Opel, Daimler and Bosch.

It is inevitable to involve the concept of purchasing power when talking about the impact of economic crisis. Customers during the period of world economic crisis tend to have less purchasing power compared to the normal period since it causes reductions in people's income. There are mainly two types of goods getting involved in this process-- necessities and luxuries. Necessities refer to basic products we need for survival. Therefore, the elasticity of necessities can be extremely small due to its importance to people's daily life. On the contrary, people might find difficult on purchasing luxuries when their income has been largely reduced. People's demand for necessities will fluctuate within a controllable range, and luxury goods will be greatly challenged during the economic crisis. During the financial crisis, many luxury companies chose to transform and develop products suitable for the public. They use their own brands to develop some second-line products. In this way, consumers are more willing to buy what they think is high quality at a lower price. This transformation helps gain profit and capital for the companies, which is espacially significant when facing bankruptcy.

2.3 process of government intervention in developing countries

In the process of modernization in developing countries, the construction of institutions and resource mobilization in the process of social and economic development depend on a stable and powerful government. From the institutional basis of economic development, the resource allocation system of developing countries is imperfect and the market mechanism is not fully developed. Therefore, as a substitute for the market, the government's intervention in economic development is inevitable, This is indisputable. Moreover, the markets of developed countries are not laissez faire, and the government also needs to correct the market failure. However, the government is not omnipotent, and the intervention of the visible hand should be very cautious. This intervention needs an effective constraint to ensure that the intervention hand will not become the predatory hand. Therefore, the automatic stablizer serves well during economic crisis without the intervention of government, smoothing fluctuations in unemploment. It basically involoves a decrease in personal income tax, and a series of transfer payments (unemployment benefits, social subsidies).

At present, the economic development effect of many developing countries is quite remarkable, but the wealth distribution and the gap between the rich and the poor in these countries are often huge. Once the crisis comes, we find that the uncoordinated relationship among governments, elites and people in developing countries can not well absorb the impact of the financial crisis, which leads to social unrest, and the political system is also authoritarian and at the bottom. However, the economic crisis in developed countries is more in the form of recession, and the social unrest is relatively controllable in the economic domain. The real social crisis faced by developing countries is not only the decline of economic performance in the economic domain, but also lead to shocks in relevant political and social areas.

3. CONCLUSION

Based on what is stated above, The impact of the economic crisis on developing countries mainly focuses on inequality issues such as social contradictions, which can be seen from the employment ratio of women in developing countries. For developed countries, they have a relatively stable social environment and economic foundation. Therefore, the main impact of the economic crisis lies in education, high-end product manufacturing and customer consumptions.

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