

What did we learn from the Great Depression: *Looking at the 2008 Great Recession*

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Research Question

What did we learn from the Great Depression?



Method

I used the 2008 Great Recession as a case study to answer the question

I started with literature on the Great Depression, focusing on the causes, and what made the Depression last for so long

I then compared that to literature on the Great Recession, focusing on the causes and government actions to alleviate the crisis

Abstract

Looking at the causes of the Great Depression suggests that we learnt nothing as deregulation, income inequality, a belief in free market ideology, and a financial market bust, all contributed to both crises. However, the initial decline of the 2008 Great Recession was more severe than that of Great Depression showing that governments learnt something. They used fiscal and monetary policy to stimulate the economy, to keep it from engaging in a consistent downward spiral like during the Great Depression.



Thesis

The world has learnt how to prevent crises from becoming depressions, without learning how to prevent the initial crises.

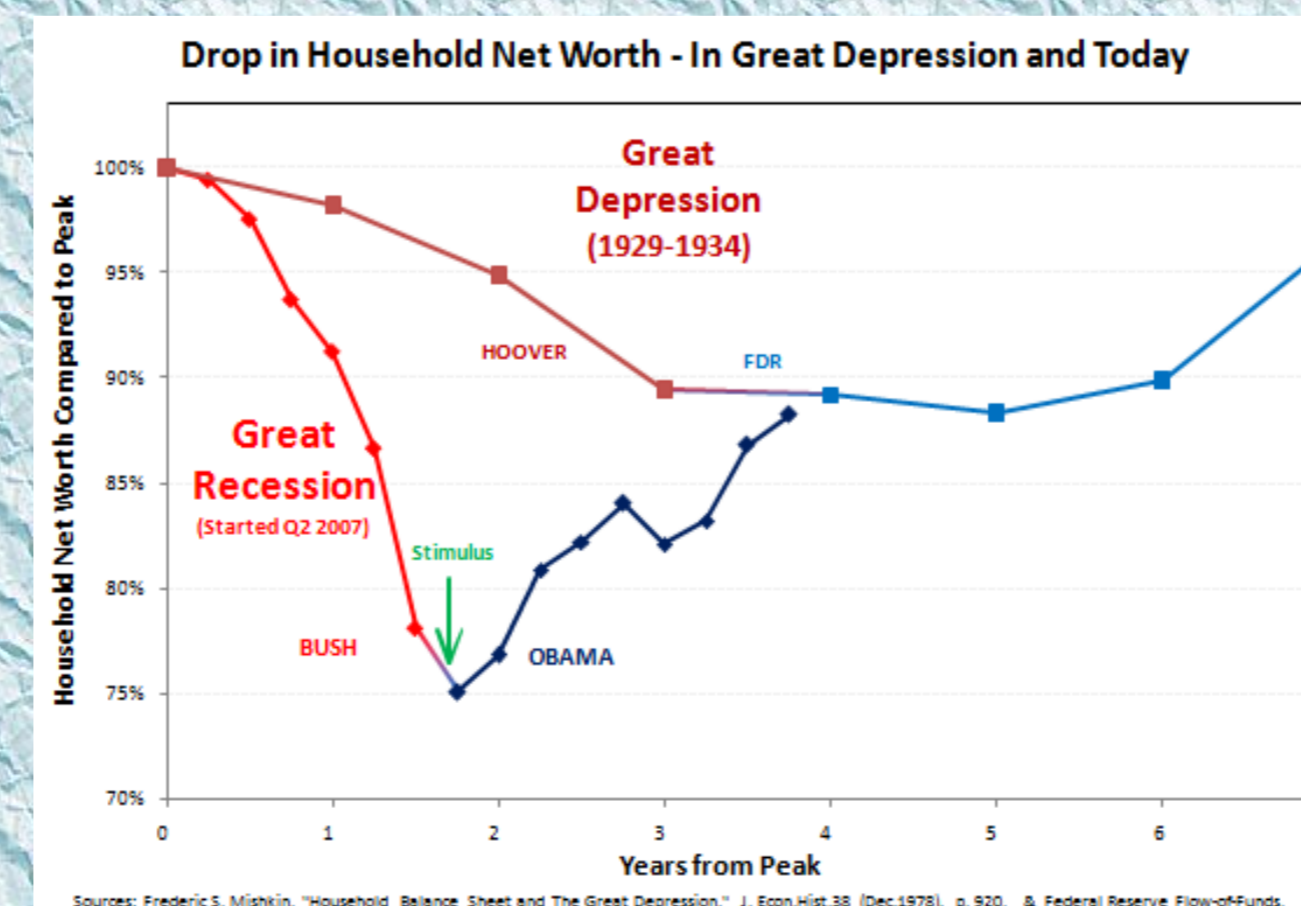


Great Depression

There is little consensus on the causes of the Great Depression. Housing and stock market bubbles led to the crash in 1929, tight monetary policy in the United States forced other countries to raise their rates and restrict credit, which created balance of payment problems a consequence of global imbalances, this was an era of free market ideology, little financial regulation, and very little government intervention, which all came together to create the initial downturn.

Recovery from the initial crisis was hindered by high levels of household debt, currency crises, decreasing money supply from bank failures and government actions, surviving banks restricting credit and deflation.

Governments did not act to counter the crisis believing that the economic contraction would sort itself out, and instead relied on fiscal responsibility and balanced budgets



Great Recession

In the 1980s we returned to free market ideals and a program of deregulation, privatization, and scaling back the size of government began, conditions similar to the 1920s

Both of these crises were a result of economic imbalances in the world economy, a stock market crash, and bank failures

This time governments took action. They engaged in Keynesian-inspired economic policy that included stimulus packages, easy money and deficit financing.

Conclusion

Governments have learnt not the important and far less costly lesson of how to prevent crises, but only how to respond to them. The world was saved from a crisis with real potential to be worse than the Great Depression.

Future Implications

The Great Depression created a need to reform the system to save it from its propensity for crisis. Government action in Great Recession helped to alleviate the crisis, which negated most calls for reform. This is problematic because none of the fundamental problems have been addressed. Without reforms there will be another bubble, and a burst that will shock the world economy.