TEACHING POINTS IN COMPARING THE GREAT DEPRESSION TO THE 2008-2009 RECESSION IN THE UNITED STATES

Tiffany Noel Killian, B. A.

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APPROVED:

Steven L. Cobb, Major Professor and Chair of the Department of Economics
Randolph B. Campbell, Committee Member
Kathleen Whitson, Committee Member
Donna Hughes, Program Coordinator
Michael Monticino, Dean of the Robert B. Toulouse School of Graduate Studies
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For an introductory macroeconomics course, the discussion of historical relevance helps foster important learning connections. By comparing the Great Depression to the 2008-2009 recession, a macroeconomics instructor can provide students with connections to history. This paper discusses the major causes of each recession, major fiscal policy and monetary policy decisions of both recessions, and the respective relevance in teaching the relationship of each policy to gross domestic product. The teaching points addressed in this paper are directed towards an introductory college-level macroeconomics course, incorporating a variety of theories from historical and economic writers and data from government and central bank sources. A lesson plan is included in an appendix to assist the instructor in implementing the material.
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In any economics or history course, economic growth and measures taken to promote such growth provide critical teaching points. Traditionally, most students know that economic growth occurs with an increase in the growth rate of real gross domestic product (GDP) over time. The standard formula for calculating GDP is to add personal consumption expenditures (household or consumer spending), gross investment (business spending on expansion or depreciation), government expenditures, and net exports (the value of exports minus the value of imports). Fiscal policy and monetary policy provide the means to manipulate these four components in order to promote growth and control inflation. Throughout history, fiscal policy and monetary policy measures have frequently been used in an attempt to solve recessionary conditions. It is important for students to understand the ways in which both types of policy have been used throughout history and to see why and how the use of each type of policy has changed over time.

An important lesson in explaining the history of fiscal and monetary policy in the US lies in comparing the 1930’s Great Depression to the 2008-2009 recession. In comparing the two, the educator must clarify that no two historical periods are identical, but that connections can be made. An educator must emphasize the changes that have occurred between the two time periods, including changes in infrastructure and economic thought. Comparisons between the two time periods involve some degree of speculation and some degree of intangible connectivity. Economic thought underwent significant changes during the period between these two recessions. For an educator,
the difficulty lies in working through the various perspectives to create unbiased teaching points.

For an educator comparing the Great Depression to the 2008-2009 recession, the key component lies in finding similarities between two events separated by over seventy years of change. Fiscal policy and monetary policy each affect a wide range of economic components – consumer spending, private investment, employment, wages, price level, and money creation in the banking system. For an educator, the key is to compare the main factors of economic growth and how fiscal policy and monetary policy changed these components. Within a study of fiscal policy, the focus falls on government taxing and spending. The effects of taxation have remained virtually the same over this time period. The question then becomes one of government spending. What programs came about as a result of government spending during both recessions? How did these programs affect consumer spending, private investment, employment and wages? In addition, monetary policy affects the entire system of borrowing and lending, key components of investment and consumption. How has the role of the Federal Reserve changed over the years in regard to these components? What lessons from the Great Depression were used 70 years later? Price levels are a reflection of a combination of factors from both fiscal policy and monetary policy. How did the government and the Federal Reserve each respond to inflation in each recession? How did price level influence each component of GDP?

To work through these issues, the educator must first provide background information for both time periods, discuss fiscal policy and monetary policy for each recession, and test both situations in terms of the GDP formula. The educator must
consider the weight of each component first and foremost. Consumption and investment are influenced by income levels and interest rates. Government expenditures and monetary policy influence interest rates. Fiscal policy influences each sector of the economy. During each time period, significant changes occurred domestically (affecting the consumption, investment and government expenditures components of GDP), but little evidence of large impacts on the net exports component exists for either time period (Bureau of Economic Analysis [BEA], n.d.). Since the net exports component of GDP remained relatively stable through both time periods and can have so many outside influences, it is only necessary to cover the domestic components in the comparison. For the purpose of comparison, the effectiveness of fiscal and monetary policies needs to be addressed when applicable. To provide an effective lesson, however, the educator must place some responsibility for the comparison and the analysis on the student. A result of effective learning is the ability to translate information in multiple situations. In this context, the teaching of fiscal policy and monetary policy through a comparison of the Great Depression and the 2008-2009 recession provides such effective learning.

Background of the 1920s

During the early decades of the twentieth century, the US experienced a shift from a rural-based nation to an urban-based one with industrialization and a movement towards a more competitive market economy. This shift forced much of the population to be at the mercy of the market economy, as industrial ties and urbanization moved them away from the self-sustaining agrarian lifestyle. Job losses and a lack of
employment opportunities in urban areas created a desperate situation for many rural families (McElvaine, 1984, p. 7). Productivity grew quickly during this period, which should have created lower prices. Instead, prices remained stable, and real wages did not increase. Workers could not enjoy their increased productivity (Johnson, 1997, p. 715-735). Since so many families had direct ties to the market economy, its collapse in 1929 created a widespread disintegration.

In the early 1920s, President Calvin Coolidge led the country through a time of prosperity. Coolidge practiced laissez-faire doctrine to the fullest, except in instituting high tariffs to protect domestic industries from foreign competition (Johnson, 1997, p. 715-735). The government enjoyed a budget surplus during most of the 1920s, even with tax cuts (Smiley, 2002, p. 9). Increased prosperity led to an increase in consumer spending which encouraged production. Advertising and the use of the installment plan to purchase big-ticket items spurred this increased consumption. Many families who could not afford cars, appliances, and furniture could do so with an installment plan. While consumers had previously been encouraged to save, advertising of the concept of “buying now and paying later” encouraged them to spend instead of save. Consumer debt emerged from the introduction of the installment plan system in the 1920s. Incomes were now used to pay off past purchases, decreasing current purchasing. When the economic collapse came at the end of the decade, many families faced increased hardship because part of their income was used to pay off past purchases (McElvaine, 1984, p. 40-41).

As the Federal Reserve System was still relatively new in the 1920s, the steps taken by the Federal Reserve during this time were cautious. To enlarge credit, an
easy money policy with low interest rates was prevalent. John Maynard Keynes praised the Federal Reserve for maintaining a stable dollar with price stability during a time of economic growth. This stability did not last, however, as many of the gains in income came from avenues other than workers’ wages. Speculation became the norm on the stock market, as pyramid-selling took place frequently. By the end of 1928, these factors led to a halt in credit inflation, producing the downward trend in the stock market which then created the crash on Black Tuesday in October 1929 (Johnson, 1997, p. 715-735).

The Federal Reserve System gained influential power throughout the 1920s. As a result of prosperity and optimism, an increase in lending corresponded to a need for active involvement by the Federal Reserve. While the increased lending seemed to backfire in the form of defaults and foreclosures during the Great Depression, the conditions in the 1920s gave no reason for more restrictive lending practices. Friedman and Schwartz (1963) find that “even though loans made during the later twenties might still have experienced a greater frequency of default and foreclosure than those made during the earlier twenties, they might have yielded as much as their purchasers expected them to on the average” (p. 247). These findings indicate that overconfidence in lending created a series of defaults and foreclosures.

Bank failures occurred frequently in the 1920s (approximately 6,000 banks failed between 1921 and 1929), although many can be attributed to changes in infrastructure and to increased urbanization. Most large banks (and typically members of the Federal Reserve System) overtook smaller banks as rural areas became more urbanized. Mergers also contributed to the changes (Friedman and Schwartz, 1963, p. 249). While
any significant increase in bank failures indicates banking instability, the bank failures of
the 1920s suggest that other factors played a large role. The Federal Reserve,
therefore, took relatively little action to counteract bank failures in the 1920s.

The 1920s also unveiled a shifting view of monetary policy – the “real bills” view. While the concept was certainly not new, the idea of ensuring that created money was actually being used to finance productive business activity surfaced heavily during this time. Fears of “false” economic gains fueled beliefs that the buying of government securities by the Federal Reserve led to increased speculation in the stock market, rather than actual productive gains by businesses. The borrowing of funds then became dependent on the reason for borrowing, instead of for the purposes of monetary expansion (Friedman and Schwartz, 1963, p. 267-268).

International conditions also paved the way for recessionary conditions. From about 1880 to 1914, most currencies were based on a gold standard. Various systems of the gold standard existed, with some having 100% gold backing to others having a certain amount of unbacked currency permitted to some others having less than 100% of the gold held in currency. Exchange rates remained relatively stable because of their ties to the amount of gold held by each country. The gold standard was generally perceived as allowing for quick adjustments in exchange rates, as preventing governments from inflating currencies at their whim (thus allowing for more stable public finance), and as allowing for price stability (Eichengreen and Flandreau, 1997, p. 4-17). Great Britain abandoned the gold standard during World War I, leading to the US possession of the only hard currency on the gold standard. Beginning in 1925, Britain started to operate under a variation of a gold standard in order to promote the inflation
of pounds. By having other European countries redeem currency in pounds sterling, and Great Britain then redeeming in US dollars, the US would remain the only currency with a public redemption under the gold standard. The instability of the dollar, however, led to the failure of the dollar and the eventual collapse of not only the US economy, but the economies of all countries involved in this new varied gold standard. Inflation of the US dollar and bank runs (periods when bank customers stormed the banks and withdrew large amounts of money for fear that the money would not be covered by the amount of available gold) created bank failures, which led to a complete failure of the international monetary system, one of the causes of the Great Depression (Garrett and Rothbard, 1980, 80-84).

While prosperity in the 1920s even faced a few downturns, Friedman and Schwartz (1963) discuss a "close synchronism" between monetary policy and the cyclical behavior in the 1920s. The confidence of the 1920s resulted from a combination of general business conditions and a Federal Reserve System which exerted its power to create "a delicate yet effective means of smoothing economic fluctuations" (p. 296). With a new understanding of how to use monetary policy, the Federal Reserve System utilized open market operations in new ways, but also found itself dealing with conflicts. Gold sterilization, the real bills view and speculation in the stock market created a period of inactivity within the Federal Reserve System, leading into the downfall in 1929 which had little chance of prevention or recovery in a deadlocked monetary system.

Benjamin Strong, governor of the Federal Reserve Bank of New York (the most influential of the Federal Reserve banks during the 1920s), cut discount rates from 4%
to 3% in 1927 in order to push for an increase in the money supply. Strong failed to realize that an increase in the money supply did not always lead to an increase in spending. Much of the money furthered stock market speculation, leading the Federal Reserve (minus Strong’s leadership after his death in October 1928) to increase the discount rate to 6% in 1929. This contraction of the money supply further depressed an economy already in shambles from a stock market crash (Powell, 2003, p. 28-30).

Fiscal Policy and the Great Depression

With the existing budget surplus in 1929, Hoover was able to get a tax cut and an increase in public works spending approved by Congress (Smiley, 2002, p. 12). A few years later, however, Hoover’s commitment to a balanced budget surfaced as a significant problem. By 1932, the large deficit created by public spending made Hoover nervous, and he began to battle for a tax increase. A proposition for a sales tax failed, but the Revenue Act of 1932 did create a slight decline in spending (through increased corporate income taxes and excise taxes on certain consumer products) (McElvaine, 1984, p. 86-88).

In the US, many other factors contributed to the depth and length of the Great Depression. The election of Herbert Hoover shortly before the crash led to changes in government involvement in the economy. Within a month of the crash, Hoover began taking action to encourage “voluntary cooperation” in order to counteract the recession (McElvaine, 1984, p. 69). Hoover believed that increased wages automatically increased purchasing power, and he believed that government spending could solve economic problems (Powell, 2003, p. 40-41). He convinced employers to agree not to
decrease wages, pleaded with consumers to spend money, increased government spending on public works, launched his “confidence offensive” (a declaration that the economic essentials of production and distribution were “sound and prosperous”), and aimed towards a balanced budget (McElvaine, 1984, p. 66). The contradictory nature of many of these ideas prevented success. Employers could not maintain wages without an incentive to do so. Production and distribution were not, in fact, “sound and prosperous” (McElvaine, 1984, p. 66). Increasing public works while maintaining a balanced budget were virtually impossible. Perhaps most importantly, consumers had lost confidence in spending and in the banking system.

A multiplier effect occurred because of the lost confidence in the economy. Although many business leaders maintained wages at first, their low expectations for the future led to a decline in investment and a subsequent decline in production. Unemployment increased, and as prices fell, real wages actually increased. Fear of job loss, however, led to a decline in spending. The cycle of declining production, unemployment, fear of job loss, fear of investment, and decline in spending actually perpetuated and deepened the recessionary conditions. Eventually, wages did begin to fall in many industries. Hoover made some weak attempts to encourage investment with little (if any) real success (McElvaine, 1984, p. 72-79). Hoover signed the Federal Home Loan Bank Act of 1932 in order to provide savings and loan institutions with an oversight system similar to the Federal Reserve System. The movement produced little success (Powell, 2003, p. 45-46). The Hoover administration created the Reconstruction Finance Corporation (RFC) in 1932 to provide government credit to private financial institutions in order to increase business investment. What Hoover and
the policymakers failed to realize, however, is that the issue was a problem of investment demand and not one of investment supply. Businesses remained fearful of borrowing, even with easy credit conditions. The RFC did provide credit to some banks, preventing a complete collapse of the American banking system (McElvaine, 1984, p. 88-90).

Unintentionally adding fuel to the economic collapse, Hoover passed the infamous Hawley-Smoot Tariff Act in 1930. The historically high tariff rates brought about widespread retaliatory tariffs, creating a tariff war and expanding the recession around the world. Banks throughout the world collapsed, and currency values were threatened. When the British abandoned the gold standard in 1931, decreased prices and imports created a further decline in American production (McElvaine, 1984, p. 83-85). The tariff retaliations led to lower prices globally, making it difficult for indebted nations to make their payments to the US (Powell, 2003, p. 45). This international upset greatly affected the gold standard, and negatively impacted net export conditions for most countries. Some believe the tariff wars created situations which allowed dictatorships to move into power, one of the contributing factors of World War II (Powell, 2003, p. 45).

With the exception of his few successes (including the RFC, which became an important New Deal agency), Hoover’s moderate attempts at recovery left no lasting legacy, except to begin “the move to public assistance” through loans and government agencies and to open the way for the New Deal programs to be put in place under Franklin Roosevelt (McElvaine, 1984, p. 69-70).
From the 1920s, a few important teaching points can be found. Through multiplier effects, GDP increased substantially at the beginning of the 1920s. Domestically, each of the three components of the closed economy can easily be seen as contributing factors to both prosperity and eventual economic decline. Consumption initially increased due to increased prosperity. The use of installment plans enabled further consumption, but also took away a portion of consumers’ future incomes for debt payments. This loss of future spending was a contributing factor in the economic collapse of the late 1920s. Investment spending by businesses increased initially as well, as businesses increased production to meet growing demand for consumer goods, especially consumer durables available through installment plans. Optimism and resulting speculation in the stock market created a downward spiral. When banks began to fail, business borrowing for investment decreased. Businesses’ low expectations led to decreased production and fewer labor hours for employees. This decline in worker hours led to a decline in spending. Defaults on loans became a norm, decreasing confidence in the banking system. When the Federal Reserve decreased the money supply in 1929, interest rates increased, causing a further decline in investment spending. While the government held a budget surplus at the beginning of the 1920s, decreasing taxes and Hoover’s increased spending soon created a budget deficit. Some of Hoover’s programs were designed to increase consumption and investment through increased credit and increased confidence, but these programs were instituted too late.

New Deal programs attempted to solve the problems of the Great Depression through fiscal policy. While Roosevelt created a substantial amount of government
intervention through New Deal programs in order to correct economic problems, his methods were not always successful. More recent studies of the New Deal reveal ineffectiveness in many of the programs designed to promote long-term economic growth or even those designed to provide immediate relief. New Deal policies tended to be contradictory in trying to meet conflicting goals, and many were extracted by groups of people who had little experience in economic policy. Treading on new grounds, these groups kept their own interests in mind when constructing New Deal legislation. Increased spending and increased taxing combined to create a stalemate for the economy. As the private sector’s ability to spend faced limits from increased taxes, it cancelled out government spending. As government spending increased, it crowded out private investment, a necessary component of economic growth.

Roosevelt’s vigor in New Deal policy often contradicted itself. With programs such as the Agricultural Adjustment Act (AAA) and the National Recovery Administration (NRA), increased prices of agricultural products and other consumer goods resulted in decreased production and decreased consumption. In many instances, a combination of programs offered relief for the needy, but often at the expense of workers in the form of increased unemployment (Powell, 2003, p. 5). While it is difficult to surmise the exact counteracting effects, it is sometimes obvious how a policy which benefits one group will harm the other. Increased prices and increased taxes during a recession force people to make decisions about limited incomes. Typically, these decisions mean less spending, fewer jobs and other movements which decrease economic growth. Depending on the degree of contradiction, then, New Deal policies may have actually worsened recessionary conditions.
Roosevelt advocated national planning agencies to improve infrastructure in the US. Many of the early New Deal programs supported national planning with agencies structured to create jobs. Unfortunately, these jobs tended to be mostly temporary, thus not sustaining growth. Business investment was also necessary to create growth, and these temporary projects did not provide for such investment (Powell, 2003, p. 75-76). Many of the jobs created by programs such as the Public Works Administration (PWA) were for skilled workers, and the projects had large degrees of overhead costs (Powell, 2003, p. 91-92). Increased government spending on public works projects did provide for improved infrastructure, but did not provide for the essential elements of economic growth needed during the Depression years. Powell (2003) finds that

the most humanitarian New Deal programs involved relief and public works, yet evidence indicates that these programs probably prolonged high unemployment. According to the U.S. National Resources Planning Board, between 1933 and 1939, 42.6 percent of federal relief and public works expenditures were paid for by tax increases, and 57.4 percent were paid for by borrowing money – which, of course, ultimately had to be paid out of future taxes. (p. 89)

As Powell describes, taxes not only decreased purchasing power for the employed, but the uses of tax revenue in government spending really did not have much of an effect on total spending. Taxation, then, provided a disincentive to work (Powell, 2003, p. 89-90). Taxation and unsustainable spending thus had little effect on growth.

Unionism emerged as a battle of workers versus the government during the 1930s. The NRA’s duties included monitoring collective bargaining (as opposed to individual bargaining) of workers. The NRA advocated above-market wages, following Hoover’s idea that the Great Depression was caused by declining wages. Unfortunately, high wages meant a movement towards employment of machinery and a decline in labor employment. The increased purchasing power advocated by “high
wage theory” proponents would realistically be counteracted by the increasing labor unemployment. Another part of the NRA’s responsibilities involved monitoring industrial codes, which tended to mean increased resource costs, including those of transportation and of some raw materials (Powell, 2003, p. 117-127). Minimum wages, maximum hours, and child labor laws were among the industrial codes monitored under the NRA. The increased costs contributed to a decline in hiring of workers and in the expansion of output. Eventually, the NRA was declared unconstitutional (May 1935), but the effects of its existence prevented the economic growth needed in the years immediately following the Great Depression (Smiley, 2002, p. 98-99).

Roosevelt advocated increased taxes, failing to realize that the simultaneous decrease in the money supply by the Federal Reserve raised effective tax rates. Taxes on liquor, tobacco, and gasoline hurt consumers directly, while taxes on corporate dividends and a reduction in tax credits for business losses hurt producers. The AAA taxed some agricultural producers for producing more than a set limit. The Revenue Act of 1934 made the personal income tax more progressive, harming workers and higher-income earners (Powell, 2003, p. 76-79). The Revenue Act of 1935 increased tax hardships even further, particularly for business owners and high-income earners. It failed to increase revenue or redistribute the wealth, as Roosevelt planned, and instead “did send a clear signal to employers and investors that they were under attack…such taxes encouraged them to conclude that they would be foolish to put their money at risk” (Powell, 2003, p. 80). In 1936, a new tax on undistributed corporate profits further hurt business owners, this time mostly affecting small business owners (Powell, 2003, p. 80). By creating a disincentive for entrepreneurial activity and for investment, these tax
movements actually contributed to the economic recession in the late 1930s (Powell, 2003, p. 173-186).

In 1935, Congress passed a bill to allow for early payment of World War I bonuses to veterans. The required increase in federal spending caused the Treasury to have to borrow money; in doing so, it increased interest rates and decreased investment. The declining economic activity which resulted began to fuel the second recession of the 1930s (Smiley, 2002, p. 108-109). The Social Security Act of 1935 also failed to aid in recovery from the Great Depression; by increasing taxes for workers and costs for businesses, it first decreased purchasing power and increased prices. The first payment from the account was to be made in 1942, so there were no immediate effects of the Social Security Act. The tax increase, therefore, did not pay out until much later (Powell, 2003, p. 173-186). The Social Security Act did not provide immediate effects for the Great Depression.

Banking and Monetary Policy in the 1930s

After the economic collapse of 1929, the Federal Reserve concentrated on preventing inflation and maintaining the strength of the dollar, failing to correct the real problems of deflation and high unemployment (Grunwald, 2010, “The Depression Buff,” para. 3). Other policies created a growth of the money stock, aiming to foster growth through price level stability. Real variables, such as the real interest rate, played an important role in attempted economic recovery.

The decline in the money stock which contributed to the depth of the Great Depression created a decline in money income of 53% and a decrease in real income of
36% between 1929 and 1933. A decline in business investment contributed to an unemployment rate estimated to be approximately 25% (Friedman and Schwartz, 1963, p. 300-301). Bank failures and the stock market crash contributed to an uneasy atmosphere which caused the private sector to increase their money holdings. In the depression years, money velocity decreased by 13%, a considerably larger decrease than during previous contractions (Friedman and Schwartz, 1963, p. 306-307). The money supply was forced into a liquidity trap, where money hoarding created a decline in total spending and investment. In response to the stock market crash, the Federal Reserve System gradually reduced the discount rate to 1.5% by April 1931. This did create some gold inflow but did not increase investment as banks’ excess reserves grew. As the risk of loaning increased, the lowered discount rate failed to provide incentive for loan activity. An increase in bond purchases also failed to provide relief, again because of an increase in excess reserves by member banks (Smiley, 2002, p. 64-69). The decline in the money stock continued. In late 1930 and into 1931, the Federal Reserve experienced an increase in outstanding credit which created a partial offset for the decline in the money stock. For a brief period at the beginning of 1931, the deposit-reserve ratio increased (Friedman and Schwartz, 1963, p. 342-343). Unfortunately, the large monetary push that was needed did not occur, as the Federal Reserve limited its holdings, preventing a longer-term increase in the money stock.

A series of bank failures occurred in March 1931. International bank failures shook confidence in the US banking system, and depositors began to liquidate once again. This time, the Federal Reserve chose to maintain its own holdings, creating
adverse effects on the money stock. Deposits fell 9% between February 1931 and September 1931 (Friedman and Schwartz, 1963, p. 314-315).

Britain’s return to the gold standard furthered the US banking crisis. An external currency drain was brought about by foreigners attempting to maintain their own gold standard. The Federal Reserve responded with an increase in the rediscount rate to ease some of the external drain, again creating only a mild offset of the declining money stock (Friedman and Schwartz, 1963, p. 316-318). In April 1932, under pressure from Congress, an increase in the use of open market operations by the Federal Reserve finally allowed for a small, but significant, increase in the money stock. The increased gold inflow and bond-purchase program led to a period of mild monetary growth (Friedman and Schwartz, 1963, p. 322-324).

The mild increase in the money stock proved only to be short-lived and not an indication of true economic growth. Bank failures increased again in 1933. Actions by the RFC only increased bank runs and the resulting bank failures. The publication of banks seeking RFC loans created fear of those banks. Bank holidays ensued. The Federal Reserve responded with increased discount rates but did not significantly increase the buying of government securities. Drains of gold internally and externally occurred, creating Roosevelt’s banking holiday from March 6 through March 9 (Friedman and Schwartz, 1963, p. 324-330).

During the Great Depression, monetary policy needed to be strong, decisive and extreme; instead, it was weak, fearful and passive. Because many of the Federal Reserve’s policies failed to yield immediate, powerful results, most of the policies faced stalemate, abandonment, or reversal (Friedman and Schwartz, 1963, p. 417-419).
reality, most of the policies needed more time to be effective. Long run results are difficult to ascertain when the policies do not last through the long term.

Another issue concerns the value of the dollar and international trade. The established Committee for the Nation to Rebuild Prices and Purchasing Power (formed in January 1933) consisted mostly of businessmen with their own agendas who aimed to bring prices back to pre-depression levels and then stabilize the price level. In order to achieve these goals, the Committee felt it necessary to abandon the gold standard. This step occurred in April 1933, leading to a depreciation of the dollar. Together, with an increase in the price of gold, US exports increased (Garrett and Rothbard, 1980, 93-103).

The success of the Committee’s recommendations is debatable. In terms of pre-depression price levels, the weighted price level in 1928 was approximately 17.16, while in the first ten months of 1929 it stood at 17.14. The price level did not return to these levels again until 1943. From July 1933 until early 1941, the price level did remain relatively stable ranging between 13.1 and 14.1, with only a few months out of this range.\(^1\) This data indicates that the Committee did not achieve the goal of returning to pre-depression prices, but it did allow for price level stabilization. In terms of economic growth, however, the stimulation of US exports helped create a jump in US net exports from $100 million in 1933 to $300 million in 1934, partially causing the increase in GDP from 1933 to 1934 (BEA, n.d.).

The Emergency Banking Act of 1933 changed the structures of US banking, the Federal Reserve System, and monetary policy. Three sections are of significance. Title

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\(^1\) This information is based on Consumer Price Index calculations from the US Department of Labor’s Bureau of Labor Statistics. Price level was calculated monthly, with the period of 1982-1984 as the base year.
I permitted the president to call for a bank holiday in cases of national emergency (not just in times of war). By the time Congress passed the Emergency Banking Act, Roosevelt had already declared a bank holiday, and the institution of the Act only confirmed the necessity of Roosevelt's action (Friedman and Schwartz, 1963, p. 421). Title II permitted banks to reopen, and those with “impaired assets” fell under advisory control of the Comptroller’s office (Friedman and Schwartz, 1963, p. 421). Under Title IV, “emergency issues of Federal Reserve Bank notes up to the face value of direct obligations of the United States deposited as security, or up to 90 per cent of the estimated value of eligible paper and bankers’ acceptances acquired under the provisions of the Emergency Banking Act” were permitted (Friedman and Schwartz, 1963, p. 421). The Emergency Banking Act, therefore, increased the power of the Federal Reserve by placing more direct controls on banks, and it allowed for emergency actions through increases in the issuance of Federal Reserve Bank notes. Potentially, these actions gave the Federal Reserve Bank and the president nearly direct control over the money supply and the banking system in times of emergency.

The Emergency Banking Act allowed many banks to reopen, but created a decline in the number of individual banks. By decreasing the number of banks, each operating bank potentially possessed more assets and capabilities of maintaining solvency (Friedman and Schwartz, 1963, p. 428). In terms of money stock, the Act “contributed to recovery by restoring confidence in the monetary and economic system and thereby inducing the public to reduce money balances relative to income (to raise velocity) rather than by producing a growth in the stock of money.” Although money
changed hands more frequently, an actual rise in the money stock immediately after March 1933 is not evident (Friedman and Schwartz, 1963, p. 433-434).

In June 1933, Congress expanded the Emergency Banking Act into the Banking Act of 1933 (also known as the Glass-Steagall Act). The most significant parts of the revised legislation included the division of investment banking and commercial banking; regulations on the use of bank credit; regulations on private banking; and the establishment of the Federal Deposit Insurance Corporation (FDIC). By dividing investment banking and commercial banking, legislators hoped to create smaller, more stable banks. By enforcing stricter regulations on bank credit and private banking, they hoped to create a more stable banking system where people would feel confident in placing their money (Friedman and Schwartz, 1963, p. 433-440). The creation of the FDIC moved the burden of bank failures from the depositors to the taxpayers. Because the FDIC covered $2,500 worth of deposits, depositors felt more secure. Fewer bank runs occurred (with no significant bank panics), but banks still failed for other reasons. When these failures occurred, the FDIC covered deposits through taxpayer dollars (Powell, 2003, p. 56-57).

The separation of commercial banking and investment banking also failed to produce significant results. While competition increased, the small banks which comprised the majority of previous failures continued to be the source of new failures. The separation did not affect these small banks, and they did not benefit from the increased number of competitors (Powell, 2003, p. 57-59). The separation of commercial banking and investment banking created less diversification for existing banks, which some experts believe contributed to bank failures after the implementation
of the Banking Act. Many believe that national banking and unit banking were the real problems behind the banking system (Powell, 2003, p. 63-64).

Based on the quantity theory of money and its variations, Frank Steindl (2004) finds that earlier economists found that the growth of the money stock contributed to the recovery period, while more recent studies find greater contribution in other factors (p. 5-11). Based on the quantity theory of money devised by Irving Fisher and expanded by Milton Friedman and Anna Schwartz, an increase in the money stock created a rise in price levels during the recovery period. As price levels stabilized, employment levels and output levels also stabilized (Steindl, 2004, p. 76-80). While nominal interest rates remained relatively inelastic for investments, real interest rates maintained an impact on investment during the recovery period, accounting for a large proportion of the increase in industrial production during the 1930s (Steindl 2004, p. 133).

Conclusions and Teaching Points about GDP in the Great Depression

The structure of the components of GDP was greatly influenced by the policies set into effect during the 1930s. To begin with, consumption declined steadily as increased prices caused a decline in real incomes. Programs such as the PWA, AAA and NRA not only created higher prices, but forced businesses to cut production as consumption declined. As production decreased, the unemployment rate increased. Household incomes declined further. Some New Deal programs, such as the Revenue Acts, increased taxes which caused consumers to have less disposable income. As banks failed and confidence in the money system declined, households held more of their money. The Federal Reserve’s lack of attention to promote confidence in the
money system contributed to this lack of saving. While increases in government spending were designed to counteract the lack of private sector spending, a crowding-out effect actually occurred, causing business borrowing to decline. Businesses were also affected by increased taxes and pessimistic expectations. Without investment spending, the private sector could not grow. Some growth in net exports did occur during the 1930s, but being one of the smaller components of GDP, this growth could not counteract the decline in spending by consumers and businesses. Overall, the decline in GDP was a result of decreased consumption and business investment, partially caused by the crowding-out effect from government spending.

The Great Depression brought about unprecedented economic decline. To achieve economic growth, a nation needs capital investment to increase its resource base. Capital investment proved to be the lacking element in such growth during the Great Depression. Because of insecurity about the future and with the banking system, the private sector was weary of increasing investment. Fiscal and monetary policy actions in the 1930s sought to improve conditions, but a general lack of experience proved only to deepen and extend the recession. With the Federal Reserve System and the use of monetary policy being relatively new, the federal government and fiscal policy played a large role in economic change. While monetary policy eventually evolved into an essential economic tool, its use was dismal and lagging during the Great Depression. Fiscal policy programs attempted to promote economic growth through increased government spending, but many programs stifled consumer spending. Many of these programs did not receive proper funding needed to pull the economy out of the Great Depression. Concern over maintaining a balanced federal
budget took precedence over properly funding fiscal policy programs. A change in concern and increased government spending would come about later with the funding of World War II.

Background of the late 1990s – early 2000s

Prosperity in the late 1990s, although not as substantial as that of the prosperity of the 1920s, led to increased consumer confidence and business investment. The expansion of 1991 to 2001 showed a slowing inflation rate with low unemployment rates and strong growth. Increasing productivity during this time period contributed to the economic growth. With an unemployment rate lingering around 5% in 2005 and 2006 and strong GDP growth, the economy was thought to be at full-employment levels (Makinen, 2006, p. 1-7). Expansionary fiscal policy from 2001 through 2003 contributed to this full-employment growth, and a tightening in 2005 aimed at controlling inflation. In June 2006, after over a year of consecutive quarters of increasing real GDP growth, the Federal Reserve instituted a tight money policy, increasing the federal funds rate to 5.25% (Makinen, 2006, p. 8-9). From 2000 to 2007, growth rates varied from year to year, showing signs of a slowing economy (BEA, n.d.). With the added problems of a recently-burst technology bubble, and a housing market showing signs of weakness, the economy was headed for another recession.

Savings rates in the US during the 21st century indicate much deficit spending by households and the government. Businesses partially compensated for the loss in savings from these two sectors with a stable savings rate, but concern for the savings rate remained in the early 2000s. Even with an annual budget surplus in 2000 and
lower yearly deficits in the following years, the overall federal budget deficit remained large. An increased savings rate, however, implies a decreased consumption rate, an issue which needs to be carefully monitored (Makinen, 2006, p. 13-14).

In the last two quarters of 2006, the housing market and the automobile industries slowed considerably. Following the declining housing market, residential construction also slowed. Housing prices remained high in 2007, but declining housing starts and decreases in building permits indicated an end to speculation in the housing market. Other industries faced declines as well, indicating a possibility of overall economic deceleration. In early 2007, reports of increasing consumer confidence were spurred by increases in income and employment, but previous increases in gas prices caused many households to decrease consumption in an effort to rebuild net worth (Kohn, 2007).

By the end of 2007, declines in the factors of GDP were a concern. Consumers were spending less and suffering from foreclosures on mortgages. As housing activity experienced shocks, businesses decreased investment, particularly in construction and housing-related industries. The private sector struggled with increased energy prices, paying off debts and maintaining optimism in a crashing economy. The government utilized deficit spending, but the borrowing led to crowding out of investment by the private sector. As the economy faced further decline, the government and the Federal Reserve stepped in to provide needed regulation.
Banking and Monetary Policy for the 2008-2009 Recession

By March 2007, the need for regulation of government-sponsored enterprises (GSEs) came into question. As the housing market began to see increases in foreclosures and defaults, many advocated regulations in areas of affordable housing. Originally organized as pure public organizations, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) became private enterprises with special government privileges through their Congressional chartering. The Office of Federal Housing Enterprise Oversight (OFHEO) and the Department of Housing and Urban Development (HUD) participate in oversight of these two organizations in order to maintain that they are promoting affordable housing and to ensure their financial capabilities. Through securitization of mortgage purchases from primary mortgage companies, the GSEs extend credit to middle- and lower-income home buyers. In the process of buying mortgage-backed securities (MBSs), Fannie Mae and Freddie Mac create investment portfolios. Because of their government-backing, the GSEs can borrow and expand their assets to an almost unlimited degree. In March 2007, Federal Reserve Chairman Ben S. Bernanke proposed that the GSEs realistically did not affect the supply of residential mortgages, but did allow benefits to middle- and lower-income home buyers. While the effects of the GSEs are limited, the depth of a financial crisis involving such expansive organizations is viewed as a “systemic risk” defined as turbulence in one financial institution which creates a ripple effect throughout the financial sector, possibly creating slower economic performance overall. In pure private markets, interest rates serve to control risk; in the GSEs, lower rates (because of the government privileges) exclude
the GSEs from the risk analysis seen with private interest rates. Market incentives are lacking for the GSEs; increased risk bears no increased interest payments. This means that the GSEs can take risks which pure private institutions cannot (Bernanke, 2007a, “Public Policy Issues”). Combining “the large presence of the GSEs in financial markets, the lack of market discipline…and the incentives for continued portfolio growth,” Bernanke finds GSEs to be “a potentially significant source of systemic risk” (Bernanke, 2007a, “Public Policy Issues,” para.10).

Federal Reserve Governor Randall S. Kroszner (2007) discussed the changes in the credit market in allowing for more liquidity and ease of risk assessment. Risk analysis is an important element in the credit market, and accurate risk-assessment allows for properly-priced credit opportunities. Investors are more comfortable in their credit decisions when risk assessment is complete. Credit portfolios can also be more diversified, decreasing the chance of short selling (Kroszner, 2007). Diversification allows for a decreased chance of failure. Stability in credit markets is essential to a healthy economy, as the credit markets are reflective of risks.

The Community Reinvestment Act (CRA) played a significant role in the recovery efforts of the recession. Bernanke (2007b) summarizes the purpose of the CRA:

enacted in 1977, the CRA affirmed the obligation of federally insured depository institutions to help meet the credit needs of communities in which they are chartered, consistent with safe and sound operations. The act also charged the federal bank regulatory agencies, including the Federal Reserve, with implementing the CRA through regulations and with examining banks and thrifts to determine whether they meet their CRA obligations. (para. 1)

By reducing discrimination in credit markets, the CRA allowed for lower-income families to become homeowners, thus building stable communities. Included in the responsibilities of financial institutions was increasing the availability of information to
consumers. Though questioned because of the possibility of distorted credit markets, the flexibility which is built into the CRA guidelines allowed for easy change in conjunction with economic change (Bernanke, 2007b, “The Origins”; “The Evolution”). The CRA was valuable during the recession of 2008-2009 in that it served as a basis for helping the housing market, particularly in areas where foreclosures tend to be concentrated.

In the 1990s, when technology allowed easier access to consumer information, interest rate assessment and risk analysis, lenders changed their underwriting standards. The secondary market for mortgages (where financial institutions purchase mortgages) created easier access to capital for lenders, allowed for decreased transactions costs, and decreased risk to the lender. These factors increased the supply of mortgages, particularly to groups of consumers previously unable to obtain mortgages. In the first quarter of 2007, almost 25% of all mortgages came from subprime and near-prime mortgages, typically of higher-risk, lower-income borrowers. While the increase in homeownership benefits communities, it also presents a cost in the form of foreclosures. High-risk borrowers are much more likely to default on their loans (Bernanke, 2007c). By August 2007, the rate of mortgage delinquencies exceeded 15% (Bernanke, 2007d, “The Origins and Evolution,” para. 3). Mortgage companies were questioned for their “loosened” standards. The housing market experienced some tightening of standards, and federal support groups took steps to help those homeowners who were already facing foreclosure. As the subprime mortgage market faced increasing difficulty, a decline in subprime mortgages created a decline in major economic indicators, such as housing starts and building permits.
Concerns with the subprime mortgage market spilled over to markets for other housing-related assets, and investors reacted to increased risk in asset purchases. This decreased liquidity further tightened market conditions. Banks also faced problems in asset markets, and with few buyers of assets, their inflated balance sheets made them less willing to loan to consumers and to each other. Lending rates increased, expanding the tightening conditions in the economy (Bernanke, 2007d). The lack of investment created by the tightening of standards stalled economic growth.

With tightening credit conditions, the economy faced increasing decline during 2007. To counteract some of these issues and to prevent new problems (like inflation) from forming, the Federal Reserve reacted to prevent stagflation. In August 2007, the Federal Open Market Committee left the target federal funds rate at 5.25% in order to compensate for the possibility that inflation might not stabilize according to their expectations (Board of Governors of the Federal Reserve System, 2008a, p. 102). A few days later, in an emergency conference call, the Federal Reserve increased open market operations in order to increase liquidity for financial institutions. They also decreased the discount rate in order to further ease financial market conditions (Bernanke, 2007d). In the September Federal Open Market Committee (FOMC) meeting, the target for the federal funds rate was reduced to 4.75%, in an effort to promote growth through increased confidence in financial markets. By the October FOMC meeting, economic growth had picked up slightly, and the FOMC cautiously lowered the target federal funds rate to 4.5%, paying close attention to the possibility of increased inflation (Board of Governors of the Federal Reserve System, 2008a, p. 102).
Bernanke pointed out, however, that the Federal Reserve “can hardly insulate investors from risk” (Bernanke, October 2007d, “Monetary Policy and the Economic Outlook,” para. 11). Despite the Federal Reserve’s attempts at aiding the financial markets, it cannot guarantee protection of investments. Financial institutions must maintain responsibility for determining the risk associated with loans and investments.

By the end of 2007, the economy had weakened considerably. While most of the major problems existed in the financial sector, these problems trickled into other areas. Core inflation rose at a relatively stable rate of 2.1% at the end of 2007, but factoring in food and energy prices created a higher rate of inflation closer to 3.5% (Board of Governors of the Federal Reserve System, 2008a, p. 20-24). With the unemployment rate also increasing, fear of 1970s-era stagflation increased. The housing market created lost confidence on the side of investors, who began to reassess their structures. Liquidity decreased, and credit conditions tightened even further. In the fourth quarter of 2007, real GDP barely increased, leading to “little momentum” in 2008 (Board of Governors of the Federal Reserve System, 2008a, p. 66). Decreased hiring and slowed business investment also indicated economic downturn. A loss in national savings implied problems for the future as well, as decreased capital formation can create a declining standard of living as the population ages (Board of Governors of the Federal Reserve System, 2008a, p. 82). In the December FOMC meeting, the target for the federal funds rate was lowered to 4.25%, and in January 2008, it was lowered to 3.5% to “foster moderate economic growth and reduce the downside risks to economic activity” (Board of Governors of the Federal Reserve System, 2008a, p. 103). Ideally,
these decreased rates would have stimulated investment, but pessimism and distrust of the financial system and housing market continued to decrease the demand for loans.

To assist with the subprime mortgage issues, the Federal Reserve took a few steps to help families facing foreclosure. First, they encouraged lenders to re-examine loans and modify any agreements to prevent foreclosure, including an adjustment of adjustable-rate mortgages to fixed-rate mortgages. The Federal Reserve’s second step was to work specifically with community groups (such as NeighborWorks America) to help homeowners facing financial difficulty. Counseling programs and personal finance education are essential elements for such community groups. The Federal Reserve also issued guidelines for subprime lending to help prevent another subprime mortgage crisis. Identifying the potential problems with unclear consumer information (particularly in terms of entering loan and credit agreements), the Federal Reserve took action to ensure clarity in terms and conditions of loans and other financial agreements.

As an extension of its responsibilities under the Truth in Lending Act (TILA), the Federal Reserve required lenders to provide full disclosure in easily-interpreted formats to its consumers. It drafted new rules for preventing deceptive lending under its authority granted by the Home Ownership and Equity Protection Act of 1994. Perhaps the boldest step taken by the Federal Reserve in this particular issue was to create a regulating agency for subprime lending (Board of Governors of the Federal Reserve System, 2008a, p. 73-74). These increased regulations were designed to provide a sense of security in the financial and housing markets.

The Federal Reserve also “added substantial reserves to meet heightened demand for funds from banks” in order to provide liquidity to the strained money market.
The Federal Reserve Board approved an increase to thirty days for discount window lending. Creation of the Term Auction Facility (TAF) in 2007 also allowed banks to gain funding through an auctioning mechanism. The first three auctions saw much success, and provided more liquidity to the struggling financial sector (Board of Governors of the Federal Reserve System, 2008a, p. 92).

In response to the weakening economy, Senator Christopher J. Dodd correctly summed up the economic conditions at the beginning of 2008:

> growth is slowing, inflation is rising, consumer confidence is plummeting, while indebtedness is deepening. And just as ominously, the credit markets have experienced significant disruptions. Consumers are unable or unwilling to borrow. Lenders are unable or unwilling to lend. There is a palpable sense of uncertainty and even fear in the markets with a crisis of confidence that has spread beyond the mortgage markets to markets in student loans. (Board of Governors of the Federal Reserve System, 2008a, p. 1)

To foster growth in the deteriorating economy, the FOMC continued to decrease the target for the federal funds rate in 2008 (Board of Governors of the Federal Reserve System, 2008b, p. 84-86).

In March 2008, the Federal Reserve facilitated the acquisition of the Bear Stearns Companies, Inc. by JPMorgan Chase & Co. (Board of Governors of the Federal Reserve System, 2008b, p. 85). Had the Federal Reserve chosen not to intervene in this situation, bankruptcy of Bear Stearns would have resulted in liquidation and serious losses to the creditors. By supplying funding for the purchase of Bear Stearns by JPMorgan Chase, the Federal Reserve prevented disruption of financial markets (Board of Governors of the Federal Reserve System, 2009a, p. 51). This protectionist measure
prevented financial panic. Had such a protectionist measure occurred in 1931, bank failures during the Great Depression might have also been avoided.

In March 2008, the Federal Reserve created the Primary Dealer Credit Facility “to improve the ability of primary dealers to provide financing to participants in securitization markets” (Board of Governors of the Federal Reserve System, 2008b, p. 85). The Federal Reserve lowered the primary credit rate and extended the term of primary credit loans to ninety days (Board of Governors of the Federal Reserve System, 2008b, p. 85). By securing stable financing opportunities for security markets and lowering credit rates, the Federal Reserve made another attempt to stabilize confidence in the financial markets.

At its April 2008 FOMC meeting, it was decided that conditions in financial markets had improved, but were still considerably weak. A further lowering of the target for the federal funds rate occurred, and Bernanke announced an expansion of the TAF of $150 billion (Board of Governors of the Federal Reserve System, 2008b, p. 86). By the end of June, the economy had shown signs of recovery. Economic activity for the first half of the year was evaluated as having been stronger than originally predicted. Despite the unpredicted economic activity, the FOMC remained cautious about growth for the remainder of 2008, and expressed concerns of moderate inflation (Board of Governors of the Federal Reserve System, 2008b, p. 86). Then, the financial sector took another hit in the fall of 2008 with Fannie Mae and Freddie Mac coming under the control of the Treasury and Federal Housing Finance Agency and with Lehman Brothers Holdings filing bankruptcy. Other financial institutions ran into serious problems, prompting Congress to pass the Emergency Economic Stabilization Act to grant loans
and guarantees (through the Treasury, FDIC and Federal Reserve) to Citigroup and Bank of America (Bernanke, 2009a, “Recent Economic and Financial Developments”). The Federal Reserve also provided liquidity for American International Group, Inc. (AIG) to prevent bankruptcy (Board of Governors of the Federal Reserve System, 2009a, p. 1). The potential failures of Citigroup, Bank of America and AIG could have created substantial job losses, as well as liquidation-related losses (Board of Governors of the Federal Reserve System, 2009a, p. 51). To help with the housing market, the Federal Reserve started purchasing mortgage-backed securities and other debts and also expanded lending facilities. The TAF was also expanded, and the Federal Reserve lowered the target for the federal funds rate to nearly zero, with expectations for it to remain unusually low for a long period of time (Bernanke, 2009a, “Recent Economic and Financial Developments”).

In December 2008, Vice Chairman of the Federal Reserve Donald L. Kohn spoke about bank regulations. He emphasized the importance of regulations in ensuring that banks would be “willing to deploy capital and liquidity, but they must do so in a responsible way that avoids past mistakes and does not create new ones” (Kohn, 2008, para. 4). Kohn discussed how banks need funds in order to make loans, which is where the Treasury’s authority to provide capital to banks under the Emergency Economic Stabilization Act is significant. The FDIC and the Federal Reserve also have important responsibilities in ensuring deposits and creating monetary conditions susceptible to borrowing, respectively. These responsibilities have existed for many years. Regulatory measures have now been created to guide banks through the process of creating sound lending practices and creating appropriate capital and liquidity.
Assistance to the GSEs in an effort to reduce foreclosures is another regulatory action deemed by the Federal Reserve and Congress to be essential to restoring confidence in the financial sector (Kohn, 2008).

With the combined factors of an unemployment rate of 7.6%, tight credit, and loss of wealth at the beginning of 2009, confidence had reached low levels. The decline in real GDP at the end of 2008 continued into 2009. The Federal Reserve began increasing purchases of various assets in order to open the flow of credit (Board of Governors of the Federal Reserve System, 2009b, p. 3-4). The Treasury and the Federal Reserve began the Term Asset-Backed Securities Loan Facility (TALF) in March to extend loans to consumers and small businesses by issuing asset-backed securities. Initially, demand for funding was low because of uncertainty of future government policy changes (Bernanke, 2009a; Board of Governors of the Federal Reserve System, 2009b, p. 21).

The Federal Reserve’s actions to improve credit conditions created improvements in many markets in the spring of 2009. Declining risk allowed liquidity to increase as more bonds were issued to finance investment. The banking system was able to increase lending because of more stability. The TALF assisted with consumer and small business credit issues, allowing for stabilization of spending and investment. The Supervisory Capital Assessment Program (SCAP) caused many financial institutions to reevaluate their conditions and restructure their capital when necessary. These actions increased confidence in the banking system (Bernanke, 2009b). By March, a few larger banks showed profits. The release of SCAP results in May also
boosted confidence, and banks showed more signs of recovery (Board of Governors of the Federal Reserve System, 2009b, p. 21).

The Federal Reserve also maintained large holdings of assets on its balance sheet, a move which “has been associated with substantial growth in banks’ reserve balances” and is something typically indicative of improving financial conditions (Board of Governors of the Federal Reserve System, 2009b, p. 35). While the concern is that the Federal Reserve will not be able to tighten conditions quickly if there is inflation, the Federal Reserve has many methods to exit expansionary measures if needed (Board of Governors of the Federal Reserve System, 2009b, p. 36).

The second half of 2009 consisted of an increased growth rate (4%) resulting from increased inventory sales, increased production and increased consumer spending. The unemployment rate remained near 10%, with over 40% of the previously unemployed workers remaining unemployed for six months or more. Inflation remained subdued. Financial markets improved significantly, but decreased lending resulted from increased regulations and declining demand for loans. The housing market also remained weak. The Federal Reserve chose to maintain a target federal funds rate between 0% and ¼%, but began to slow its use of asset purchases and liquidity programs. With a planned closure of TALF on March 31, 2010 and the final auction through the TAF on March 8, 2010, the Federal Reserve is beginning to pull out of recessionary tactics. Plans to tighten monetary standards are prepared, as the Federal Reserve will begin to counteract possible inflationary pressures of the easing of conditions during the recession (Bernanke, 2010).
The increase in consumer spending in the second half of 2009 can be attributed to increased real disposable personal income, mostly attributed to fiscal stimulus. While consumer spending did increase, the housing market was still suffering in the second half of 2009. Single-family home sales decreased, and the first-time homebuyer tax credit was extended to help with this decline in housing purchases. House prices did stabilize, but home values remained low, causing increased delinquency rates (Board of Governors of the Federal Reserve System, 2010, p. 6-9). The unemployment rate remains dismal, but the Federal Reserve reports that “employment in the temporary help industry, which frequently is one of the first to see an improvement in hiring, has been increasing since October,” and that the average number of hours in a workweek has also increased. Numbers for part-time work also look promising, as fewer workers choose part-time work because of recessionary conditions (Board of Governors of the Federal Reserve System, 2010, p. 18-20).

While the Federal Reserve maintains optimism in the economic outlook, tight credit conditions may create slower growth. Consumers are hesitant to take out loans, and banks are hesitant to provide loans due to low expectations of consumers’ abilities to repay those loans (Board of Governors of the Federal Reserve System, 2010, p. 1-3). Because of this, “in 2009 nominal household debt experienced its first annual decline since the beginning of the data series in 1951” (Board of Governors of the Federal Reserve System, 2010, p. 2). Many banks began repaying investments gained through Troubled Asset Relief Program (TARP), although the quality of credit in many banks is still under question. With asset-backed securities largely being financed by TALF funds during the recession, and TALF funds reflecting purposely unattractive interest rates,
reliance on TALF has decreased (Board of Governors of the Federal Reserve System, 2010, p. 5-10).

The Federal Reserve experienced success in many of its expansionary programs, especially those which increased regulations of the financial markets. Programs like SCAP were very successful, and the Federal Reserve hopes to maintain such regulatory institutions in the future (Bernanke, February 2010). The Federal Reserve increased consumer protection programs, especially in regard to consumer credit cards and consumer loans. In February 2010, new legislation required credit card companies to notify consumers of rate changes and of how long it will take to pay off a balance with only minimum payments each month. Credit card companies also have to follow new rules on when and how they can change rates, including legislation that prevents the companies from charging new, higher interest rates on previous purchases (Board of Governors of the Federal Reserve System, n.d.). The transparency of the Federal Reserve will also continue, allowing the general public increased knowledge of policy changes (Bernanke, February 2010).

Fiscal Policy in Response to the 2008-2009 Recession

In 2008, the federal government implemented the Economic Stimulus Act. Increased household spending was the goal of the changes brought about by this legislation. It allowed for increased tax credits, designed to decrease taxes on American households, and allowing them to increase spending. Stimulus checks were also distributed based on marital status and number of dependents (Joint Committee on Taxation, 2008, p. 1-6). Extensions for the Unemployment Compensation program
were designed to assist the increasing number of unemployed workers. As businesses continued to cut production, unemployed workers faced longer-term conditions of unemployment. The possible 13-week or 26-week extension (depending on specific circumstances) allowed for continued income for these workers (Joint Committee on Taxation, 2008, p. 12-15).

To assist with the housing market, the Economic Stimulus Act of 2008 included a program designed to increase FHA loan limits for single families. By raising the loan limits, families in high-cost housing areas can afford housing, but the FHA has to increase its insurance costs on such loans. It is assumed, however, that the FHA will charge higher fees for higher-risk loans, thus balancing the increased cost (Congressional Budget Office [CBO], 2008, p. 4-5). Business investment also received attention in the Economic Stimulus Act, with increased expense limitations and more deductions for depreciation-related expenses (Joint Committee on Taxation, 2008, p. 7-12). These incentives allow businesses to benefit more from investments, which the government hoped would increase investment.

The projected loss of tax revenue from the Economic Stimulus Act for 2008 was approximately $113.7 billion, and the estimated increase in government spending was $38 billion. This was projected to cause a $151.7 billion increase in the budget deficit. In 2009, the projected deficit increase narrowed to $16.3 billion, and in 2010, a decrease in the deficit of $11.7 billion was expected, with continued deficit decreases through 2018. The initial first-year projected increase in government spending was based on tax rebates (and payments to US territories who follow the federal tax
system), general administrative costs, and the increase in cost of insuring loans associated with new FHA loan programs (CBO, 2008, p. 1-6).

In a 2009 report, the Congressional Budget Office (CBO) found that the majority of US households did not use their stimulus rebate checks for direct spending. The survey findings indicated that “almost half said they would mostly use it to pay off debt, and one-third of those surveyed indicated it would mostly be saved” (CBO, 2009, p. 3). The CBO “estimated that a third of the rebates would be spent, predominantly in the quarter when they were received” (CBO, 2009, p. 3). In the report, the discrepancies of surveys are addressed, indicating the likelihood that many respondents did not provide accurate responses, either not knowing how they spent their check or providing what they perceived to be ideal responses instead of honest responses. Another viewpoint within the report suggests that even if those surveyed used their rebates to pay off debt or to put in savings, this use of the money opened up the opportunity to spend more of the respondents’ earned income, thus realistically increasing household spending (CBO, 2009, p. 1-4).

In July 2008, Congress passed the Housing and Economic Recovery Act. The provisions of this act included regulations for the GSEs and emergency authority for the Treasury to increase confidence in the GSEs. The regulator of the GSEs would have the authority to oversee capital requirements, manage financial standards (such as audits and risk-assessment) and approve new offerings. A review of housing goals would also allow for more liquidity to the homeowners. The job of the Treasury to increase confidence in GSEs would include development of capital standards and purchase of common stock. Also included in the Housing and Economic Recovery Act
were the HOPE for Homeowners Act, the Secure and Fair Enforcement (S.A.F.E.) for Mortgage Licensing Act, the Foreclosure Prevention Act and the Housing Assistance Tax Act of 2008. These acts provide various assistance, tax benefits and regulations which would benefit homeowners and help prevent foreclosure. One of the main components of S.A.F.E. was the institution of new licensing restrictions on loan originators (to be determined by individual states). The general restructuring of the housing market prevents families from falling into default or foreclosure. Licensing requirements for loan originators helps to ensure that loans are legitimate and consistent (Democratic Policy Committee [DPC], 2008a).

The Emergency Economic Stabilization Act of 2008 further increased the Treasury’s involvement in improving the financial crisis by granting the Treasury authority to buy “troubled mortgages, mortgage-backed securities, and pensions” (DPC, 2008b, “Summary and Background,” para. 2). The Troubled Asset Relief Program (TARP) was established for this purpose. Through TARP, the Treasury’s increased involvement in mortgage lending oversight and review of procedures aimed at increasing confidence in the housing and financial markets. The act also increased FDIC limits to $250,000. Tax relief measures in this act were designed to allow for increased private sector spending and investment (DPC, 2008b, p. 1-8).

The American Recovery and Reinvestment Act of 2009 aimed to provide further economic relief through tax cuts and increased spending. With a planned $48 billion for road-building and transportation projects, $100 billion for education, $140 billion for health care and $240 billion in tax cuts, the deficit spending aimed to bolster the
The results of the 2009 stimulus have been questioned. Before the legislation was even signed, the CBO predicted that the long-run effects of increased government spending would actually crowd-out investment and lead to a decline in real GDP within ten years. In the short run, however, the CBO projected growth in 2009 and 2010, even though it questioned the immediate creation of jobs (Dinan, 2009). An increase in household spending did occur in 2009, which the Federal Reserve partially credits to the stimulus act (Board of Governors of the Federal Reserve System, 2009b, p. 6). David Leonhardt of The New York Times found reports of over 1.5 million created jobs because of the stimulus package, but finds that in reality these might have been "saved" jobs as opposed to "created" jobs. While a saved job indicates that the economy could have been worse without the stimulus package, the true creation of jobs would be necessary for long-term growth. Expectations of a lower unemployment rate by the end of 2010 provide promise of such actual job creation (Leonhardt, 2010).

The Cash for Clunkers program (included in the American Clean Energy and Security Act of 2009) was created to increase the use of fuel-efficient vehicles (Committee on Energy and Commerce, 2009). The vouchers for new car purchases, however, may have done more than that. The Cash for Clunkers program has received some credit for contributing to economic recovery. James Picerno (2009) of CBS states "one of the primary goals of stimulus spending is to get people spending money now, while the economy is hurting, and Cash for Clunkers certainly did that” by prompting consumers to buy cars now. He implies that they would have purchased cars in the
future, so the program encouraged them to bump up that spending (Picerno, 2009, para. 3). Picerno (2009) describes the multiplier effect of Cash for Clunkers:

both GM and Ford announced they were adding workers and shifts to help meet the increased demand created by the program, and other auto-related industries were helped as well. And the workers whose jobs were saved or whose hours increased had more money to spend on nights out at Applebee’s, and the waitress at Applebee’s had some extra cash to buy fall clothes for her children, and that in turn booster retailers’ fortunes (para. 4)

Picerno (2009) cites other examples of increased business spending on labor costs, which would also create a multiplier effect. He does point out a lag time associated with much of the spending, especially in business expansion which requires construction projects. The time it takes to plan a project, apply for the necessary permits, and hire people means that effects of stimulus packages are sometimes not seen immediately.

Picerno (2009) also points out that so many stimulus tools are in existence, it is difficult to ascertain which ones have actually been successful.

Though increased spending indicated signs of economic improvement, problems with the housing market still concerned policymakers. In May 2009, President Barack Obama signed the Helping Families Save Their Homes Act and the Fraud Enforcement and Recovery Act. Both bills were designed to prevent unfair practices. The Helping Families Save Their Homes Act aimed to reduce foreclosures by making current mortgages more affordable with new guidelines for loan modifications. Another increase in FDIC insurance was worked into the legislation in order to allow for an easier flow of credit. The act also included requirements to make homeowners and renters more knowledgeable about their rights through informative resources. The Fraud Enforcement and Recovery Act gave the government more power to intervene in fraudulent practices in mortgage markets, financial markets and in government
assistance programs (Office of the Press Secretary, 2009). The budget deficit continued to increase into 2009, partially due to the increased costs of programs such as TARP, the actions taken to assist the GSEs, and the stimulus package. Tax revenue had fallen with decreased corporate profits and increased unemployment rates (Board of Governors of the Federal Reserve System, 2009b, p. 11).

Conclusions and Teaching Points of GDP in 2008-2009

Declining consumption was due to many factors, most of which were influenced by pessimism about the future. Unfortunately, the large number of subprime and near-prime mortgages issued prior to 2007 had devastating effects on households. As the economy fell further into recession, consumers found themselves having to make tough decisions about their money. For some, this meant defaulting on mortgages. The collapse of the housing market resulted in tighter credit restrictions. As a result of tightening credit conditions, increasing unemployment, and a declining housing market, consumers were fearful of spending money. Fiscal stimulus attempted to provide some relief to households. Many consumers used stimulus payment checks, however, to pay down debts instead of spending. The Cash for Clunkers program provided incentive for increased consumption during a short time period, which did help save the weakening automobile industry.

Tightening credit conditions also created a decline in investment spending. Businesses did not want to take out loans because of pessimism of the future, and banks were less willing to provide loans because of increased risk. The Federal Reserve’s efforts to step in by providing liquidity and increasing confidence slowly
recovered the financial system. With declining demand for the financial assistance provided by the Federal Reserve, it appears that the financial sector may be recovering. Many of the projects created by federal stimulus packages indicate that an increase in investment spending may occur, as many of these projects have a lag time associated with their starts.

The federal government increased its budget deficit during the recession. Declining tax revenues from decreased business investment, decreased corporate profits and decreased employment significantly contributed to the deficit. Increased spending on the stimulus packages and regulatory institutions also contributed to the deficit.

The recession of 2008-2009 seemed to result from a collapse of major economic markets. The housing market plays a major role in investment spending and in consumer spending. The rate of foreclosures and defaults on mortgages spiraled out of control relatively quickly, as many homeowners were living with mortgages that they could not truly afford. While programs which allow lower-income families to purchase homes have their merits, caution and increased regulations also benefit the housing market. The government and Federal Reserve’s efforts to improve risk assessment of the housing market, including the GSE’s, and the success of these programs will indicate the degree of need for regulation.

Financial markets influence borrowing, another major component of investment spending. Again, as the housing market spun out of control, mortgage defaults influenced the financial markets. As financial institutions became weary of loaning, credit conditions tightened, and risk assessment became the key to survival. Again, the
government and the Federal Reserve stepped in by promoting regulation and assessment and by helping to increase liquidity.

The federal government’s main concerns with the recession of 2008-2009 were unemployment and consumer confidence. The stimulus packages and other legislation adopted by the federal government aimed at helping households increase their purchasing power. The Federal Reserve, however, was more concerned with interest rates, liquidity and price levels. In attempting to manipulate the money supply through interest rates, the Federal Reserve could have created increased inflation. In analyzing economic conditions and making emergency decisions when needed, the Federal Reserve maintained relatively steady inflation. Since most of the economic problems stemmed from the failures of the housing market and financial markets, the Federal Reserve played an important role in economic recovery.

Comparison of the Great Depression and the Recession of 2008-2009

Comparing and contrasting the Great Depression to the 2008-2009 recession requires a few important notes. First, a substantial time period exists between the two recessions. During this time, significant changes in the transportation system, the communication system and the financial system occurred. Second, economic theory evolved, especially as the US became more industrialized and as the US opened up to globalization. The effect of fiscal policy and of monetary policy on net exports is widely different between the two recessions. Third, national values changed in the US. During the time period prior to the Great Depression, people were just beginning to use
prosperity to increase consumption. By the 21st century, however, consumption is a dominant factor, not only in the economy, but in lifestyle as well.

In the early part of the 20th century, relatively simplistic infrastructure did not allow for quick dissemination of goods, services, information, money or assets. By the 21st century, complex transportation and communication systems allowed information to be processed quickly. Computers and the internet became useful for businesses to have immediate access to consumer information, and they allowed consumers to purchase goods in a matter of seconds. Financial institutions permitted consumers to do much banking online, and some online-only institutions developed. A few implications arise from these structural changes. First, much more information is compiled and available regarding the 2008-2009 recession, as opposed to the Great Depression, when certain statistics were not even calculated (and perhaps are not as composite and accurate as 21st century data). Second, the definition of money has changed, as many transactions are performed electronically (which has also significantly increased the velocity of money). Because of this, the comparison between the two time periods can only be approximated. Examining each component of domestic GDP and the use of fiscal policy and monetary policy for each time period provides the basis for comparison.

Historically, personal consumption expenditures by households have been the largest component of GDP. Prior to the Great Depression and prior to the 2008-2009 recession, structural changes allowed households to change consumption. Installment plans for paying for large purchases in the 1920s allowed households to consume without actually immediately paying the full amount of their purchase. This increased
consumption initially, but also meant that part of future household income went to making payments on previously-consumed items. Any increases in income became a possible way to pay off past consumption instead of increasing current consumption. Similarly, in the early part of the 21st century, GSEs and other subprime lenders allowed families to purchase more expensive homes than many could legitimately afford. These families also faced the problem that many families faced going into the 1930s – part of their income was being used to pay off old debts, many of which they could not really afford. As families struggled to make payments, consumption began to decline. The government response in providing additional income during the recessionary periods (either through employment programs in the Great Depression or through stimulus checks in the 2008-2009 recession) did not really work to increase consumption. Many households used any additional income to pay off existing debt or saved money for fear of future financial problems.

During both the Great Depression and the 2008-2009 recession, a loss of trust in the financial system caused a declining demand for investment. Greed, speculation and overzealous financial practices during the 1920s and early 2000s created collapse. In the 1920s, speculation and prosperity created a stock market crash and bank failures. In the 2000s, subprime lending created a housing bust. Both situations created a complete distrust in the financial system. Businesses also became pessimistic during both recessions, and refused to invest money because of declining consumption. Consumers also feared investing in the housing market during the 2008-2009 recession because of the instability associated with subprime lending, declining home prices and the fall of many financial companies (such as the GSEs, Frannie Mae and Freddie
Mac). Expectations played a major role in financial collapse, and investors needed major incentives to borrow money, especially from a tumultuous financial system.

The government increased spending during both recessions. During the Great Depression, however, the federal budget remained at a surplus or balanced initially. As the need to increase spending occurred, deficits began to pile up, perhaps creating a crowding-out of investment spending by the private sector. During the 2008-2009 recession, the government started out with significant national debt and faced criticism over increased spending. Fear of increased deficit spending played a major role in government expenditures during both recessions.

Fiscal policy and monetary policy were both utilized during the Great Depression and the 2008-2009 recession. Due to the infancy of the Federal Reserve at the start of the Great Depression, fiscal policy played a much larger role in the recovery efforts. The weakness of monetary policy, while partially reflective of lack of experience, was also influenced by a fear of increasing the power of the Federal Reserve. Fiscal policy became the most realistic attempt at recovery. The focus on the balanced budget influenced policymakers’ decisions regarding taxation and government expenditures. Initial fiscal policy attempts were weak at first due to the budget concerns. Policies such as increasing taxes and increasing spending were counteractive. As the Great Depression continued, however, Roosevelt began to increase spending through his New Deal programs, choosing to ignore the concerns over the federal budget. Unfortunately, by this time, the Great Depression had consumed the nation, and consumption and investment were at such low levels that little could be done. Not until
the US became involved in World War II did the US get the increased employment that it needed to sustain growth again.

During the 2008-2009 recession, the government and the Federal Reserve worked together to provide fiscal policy and monetary policy solutions to aid in economic recovery. By this time, the Federal Reserve had steadily gained influence and power. Monetary policy became the key element to manipulate interest rates and thus, investment and consumption. The Federal Reserve also increased its powers by overseeing regulations in the financial system and providing new tools of monetary policy through the TAF and TARP. The Federal Reserve became the leader in economic recovery, prompting Congress on necessary actions in fiscal policy (see Federal Reserve’s Monetary Policy Reports 2008-2010). Congressional actions to provide continuous stimulus packages helped increase confidence in the economy.

It appears that the cooperation and collaboration between the Federal Reserve and Congress created a situation more susceptible for economic recovery in the 2008-2009 recession. Short-term effects are already apparent, but long-term effects are yet to be seen. The collaboration between the Federal Reserve and Congress may be a result of lessons learned from the Great Depression and from other recessions. Future developments and results of their collaborative efforts will be interesting to analyze in regard to the 2008-2009 recession. The question remains as to what lessons will be learned from the 2008-2009 recession.
APPENDIX

LESSON PLAN
Lesson: Comparing the Great Depression and the 2008-2009 Recession

Please note that this lesson plan is written ideally for an introductory macroeconomics course of approximately 50 students. Modifications are listed at the end of the "Procedures" section to accommodate online courses, larger courses and smaller courses. No grading rubric is included to allow instructors flexibility in accommodating class, school or degree requirements.

Lesson Description

Periods of severe economic decline result in the use of fiscal policy and monetary policy by the government and the Federal Reserve System, respectively. The ways in which these two types of policy are used tend to be the subject of many controversial discussions. Because the Great Depression and the 2008-2009 recession each represent major US recessions, comparing the two and the use of fiscal and monetary policies in both situations provides an effective way to extend understanding of fiscal and monetary policies. By examining many of the actions taken by the government and the Federal Reserve, students can gain an understanding of the development of policy over time. In this lesson, students will analyze fiscal policy and monetary policy in response to the Great Depression and the 2008-2009 recession in order to evaluate the effectiveness of such policies.
Economic Concepts

- Depression – severe recession (usually characterized by substantial loss of GDP growth and high unemployment)
- Fiscal policy – the use of government taxing and spending to influence economic activity (especially economic growth, unemployment and spending)
- Monetary policy – the manipulation of the money supply by the central bank (Federal Reserve System) in order to maintain trends of economic growth, unemployment and inflation
- Recession – declining growth rate of real GDP for at least two consecutive quarters

Objectives

Students will be able to:

- compare and contrast major fiscal policy and monetary policy initiatives in response to the Great Depression and the 2008-2009 recession.
- assess the effectiveness of fiscal and monetary policies as a result of two major US recessions.

Prior Knowledge

Students should understand the components of GDP and the business cycle, have a basic understanding of the Great Depression, and understand how fiscal policy and monetary policy are used.
Time Required

Students will need time outside of class to research prior to a designated class meeting where they will discuss their research. Class time will take approximately 90-120 minutes. After the designated class time, students will need additional time outside of class to complete a summative essay.

Materials

- Handout #1 – Great Depression
- Handout #2 – 2008-2009 recession
- Instructions for completing individual research
- Instructions for completing required summative essay

Procedures

1. If needed, provide a brief review of prior knowledge needed for this activity (see above “prior knowledge”).
2. Explain that there is much controversy surrounding how the government and the Federal Reserve handle economic recessions. Explain that students will be investigating the use of fiscal policy and monetary policy in response to both the Great Depression and the 2008-2009 recession (it might be important to note that the comparison between the two is justified because of the severity of each).
3. Briefly lead students in a discussion of the controversy that they have heard of in regard to fiscal policy and monetary policy with both recessions. Inquire as to
why these controversies exist (lead students to discover the relationship of these policies to the components of GDP).

4. Distribute Handout #1, Handout #2 and the instructions for completing individual research to each student. Explain that each student will be assigned a specific “action” to research. Each student will return to class with their completed research on a designated day. During the designated class day, students will briefly present their findings (each presentation should be approximately 1-2 minutes). All students will take brief notes on each “action,” making note of how (if at all) it helped or furthered hindered the economy (in regard to each “problem”). If desired, students can briefly discuss (as a class or in small groups) any contradictions brought about by various policies. They should address why these contradictions occur and what the possible solutions are.

5. Distribute the instructions for completing the required summative essay. Explain that students are going to evaluate the effectiveness of fiscal policy and monetary policy in regard to the Great Depression and the 2008-2009 recession. They will need to determine if each policy worked in each recession and explain the reason for their conclusion.

Modifications

For larger class sizes, the instructor may choose to implement more “actions” for both time periods or divide the class into groups to create lengthier presentations which encompass the entire activity. For smaller class sizes, the instructor may choose to implement fewer “actions” for both time periods or assign multiple “actions” to each
student. Smaller class sizes may also benefit from more discussion and/or lengthier presentations.

Assessment

Students will write a properly-formatted expository essay presenting their evaluation and analysis of fiscal and monetary policies in response to the Great Depression and to the 2008-2009 recession. Students will be expected to provide strong reasoning for their examples, including outside research when necessary.

Closure

On the day that essays are due, have students briefly discuss their conclusions. Inquire as to what policies should have been different in each recession and why. To extend the lesson further, ask students how a future recession could be prevented.
Lesson: Comparing the Great Depression and the 2008-2009 Recession

Handout #1 – Great Depression

Major problems that contributed to the Great Depression:

- increase in debt and loan defaults because of installment plans
- unemployment
- decline in spending (decline in money velocity)
- lack of confidence in banks (decrease in investment and leakages)

Actions in response to the Great Depression:

- Revenue Act of 1932
- Hoover’s voluntary cooperation initiative
- Federal Home Loan Bank Act of 1932
- Reconstruction Finance Corporation of 1932
- Agricultural Adjustment Act of 1933
- Federal Emergency Relief Association of 1933
- National Recovery Act of 1933
- Public Works Administration of 1933
- Civilian Conservation Corps of 1933
- Tennessee Valley Authority of 1933
- Revenue Act of 1934
- Social Security Act of 1935
- Monetary policy from 1929-1933
- Abandonment of gold standard in 1933
- Emergency Banking Act of 1933/Banking Act of 1933
Lesson: Comparing the Great Depression and the 2008-2009 Recession

Handout #2 – 2008-2009 recession

Major problems that contributed to the 2008-2009 recession:

- increase in debt and loan defaults because of housing market/subprime mortgages
- unemployment
- decline in spending (decline in money velocity)
- lack of confidence in banks (decrease in investment)

Actions in response to the 2008-2009 recession:

- Tightening of mortgage lending standards
- Use of federal funds rate from 2007-2010
- Modifications of existing mortgage agreements for struggling families
- Term Auction Facility (TAF)
- Term Asset-Backed Securities Loan Facility (TALF)
- Supervisory Capital Assessment Program (SCAP)
- Troubled Asset Relief Program (TARP)
- Economic Stimulus Act of 2008
- Housing and Economic Recovery Act of 2008
- Cash for Clunkers (from American Clean Energy and Security Act of 2009)
- Helping Families Save Their Homes Act of 2009
- Fraud Enforcement and Recovery Act of 2009
Lesson: Comparing the Great Depression and the 2008-2009 Recession

Individual Student Research – Instructions

Assigned action: ________________________________

1. Fill in assigned “action” from Handout #1 or Handout #2 in the above blank.

2. Research the action in terms of what it is and how it contributed to recovery efforts for the appropriate recession. Use an appropriate mixture of government sources, Federal Reserve sources, and other primary and secondary sources. Be sure to include any available statistical information regarding the degree of effectiveness of the action. In some cases, information may not be available, but there will be other sources which provide other evidence for the effectiveness of the action. Assess the action in terms of the “problems” from the appropriate time period, as indicated on Handout #1 or Handout #2.

3. Prepare a short 1-2 minute presentation of the research. Include some form of visual for your presentation (a handout, computer-generated presentation, etc.) in order to aid the audience in note-taking.

4. Present research in class on ____________ (date).

5. During the presentations in class, all students are responsible for taking notes on the “actions” as they are associated with the “problems” in preparation for the summative essay.
Lesson: Comparing the Great Depression and the 2008-2009 Recession

Required summative essay – Instructions

Based on the notes from student presentations, construct an expository essay which:

- provides a demonstration of understanding of the use of fiscal and monetary policies during the Great Depression as they compare to the use of these policies during the 2008-2009 recession.
- provides an analysis of the use of fiscal and monetary policies during the Great Depression as they compare to the use of these policies during the 2008-2009 recession.
- shows the relevancy of economic policy as applied to correct economic fluctuations.

Use proper grammar and formatting, according to the standards of this course.

The essay is due on _________________ (date).
WORKS CITED


