

The Debate over the Origin of the Great Recession in the United States

El debate acerca del origen de la Gran Recesión de Estados Unidos

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ABSTRACT

This article analyzes the debate over the origins of the Great Recession in the United States. The author analyzes three perspectives: the first is the position spearheaded by John B. Taylor, who proposes the Great Deviation. The second is that of Alan Greenspan, Donald L. Khon, Ben S. Bernanke, Frederic S. Mishkin, and Lars E. O. Svensson, who attribute the crisis to a global imbalance between savings and investment. The third is the point of view of Robert Hetzel, Anna Schwartz, and Alan Meltzer, well-known inheritors of the monetarist tradition, who all accuse the authorities of having provoked the crisis and implemented the wrong responses. In conclusion, the author presents the opinion of two Nobel Prize winners in economics, Paul Krugman and Joseph Stiglitz.

Key words: Federal Reserve System, monetary policy, economic crisis, central bank, United States

RESUMEN

Este artículo analiza el debate que existe en torno de los orígenes de la Gran Recesión de Estados Unidos. El autor aborda tres perspectivas: la primera es la posición encabezada por John B. Taylor, quien habla acerca de una "Gran Desviación". La segunda es la que proponen Alan Greenspan, Donald L. Khon, Ben S. Bernanke, Frederic S. Mishkin y Lars E. O. Svensson, quienes atribuyen la crisis a un desequilibrio global entre ahorro e inversión. Y la tercera se refiere al punto de vista de Robert Hetzel, Anna Schwartz, and Alan Meltzer, conocidos herederos de la tradición monetarista, quienes acusan a las autoridades de haber provocado la crisis e implementar soluciones erróneas. Para concluir, el autor presenta la opinión de dos premios Nobel en Economía: Paul Krugman y Joseph Stiglitz.

Palabras clave: Sistema de la Reserva Federal, política monetaria, crisis económica, banco central, Estados Unidos.

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The mortgage crisis that exploded in August 2007, put an end to more than two decades of economic growth in the United States, a period known as the Great Moderation. The worst moment of the crisis came in September 2008, when Lehman Brothers, the fourth major investment bank, declared bankruptcy, unleashing a huge wave of financial panic that hit every stock market on the planet very hard. The financial crisis sparked an economic crisis that had real impact on growth and employment, kicking off what in economic literature became known as the Great Recession. While the economy was still shaky and in the months following its reconstruction, an extensive body of literature was produced on the topic to elucidate what had put a stop to an era of high economic growth in the United States.

In this context, studies emerged from within the field of standard economic theory that —albeit with different nuances— represent the most widely accepted accounts by most monetarist experts. These accounts can be grouped into three blocks. The first is the perspective headed by Stanford University professor John B. Taylor, who maintains that the Federal Reserve System (FED) deviated from a policy framework that had been working well, a theory known as the Hypothesis of the Great Deviation. Second are the points of view of Alan Greenspan, Donald L. Khon, Ben S. Bernanke, Frederic S. Mishkin and Lars E. O. Svensson, all renowned experts and members of the first circle of the central bank, who claim that the crisis was due to a global imbalance between savings and investment, which created a prolonged cycle of low interest rates and abrupt risk-taking. In third place come the monetarists Robert Hetzel, Anna Schwartz, and Allan Meltzer, who, with certain differences, accuse the authorities of having caused the crisis and then, at its worst point, having responded erroneously.

This article encompasses three components: I. The section “The Hypothesis of the Great Deviation” presents Taylor’s thesis accusing the Fed of deviating from the Taylor rule and creating an environment of high liquidity; II. “Institutional Approaches to the Crisis” presents the arguments of the duos Greenspan–Khon and Bernanke–Mishkin and of Svensson, about the origin of the crisis; and III. “The Monetarists Face the Crisis” lays out the arguments of the founders of the monetarist tradition, created by Milton Friedman in the twentieth century, regarding the origin of the crisis. Although with certain differences, Hetzel, Schwartz, and Meltzer all hold the Fed responsible for having created the crisis. For Hetzel the Fed implemented a contractionist monetary policy in 2008, while Schwartz and Meltzer coincide with Taylor, asserting that a highly lax monetary policy in the period leading up to the crisis created the conditions that precipitated its outbreak years later.

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