Chapter- 1

Introduction

This Chapter introduces the problem under investigation, reviews the literature and presents objectives and methodology of the study.

In its form and content, the Global financial crisis of 2007 (onwards), resembles The Great Depression of 1930s with similarities in the bank panic it created in both episodes in modern macro economics. The fall was experienced in two major economies of the world primarily - The United States and Great Britain. In the crisis of 2007 onwards, the globalization of finance shook the global economy to a recession as the contagion spread across borders. The United States stock market from a peak performance plunged by 57 percent in October 2007 to a deep fall around March 2009. Economists in the United States warned against the budget deficits, trade deficits and financial excesses for more than a decade which was ignored by the leadership and regulatory authorities. In the current economic crisis, the key terms such as deregulation, easy money, greed, financial imbalances, and failures in rating agencies have repeatedly appeared in analytical tracts and reports. This thesis views the financial system as part of the current crisis and how it impacts the political, economic, social cultural and intellectual changes, emphasizing on the economic aspect. The current recession becomes a serious economic crisis as the stimulus provided focused not upon the overcapacity of the manufacturing sector but in result developed bubbles and a super bubble by 2007. The focus of this project is on the policy prescriptions put
across by Keynes and his followers and the neo liberal policies put across by international monetary fund and World Bank to countries as conditionality from 1991 onwards. The project will compare and contrast Keynesian analysis with the neo liberal economic policies which led to the current crisis. The project would develop a theoretical framework to analyze the macroeconomic aspects of the great depression of 1930’s and the great recession of 2007’s and provide workable solutions to the problem in 2014. The project would be useful for further research on this area of depression economics which might bring into the light new approaches to avert global crisis in future. What caused the mortgage collapse? How to define the present crisis in the light of the past crisis? What is the policy measures suggested today? How can these combinations of monetary, fiscal and trade policies relevant to the current context? Was India affected by the crisis? How? What type of policy mix both global and domestic is applicable to India? The problems are defined in these lines. The real problem identified is what nature of capitalist expansion and finance capital needs regulation?

During the Great Depression in the 1930s, there existed a crisis in both financial and real sectors of the economy. The stock market crash of 1929 was the beginning of the crisis and it had a devastating effect upon the financial sector. The crisis was preceded by the ‘roaring twenties and it accelerated the possibility of a boom and resulted in the advancement of technology producing innovative solutions to the common public. The stock prices kept on increasing until 1929, and it resulted in a crisis in the financial sector. It is observed that the ‘roaring nineties’ preceded the current economic crisis which shows the relation between the two economic downturns. This aspect of the crises, demonstrates the similarity in both crises and the process of
recession in 2007 and depression in 1930s were different. But there is a similar history for both crises especially in the wake of the Asian crisis of 1997. The key element here is the way in which booms and depressions appear in an economy and depressions and recessions are not to be forgotten while the economy is in a boom. The crises are caused by financial contagion across countries and the integration of financial markets due to the impact of globalization of finance. The role of Keynesian economics was prominent during the Great Depression and Keynes was reasserted during the current economic crisis. Depression economics as mentioned by (Krugman 2011) has returned to academic discussion and practical application for economies which was not the focus in the past decades when the supply side economics was on the top of the academic discussions and policy formulations.

The ongoing recession in countries of Europe in particular indicates that this depression would fall into a new awakening on depression economics as cited by (Krugman 2011). The implications of the analysis of the crises in two contexts would bring in the issue of macroeconomic problems into the fore and would develop new parameters to analyze the issue in modern contexts of analysis. The return of depression economics in contemporary context is analyzed to bring in the most effective tools and techniques of macroeconomics into play in the recent crisis.

The recent impressive performance of the emerging markets such as India was highlighted by these countries when the first signs of the crisis became visible in the US. The citizens and foreign investors were reassured that the financial system is safely insulated from the western economies and this will enable India and other emerging
markets to face the challenge posed by the crisis. As strongly endorsed by The Economist in 2008, the fashionable decoupling theory was proposed by the Ivy League academic circle in the west and the IMF which enabled robust optimism in countries such as India. This theory of decoupling hypothesis, made the policy makers in the EMEs to find these sources as infallible and the theory acquired a lost hollowed status to the growth of Asia which are mainly driven by domestic factors and these factors are decoupled from worst trends and the growth engine in Asia that will continue to grow and also work as a growth engine and shock absorbers for the western economies which can even pull them out of the recession (Nachane, 2009). The wealth effect arising out of substantial asset deflation currently underway in the US will result in contraction of demand from reduced incomes which work in US, EU and Japan. Exports from other countries will be adversely affected as there is a contraction of demand in the affected economies. The recession cum depression situation in the western economies will adversely affect the substantial portion of Indian exports of key merchandise items. The total exports which constituted nearly 22% in 2008 will reduce due to the gloomy unabated fall in income in US, EU and Japan. There will be a reduction in imports in advanced economies by 4.1 percent in 2014 according to an estimate from IMF. This will account to total exports of 0.9% in emerging and developing economies. A reassuring situation is not visualized for India even when latest forecasts within this framework are not available. The export of invisibles is split over as the trade impacts are not confined to merchandize trade alone. The remittances from non-resident Indians are likely to decline as jobs shrink and incomes contract in the US and EU. Significant
Upheavals in the job market, enforcement of job cuts and layoffs are the major social costs of recession.

The package of policy measures adopted by India was fiscal stimuli and easy money. The intended impact of reviving the real sector was not achieved using the policy package announced by India (Nachane 2009). The size of the budget deficit is given the prime importance in macroeconomic issues are of concern in India. In the year 2014, India’s fiscal deficit was estimated to be between 11% and 12% of GDP. In raising the long term interest rates the second macroeconomic issues were pertained. The specific form of fiscal stimuli is a crucial factor in determining the success of macroeconomic issues facing India (Nachane, 2009).

As proposed by IMF and advanced countries, the Indian economy has not faced the crisis but has reversed the domestic downturn which is far from true as the Indian economy decelerated – a phase which started ahead of the United States, subprime mortgage scandal. The domestic economy in India witnessed a downfall after the components of aggregate demand and its sources contributed to the rise in prices. Before considering the International economic situation it is imperative to analyze the emerging markets such as India to determine the intensity of the crisis in these economies (Rakshit, 2009). As discussed by (Persuad 2009), in a demand constrained economy the growth debilitating effect of external factors in the trade route will be reflected in the current account deficit which will result in a net leakage of domestic demand to the rest of the world. First, it is the global GDP growth which has constrained Indian exports. Second the oil price inflation increase Indian crude oil import bill from
$5.6 billion to $10.96 billion in a span of a month in 2013. Thirdly the supply of trade credit has dried up the exports and imports as a result of the global financial crisis.

All financial crises are severe that they will extract a huge cost in terms of lost economic growth. Due to the disruption in the banking sectors, there is a high probability of financial crisis with impact on real economy. Second, the depth and period of economic downturn can be contained by appropriate policy response and the severity of the crisis is not independent of the policy responses. The growth of the crisis was accelerated by the Lehman collapse which is crucial to the crisis. The downturn is considered to be moderate in emerging markets as the merits of the “Decoupling” hypothesis were affecting them. The emerging markets are dragged down by the serious recession in advanced economies. The trade channel affects the emerging markets which is the reason for the drag down effect on the emerging markets. The activation of the financial channel happens when the economic conditions in the advanced economies worsen. As part of globalization of the Indian economy, the economy has got more integrated with the global economy in the past two decades especially. Therefore Indian economy has not escaped from the crisis completely. The fortune of Indian corporate depends upon overseas finance and finances get dried up then it will affect them adversely. A decline in stock prices has impacted in a broader platform the fortunes of such finances (Ram Mohan, 2009). As the Indian banking sector is not directly exposed to the financial crisis, the monetary stimuli will be comparatively effective. But considering Indian fiscal position, it is unlikely that fiscal stimuli can be more effective in the current financial situation. The effect on the
monetary sector will be secondary and the slowdown of the economy is the result of such an action (Ram Mohan, 2009).

The three channels of confidence channel, trade channel and the financial channel mentioned by the then Reserve Bank of India Governor Subbarao (2009) while discussing on the impact which has been pronounced after the collapse of the banking system in the US. In India the impact of the crisis has been through the trade channel (Ram Mohan, 2009). Lowering of domestic liquidity, reducing the access of Indian companies to finances from abroad which resulted in the fall in stock prices are the three ways in which a high level integration impacts the Indian economy. An acceleration of foreign exchange reserves has taken place due to the broader influence of Indian economy arising from foreign inflows based on FDI and FPI – Foreign Direct Investment and Foreign Portfolio Investment. As per (Black 2009) any decrease in liquidity affects domestic consumption, this action will lead to the enhancement of domestic liquidity. The possibility of the trade channel in averting the crisis is through the swing in balance of payments situation in India which is affected based on the foreign exchange reserves.

Exports from other countries are adversely affected in the trade channel as demand contracts in the affected economies. According to (Christina 1992) the wealth effect arising out of substantial asset deflation in the US and reduced incomes from US, EU and Japan which is stemmed from the contraction of demand in these advanced economies. A recession cum depression situation in the western economies and Japan affects the substantial part of Indian exports of key merchandize items. In 2013-14 the
total exports to these countries constituted nearly 24% as it is termed as vulnerable exports. The expected unabated fall in income in the economies of US, EU and Japan has made Indian exports gloomy in 2009. A decline of 0.8% in the total exports of emerging and developing economies and import decline of 3.1% in advanced economies was estimated by IMF WEO statistics in 2009. The latest data available in India is far from reassuring even though separate forecasts within the framework of decoupling are not available. A growth rate of 7% and 9% was visible in Indian exports in January 2014 of $175 billion. As mentioned by (Vasudevan 2009) the worst affected sectors includes handicrafts, carpets, marine products, oil mills, tea, manmade yarn, cotton, leather and leather products, textiles, gems and jewellery. There is a substantial impact on employment as these industries are highly labor intensive. In these sectors around 1.5 million jobs were lost and are still in the process of unemployment crisis.

1.1 Justification of Study

The study is limited by its availability of relevant literature especially on contemporary situation of recession or depression 2007. Policy prescriptions are available but a comparative study of both crises is missing. This study undertakes a comparative perspective on both crises and tries to suggest policy measures visualized in the long run growth of capitalist expansion. The study need to do a thorough understanding on the fiscal and monetary policies followed in the post war era and compare it with the neo-liberal agenda of the 1990s. There are various limitations for the study but considering its relevance, the study makes an attempt to make a comparative economic analysis.
1.2 Review of Literature

As per ‘General Theory of Employment, Interest and Money’ (1936) Keynes postulated the possibility of equilibrium level of income to be strictly below full employment level of national income as the most relevant aspect of modern macro economics. In the classical system of analysis this possibility was not explored. Wages will go down until full employment is restored when employment is less than full employment. In the agreed upon nominal wages, Keynes suggested that wages will be sticky downwards, which will eliminate the self adjustment below the agreed nominal wages. This will ask the economy to settle down below full employment level. The departure from the Ricardo-Say-Mill system is evident in Keynes when he mentions that equilibrium can occur at any level other than full employment. The problem was diagnosed as the lack of effective demand as the cause for unemployment and inflation in the economy. This problem was identified in mature capitalist economies. The problem as envisaged by Keynes is primarily associated with demand and not supplies constraint. The imminent possibility of being fired was existed in the labor market when Keynes identified the idle resources to be employed in a depression which can generate employment. Successive rounds of demand through the multiplier process could be generated by the government printing currency and the aggregate demand triggered. The demand depends on marginal propensity to consume which will foster growth of national income. The idle capacity will work and there will not be the problem of gestation gap. Thus the solution is set of the Great Depression of the 1930s. Keynes called speculation as the produce of bouts of euphoria or “speculative excitement”. An actual further increase in asset happens when wealth holders demand more of the
asset when a rise in expectations resulting due to initial rise in asset prices (Patnaik 2009). A speculative bubble is resulted when this process goes on. The expected price appreciation and evaluation of the risk associated with holding more of the asset depends on the decision to demand more assets. The result is the underestimation of risk which the same euphoria that makes wealth holders expects a continuation of asset prices increase (Patnaik 2009). Keynes elaborated the concept of speculation which is the reason for the crisis of 1930s and 2007 and the crises are heavily dependent on this concept. Due to the new formations in class system in the post-war era, Keynesian demand management which was the characteristic feature of restructured capitalism waited until that period to reflect unabatedly. According to (Wade 2009) the hegemony of finance capital was greatly weakened by the war and great sacrifices by the working class during the war that were unwilling to go back to the days of depression and unemployment and they began to assert politically. In Europe or elsewhere again the working class paid the price for the crisis even in the 2007 crisis (Wade 2009). The significance of these struggles and who had really paid for the crisis becomes relevant.

Joseph Schumpeter established the explanation for the business cycles with his ‘The Theory of Economic Development’ in 1912. Schumpeter criticized Keynes by stating that the General Theory was not ‘general’ at all and was particular to the situation of capitalist economies especially the matured economies of the world. According to him, the best way to handle depression is to allow the economy to be as it is and allow the inefficient resources and institutions to reform or die out and the developed actors to flourish. The notion was similar to the Darwinian idea of self selection which Schumpeter fundamentally considered. There is nothing to fear about
depression as it is part of the dynamic aspect of Capitalist development and process. If government intervention is brought into the picture, it will thwart the inherent dynamism of the process of capitalist development.

The essential difference between Schumpeter and Keynes would be to understand Keynes as a solution provider for the short run when he states that “In the long run we are all dead”. Keynes was concerned for an alternate capitalism without the dangers of the business cycle while Schumpeter was concerned of the long run dynamics of capitalist development with emphasis on the natural consequences of the business cycle embedded in the Capitalist system.

In the current conjuncture, the Reagan-Thatcher era of the beginning of the 1980s witnessed a reemergence of the free market fundamentalism which was largely conservative. Hard bargains of the labor in Britain and France in the mid 1970s when the oil price hike hit the world economies and the war in Arab-Israel area in 1973 hit the economies and changed the picture of international political economy. Here the Keynesian prescriptions did not work well for the economies as this was not visualized by Keynes. The classical philosophy returned and an intellectual stimulation for deregulation started appearing in the US and UK in particular. With the demise of the East European and Soviet bloc and the fall of the Berlin wall, the free market laissez-faire philosophy got upgraded. This was based on the efficient market hypothesis. When Robert Lucas emphasized on the end of business cycle in early 1990s it was the reflection of Schumpeter hypothesis of long run economic growth in capitalist system. It was countered by the advancement of the theoretical understanding on neo-liberal
capitalist philosophy which dominated in the 1990s. Economic fundamentals such as export possibilities, inflation and corporate profitability are considered as essentially related to bonds, shares and other speculative assets which reflect the fundamentals mentioned. The stock prices reflect the fundamentals in such a way that when stock prices fall below the market fundamentals, then the reverse process of the restoration of stocks will operate when there are rational economic agents operating. With the availability of public information, the efficient market hypothesis will reflect the known stock prices, with the rational agents need to over perform in the market using the stock trading strategies which will enhance the potential to invest in the market. Using these theoretical formulations, rational economic agents will develop mutual funds which become the key in the retirement plans of millions across the world. If insider information is used then it will make good profit for the rational investors. It is understood that the stock markets are driven by investor expectations and exuberance of the market fundamentals which make it difficult for the efficient market hypothesis to work. The spontaneous shift in moods from optimism to pessimism is at the core of the swings in the stock market. Keynes called it the Animal Spirits. The economic, moral and hedonistic human nature which is not based on mathematical expectations but on spontaneous optimism which creates the instability in speculation and human activities which questions the authenticity of the efficient market hypothesis and is the reason for contagion of global finance across borders caused by the animal spirits of human interaction with stocks which is unpredictable. The positive actions of the speculators are based on irrational exuberance (Shiller, 2000) creates uncertainty and risks in stock transactions and will built new problems for the stock market. The dependence on
animal spirits causes outcomes of inaction of quantitative probabilities multiplied by quantitative benefits. There is a correlation between the political and social environment of the average business man and the slumps and depressions which are exaggerated forms of the hysteria which investors hold while engaging in a booming experience. It is the innate urge of humans which are more relevant than the mathematical calculations which economists engage in while dealing with stock markets. The dominance of quantitative techniques in economics is the most relevant aspect to be mentioned here. The classical tradition which got upgraded in the later part of the twentieth century ignored the irrational aspect of the animal spirits which Keynes mentioned which was highlighted by Robert Shiller in 2000. As the later studies on behavioral finance the relevance of mathematical expectation, as the basis of making calculations does not exist, the Keynesian animal spirits operate in the market which Alan Greenspan the Fed Chairman in 1996 and Robert Shiller in 2000 highlighted as irrational exuberance. This shows the possibility of the market to spin out of control anytime which can cause booms and depressions.

In the post war years, market instability has been the concern of the neoclassical economists in the Anglo American settings. The central role of this approach is based on efficient allocation of resources. The understanding was on the role of price in clearing market imperfections. The studies centered on the possibility of competitive equilibrium accomplished in the process of development of neoclassical tradition of studies on equilibrium. The Pareto efficient theorem of welfare economics in the Smith Walrasian tradition of general competitive equilibrium study was the basis of the neoclassical understanding of micro economics studied in economic programs. Keynes
considered all these as given and did not spent time on the theory of value. Keynes concern was on the stability of equilibrium as it will ensure the issue of equilibrium in the Capitalist system. Keynes was not using the Walrasian general equilibrium system, his model was aggregative and within the frame of macroeconomics. He was interested in demonstrating the less than full employment level of employment and national income which he did with focus. To bring back the economy to full employment level of income and employment, the government has to resort to increase in aggregate demand which was the major Keynesian prescription. In 1980s, it is evident as from influential quarters that government is the part of the problem and not a solution in itself. To forecast risk, the finance theorists with their mathematical rigor emphasized on economic issues to be solved by mathematical expectations of the investors. The collapse of the system during depression and the better understanding system during booms are the core aspect of the finance upsurge during the 1990s onwards.

In spite of all these struggles, a closure of offshore financial centers and the banning of complex derivatives were the steps taken by political leaders in US, Germany, UK, France and elsewhere (Persuad 2009). Global financial regulator was suggested by Liberals as a solution to global financial crisis. As discussed by (Persuad 2009) if the content of the regulators are more democratic then the emerging market regulators tend to be less cut off from the global regulators and the experience of working with emerging and developed country regulators will result in experiences of working with content of regulation (Persuad, 2009). Growing prosperity with financial stability is the result of flush of success, market competition, and self regulation, difficulty of self interest, risk capacity contagion, connected lending, market
concentration, conflicts of interest and network vulnerabilities. According to Keynesian economist Minsky (1982) predicted stability creates instability. Further postponement of major reforms is not allowed in the increased integration of global markets. The global network with fragmented and segmented laws is complex to manage and monitor and there are no easy answers to these issues. According to Nayak (2009) it is due to the effects of globalization markets in both developed and developing markets benefit or lose from trade and investments. The developing markets lose from their savings in developed markets that are linked by common interests. The two confidence factors of emerging markets lie in the confidence to invest abroad and the confidence to open markets to volatility and contagion risks. Sound and effective regulation in the international financial market can develop open trade in goods and services. (Sheng 2009). The realistic financial market theories of Keynes and Minsky should replace the net foreign assets (NFA) mainstream theory of efficient financial markets. The ideologically grounded vision of efficient capital markets should disappear as the recent events of the crisis would indicate and will convince any rational economist that it should be replaced. A broad political mandate should be there to support any serious financial reform which happens as a result of the crisis. The political process is corrupted by the Lords of Finance for a considerable period of time. Government regulation in financial markets is pressured by the $700 billion affair (Crotty and Epstein 2009). In countering depression, the regulation of financial markets is the key factor. Regulatory mechanisms were introduced during 1930s depression and proved to be successful in favoring capitalism and indeed rescuing it from a doom. How far this crisis can introduce regulatory mechanisms is the key concern of the recent developments.
It is understood that the Indian economy is fully insulated from the global economic and financial crisis. But it will be idle to pretend this hypothesis as there are repercussions on the Indian economy as well. The conservative policy of the Reserve Bank of India has proved to be a boon for the economy. The right approach of not going for the full convertibility of the rupee in dollar standards has proved to be a positive step for India. Right from the start of the reform years from 1991, economic experts in India have forced for full capital account convertibility which fortunately has not happened. As the realization goes, it is realized that Indian economy has been influenced by the global economic crisis in the decade after the 2000, with effects on the employment, income and inflation. Even though the labor force in the US outsourced industries are less compared to the massive labor force in India, the impact of the US financial meltdown has created a job loss situation for the Indian workers. According to the RBI, the growth rate of India has been adversely affected by the Global Financial and Economic Crisis. Even though the domestic banking sector has been insulated by the crisis due to the strict adherence to capital adequacy norms, the toxic assets of US has not affected fortunately the Indian banking system. The true Keynesian effective demand approach is applicable to the context of US and Britain, but not to the Indian conditions where supply constraints are pronouncing. The question is whether the Indian economy should concentrate on fiscal stimulus or it should allow the market to function and get results. With a fiscal stimulus for the poor and the needy in India, the Schumpeterian logic of long run growth becomes relevant in the Indian context. But the role of Keynesian fiscal stimulus finds its relevance as well. The stimulus package is relevant for the agriculture sector where only 18% of stimulus is provided while 60% of the population is still
depending on agriculture. According to Schumpeter, it is understood that the business cycle will ultimately lead to creative destruction of the capitalist system. But he also believed that capitalism will provide industries to innovate and grow. The Schumpeterian theory is applicable in the realities of capitalist development but it requires more authentic solutions to the problems of capitalism. Keynes on the other hand was optimistic regarding capitalist development and visualized an alternative capitalist system using the tools of macro economics. Keynes believed something similar to Marx when he states that in hundred years the economic problems will be solved. The concept of “Each according to his ability, each according to his needs” of Marx was close to Keynes when both wanted the subject of political economy to improve human condition.

1.3 Objectives of the study

The objectives of the study are to find the similarities and differences between both crises. The role of economic policies in finding solutions to the crises and to suggest economic policy tools relevant to the recession of 2007 onwards by analyzing the causes and effects of great depression of 1930’s and the great recession of 2007 onwards. In effect, the study should bring out all the elements of the global economic crises of 1930’s and 2007s which are relevant. The main objectives of the thesis are:

- To identify and measure the similarities and differences of the two global economic crises of 1930s and 2007s.
- To identify the trends in booms and depressions and relate them with the Great Depression and Great recession.
• To identify and compare Keynesian and neo liberal economic policies with Great Depression of 1930s and Great Recession of 2007s.

• To identify, compare and measure the Indian economic variables from 2001-2012 to determine the impact of the Great Recession on the Indian economy.

The most important analysis of the Great Depression of 1930s and the great recession of 2007 would be the way macroeconomic policies have contributed as a solution to the crises. The fiscal and monetary policy analysis of the global crises would reveal the similarities and differences between the two great crises whereby it reveals the capitalist system for the post war era especially in the 21st century when finance capital rules over the real sectors of the economies of the world especially United States.

1.5 Nature and Sources of Data

The period of study is from 2011-14 for 3 years using secondary data available on depression economics. The nature and sources of data are from literature available in the market and libraries. As the focus is on Indian economy the majority of secondary data from ministries and government publications, leading libraries, with trade channel oriented literature in the front. Study would focus on developed countries and also emerging markets. The nature of the study would have a global appeal with a local Indian touch. This would be primarily on India and extensively on United States. EU, China, Japan, Latin America, Mexico, Argentina and other countries would also be considered. The focus will be on the global nature of finance capital flows across borders. The study would enhance knowledge on the historical growth of capitalism.
after the Great Depression 1930s until today with focus on Dollar as the major currency and how the value of Dollar determine International political economy.

1.6 Research Methodology

The research is descriptive based on the data secured from secondary sources with emphasis on analytical tract which will enhance the process of research with the two periods under study. The research has its focus on explanatory style to explain data after conducting descriptive research to increase the knowledge of the concepts involved in the research. In explanatory research an attempt to connect ideas to understand cause and effect is done. This means that the researcher explains what is going on. This will bring secondary data available into interaction and togetherness. Without the prediction of what will come next, explanatory research is not possible.

The research approach is deductive where reasoning works from general to particular. This ‘top down’ approach where a theory is thought in the beginning of the research to be applied in the context of the research. This will be narrowed down to specific hypotheses which will be tested using the available secondary data as in the case of this research to confirm the original theories considered for the research. As in the case of this research, the Keynesian theory is taken as a benchmark to analyze the Great Depression and Recession to analyze it in the wake of available secondary data. In the inductive approach is a ‘bottom up’ approach where specific observations and measures are used to detect regularities and patterns which formulate hypotheses which are tentative. These generalizations will lead to the exploration of finally developed general conclusions or theories in the process of the research.
Based on the observations and the case study of Great Depression and Great Recession, the global financial and economic crisis is critically analyzed. There is no room for experiment in this research as the facts are available as they exist in the secondary data and they must be used to analyze the phenomenon and infer results and findings. The sound recommendations form the key aspect of the research which is primarily descriptive and explanatory. The case study of the economic crises is highly relevant in the context of the research where an analysis of business cycles with the economic history of the twentieth century is provided in brief with the patterns of change in the course of historical development. The booms and depressions are the key concepts which the research focus upon to explain the economic crises. The irrational aspect of the animal spirits of the financial world is highlighted to determine the pattern and trends of the discourse of financial and economic crises. A series of booms and recessions are observed in the capitalist economy along with parameters of macro economics such as unemployment, inflation, stock prices, exchange rates which validates the hypotheses in the research.

As the research is not dealing with primary data to analyze the two phenomena of the economic crises, the issue of respondents and the ethical considerations do not arise as a problem. But the research has to keep certain intellectual honesty to determine the study with authenticity. Ethical considerations are relevant in the context of using secondary data as a source of information and using that information catering to the requirements of the study. The research demands the researcher to use secondary data from sources which are relevant to the study of the economic crises. The most relevant ethical issue is the compilation of secondary data which should be from authentic
journals and books of reference. The diagrams and graphs should cater to current appeal and they should enhance the process of analysis of the research. This is the key aspect of the research. The authors and academicians mentioned should be of repute and their works should be quoted without plagiarism. This is the challenge in the research where by the researcher needs to consider works which are contemporary and which are classically relevant as in the case of Keynes. The core aspect of the research revolves round Keynesian works which contributed to the vision of leaders especially Obama during the crisis to focus upon fiscal stimulus as a weapon to combat the recession hit US economy. While dealing with this information, the researcher needs to be careful in choosing the right information and analyze them. This aspect of the ethical issue is relevant as it provides necessary information and concepts of importance in the research. The study needs to bring meaning in its approach whereby it can ensure authenticity of information and concepts in the process of the research.

In the present study, the methodology used is primarily relying on secondary data available on depressions in academic literature. The study is interpretative and deductive in content. The study would use data collection methods based on the available literature on the subject and try to use literature available in the present crisis (the latest literature available) to study the consequences and causes of both crises. The literature on Keynesian economics and the Neo Liberal agenda would be collected from Libraries, Online resources, E books and other available resources which could develop a new focus from the old. A comparative analysis based on policy prescriptions discussed in academic literature would be considered to analyze and also to suggest
policy measures effective in today’s context. Data from newspaper and Journal articles giving the complete picture on contemporary discussions and debates on the topic.

The research shall study the trend of data collected during the span from 1924 to 36 and from 2001 to 2013. This shall be done by first collecting data across these periods. Gross Domestic Product, unemployment, Inflation rate Exchange rate, import export growth rate as well as percent change in stock prices during these two periods will be first collected using secondary sources of data. The two series shall then be graphically presented and a trend line established. The correlation coefficient between the two series of data shall be evaluated using detailed regression analysis and ANOVAs method. Microsoft excel shall be used as the software or tool for conducting the ANOVAs analysis. After the correlations coefficients are derived the values shall be reviewed to conclude if there is a high positive or negative correlation between the two series. A similar exercise shall also be conducted for the same time period taking India as the specific case with special focus on stock prices and GDP.