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# *Panel Debate*

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1. *Are all financial crisis alike?*
2. *Which is the necessary and sufficient condition(s) for a financial crisis?*
3. *Which are the lessons for financial regulation?*
4. *Which is the impact of the crisis on*
  - a) *macroeconomic theory*
  - b) *the monetary regime / the goal of central banking*
5. *How should international cooperation be designed?*



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# The financial crisis blame game.

You need a central bank to get a  
financial crisis

Blame it on Greenspan!



Issue	Modern macro and financial economics	Traditional financial crisis literature
Use of theory	Strong theory – axiomatic approach	No or weak theory
Use of history	Ahistorical approach	Historical, descriptive approach
Stability-equilibrium	The economic system is stable. It moves towards equilibrium.	The economic system is inherently unstable
Uncertainty	Uncertainty can be quantified	Genuine uncertainty
Efficiency of markets	Markets are efficient	Markets are inefficient
Rationality	Financial market actors are rational	Financial market actors are irrational
Use of psychology	No use of psychology	Psychology plays an important role in explaining Behaviour
Crisis policy	No need	Needed



## World trade in a downward spirale

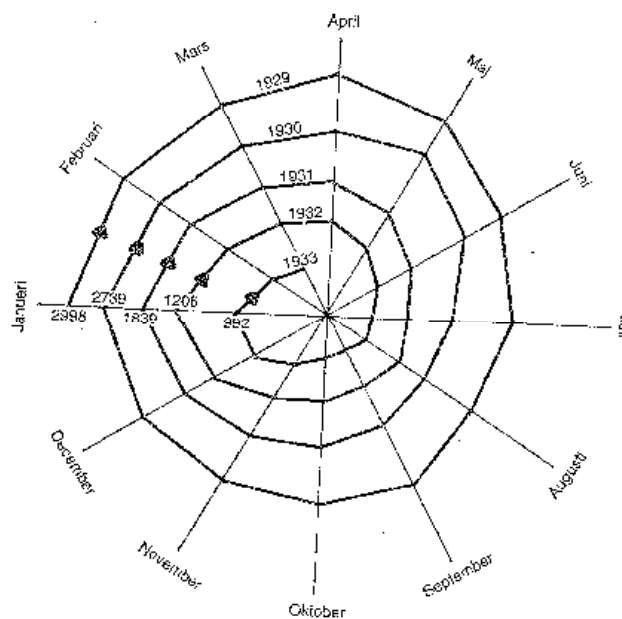


Diagram 3:2 Världshandelns krympningspiral 1929-33 i miljoner dollar.

Källa: Monthly Bulletin of Statistics, Februari 1934.



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## *Lack of international policy cooperation in the 1930s*



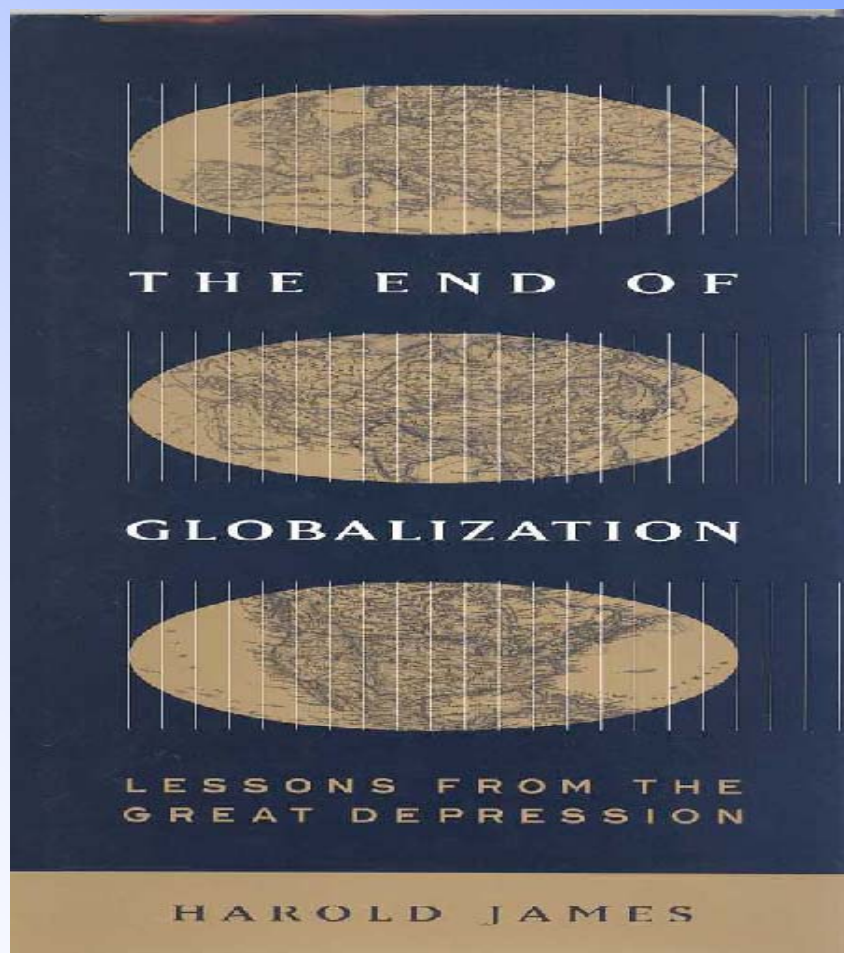
‘PHEW! THAT’S A NASTY LEAK. THANK GOODNESS IT’S NOT AT OUR END OF THE BOAT.’

6 *Cartoon by David Low (1932), from his Autobiography (New York: Simon & Schuster, 1957), p. 243. By permission of The Standard.*



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## *Will today's crisis put an end to globalization?*





## ***Lessons from other financial crisis***

*5. The crisis pattern is a story of boom and bust.*

*The common feature: The unstable credit multiplier driven by "the animal spirits" – psychology*

*The unique features: The impulses starting and ending the boom-bust may differ.*

*Legal changes, financial innovations, policy measures etc*



## ***Lessons from other financial crisis***

*9. Financial crisis impact on economic theory and economic policy – if they are deep enough*

*What will happen to "modern macro" and financial economics?*

*What will happen to inflation targeting and central bank independence?*



## ***The great depression of the 1930s.***

***Lesson. Maintain internationalism (globalism) – avoid nationalism.***

*It is proper to view the Great Depression as the end of the first period of globalization. The outbreak of war in 1914 closed borders and destroyed the order that was established during the classical gold standard. When peace returned, the 1920s saw the return to an international order that was a continuation of the classical gold standard or at least an attempt to go back to such an arrangement.*

*The depression of the 1930s signalled the end of this liberal regime based on openness and internationalism.*



***A compromise:***

***Within the "corridor": traditional theory holds***

***Outside the "corridor": economists need to embrace other approaches***



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## ***Lessons from other financial crisis***

*10. The last lesson:*

*Financial crisis (like this presentation today) ends sooner or later.*

*This is a positive message from financial history.*