Paul krugman book review

Economics, Money

The Return of Depression Economics and the Crisis of 2008

The Return of Depression Economics and the Crisis of 2008 is an economics book that was written by Paul Krugman. The book is an analysis of the 2008 financial crisis that followed an economic downturn amid huge economic activity in the financial sector of many economies including that of the United States of America. The book further follows and traces integration of the unfavorable economic conditions into the financial crisis experienced in the year 2008. In addition, Paul Krugman considers the parameters that characterize a relationship in an economic depression context basing the argument on the depression and the economic crisis of the year 2008. The author in this book describes major contributing factors to the emergence of the 2008 economic and financial crisis that was at the time experienced all around the world. This was so due to the fact that international trade and political ties characterize the relationship between or among nations, thereby creating some kind of interdependency among the countries.

The author identifies and describes how United States of America became a major icon of the effects of the crisis. On the same note, a disparity was evident in the general effects of the depression and crisis economics as well as the consequent challenges that were imposed on the economic performance of affected countries. The book is also characteristic of the magnitude within which the depression and the crisis occurred in different countries. Different countries suffered financial challenges at the time, and this fact was not past Krugman’s idea of consideration. His idea forms the cases that have been put across for discussion in the book, not looking down upon the description of each case in its country of emergence and the related economic conditions and aspects within which these cases occurred (Smith 49).

Paul Krugman clearly outlines the behavior of the financial sector in any given economy at a time of depression that results to a financial crisis (Smith 73). He describes the functional environment of business operation at such times; outlining the process that oversees the evolution of a depression and the resultant financial crisis in the economy at such times of the business cycle. The book further offers a description of the dynamism and diversity of the conditions responsible for the occurrence of a crisis that many at times has followed an economic depression, that results from a recession in the economy’s business cycle. However, Paul Krugman fails to give explanations on how commercial banks and other financial services providers and financiers exploit the depression conditions, thereby worsening the case and consequently leading to the emergence of the financial crisis, that the major stakeholders in the financial sector take advantage of and make windfall profits out of it (Smith 82). This book matches the universal belief economies can grow and develop with some aspects of essential activities in the economy. What this means is that economies have the potential to grow and develop with time. This is an important aspect of any economy, given that countries are always struggling to better their economic conditions subject to the rest of the world.

Countries pursue development policies based on individual interests of these countries. However, there are countries that engage growth and development models adopted from other countries that have succeeded with the models, as Krugman points out. In the same regard however, Krugman ignores the aspect of high population and engagement in huge industrial activities, which impacts negatively on the biosphere. This book's theme advocates for the growth and development of a country's economic situation, but at the same time it ignorant of the negative effects of the same growth and development if the process is perceived to be undertaken rapidly. Value of economic growth and development is important to an economy, and it is therefore fundamentally never in question in the policies developed to enhance it. Destruction and negativity imposed on the biosphere characteristic of the role that growth plays in an economy are at many times ignored at different levels of economic activity performance in an economy.

A number of economic considerations have been pointed out in the book, in the context of the theme of the book. Proper relations of economic variables have been related to economic depression and the general crisis (Smith 99). Paul Krugman brings on board the concept of balance of payment in this book. He portrays how total receipts and total payments prior to any economy by a country are supposed to strike a balance in the economy's transactions. The implication of this is that the balance of payments of the many and different country never gets to excess of neither the debits nor the credits at one point in time. The balance of payment always balances, given the different transactions that are recorded therein. The concept that the balance of payment employs is based on the principles of accounting that requires a balance between the debits and credits, thus the two always equal each other. The same scenario is applied on the balance of payment, where the components of the balance of payment are expected to balance in regard to the debits and credits. The achievement of the expected balance between the variables of the balance of payment is not complex in analysis and presentation. This therefore implies that goods or services bought by a country in the engagement with foreign countries is purely followed by a compensating sale of a good or service that is of equal total sum value as that of the purchased item in the domestic country (Smith 113).

Disparities in the specific transactions of the balance of payment are present and to some extent unavoidable even in circumstances where the balance of payment is said to be in equilibrium, equating debits and credits that constitute various transactions in the balance of payment. Paul Krugman’s book also takes this factor into account by considering these dealings in the real economic context. However, the disparities are dealt with by proper adjustments on the transactions that are likely to eliminate the disparities in the balance of payment. For example, a country’s balance of payment may read in deficit of the current account, meaning that the current account is in deficit. This implies that the country actually bought more goods and services than it sold. The adjustment in this case would require that the country runs a capital account that is in excess (surplus) by the same margin as the deficit on the current account. The country would achieve this by ensuring that it makes sales of assets that exceed what it purchases. The opposite in consideration of the two accounts is actually true (Smith 117-127).

Paul Krugman is not short of considering the economic principles that are fundamental to his book, thus making this review even more interesting. This follows the interrelationship of variables that are characteristic to a depression and a financial crisis. However, Krugman does not effectively integrate these variables into the procedural explanation of the depression and the economic crisis. He fails to exploit the full potential of the economic variables in the explanation, discussion and analysis of the economic principles. Evidence that affirms this can be drawn from the concepts and transactions in the balance of payment that requires equilibrium as already described. The author of the book as well as the concepts in the description of economic performance as presented in the book fails to outline what happens in the event that the balancing variables do not do so, with the purchases and sales failing to match based on the current and real time currency and the rate of exchange in the foreign exchange market. When such instances occur, adjustments must be done to restore equilibrium in the balance of payment. This scenario requires that future transactions compensate for this disparity by bringing sales and purchases into a match. Another compensating factor would be change in the rate of exchange for the currencies involved to account for the differences and eliminate the mismatch, bringing the balance of payment back to equilibrium (Smith 140).

Financial crisis do not affect all countries in the same way, because individual country’s economic conditions differ in accordance to level of growth and development in the economy. This was the case with a country like the United States of America in the light of the 2008 financial crisis as this book identifies. Numerous policies had been formulated and implemented in a bid to encourage free trade in the realization of growth and development as it is since the last half century to the present. The impact of this was the introduction of an unfavorable environment that characterized destruction of locally manufacturing and industrial sectors of the economy. Amid these destructions, consumer demand for goods and services available and unavailable to these sectors of the economy heightened and such demand must be met. What this implied is that the goods and services that constitute consumer demand must be made available for consumption, thus giving rise to an economic activity of importation. Imports require out-payments to the country that exports the imported commodities. International trade is characteristic of exports to and imports from either country that engages in it. When this case is not experienced just like it is evident between United States of America and China, more factors and considerations that tailor the achievement of a balance in the balance of payment are brought into use (Smith 155).

Trade across borders hereby identified in this book as international trade helps Krugman in the identification and description of economic principles and their variables. Unfortunately, the employment of this process in the explanations does not draw relative inferences characteristic to the economic situation and the consequent 2008 financial crisis. This book fails to address the major contributing factors to the depression and the crisis that emerged as a result. Krugman has only presented superficial explanations on the turn of events in the economy and the country at large, thereby outlining how the events actually occurred. The book employs a precise adoption of economic principles to help in the definition of the experienced scenario. It fails to acknowledge that the economic environment is dynamic and diverse in the sense of its functionality, especially in the context that depression that has led to the occurrence of a financial crisis is being considered (Smith 184). The only treatment of such concerns by Krugman is the analysis of the factors that led to the rise of the crisis after a depression turned out worse to the economy.

It is evident from the book that the swings that constitute up and down movements in the business cycle can be tackled by the use of macroeconomic policies. Macroeconomics is an economic foundation purely born of the theories of John Keynes. John Keynes brings into focus the activities of the central banks and those of the governments into the monetary and fiscal policies respectively. Both the policies (monetary and fiscal) can be used to determine the direction that the economy takes at each level that activities about the two are altered in order to achieve a given purpose. The monetary policy relates to the central banks initiated, formulated or implemented actions. Fiscal policy on the other hand is based on the activities undertaken by the government, especially in matters that concern government spending and investments. High levels of growth in an economy are arrived at in different ways, that at most times include manipulation of variables that keep the economy operational and functional. One of these manipulation procedures involves lowering interest rates applicable to institutions that seek loans from central banks. At some instances, the interest rates may be lowered in the previous actions to a level that they reach the minimum possible, meaning that they cannot be lowered further. On the same note, if the interest rates are lowered past this level, the action would be ineffective since the desired results cannot be realized. This is because the interest rates will not stimulate any important activity that would consequently bring about the required impact in the economy. It is because of this notion that central banks always want to maintain a given level of inflation in the economy, so as to put the interest rates at par with an action that can stimulate economic activities to achieve a desired result at one point in time (Smith 225).

High employment levels and heavy production in an economy are major measures of economic growth and good sign of development. Krugman points out that an economy can grow without development, but no economy can develop without growing. Growth is therefore an important factor in any economy’s development. Government spending in valid projects, (those that do not defraud the public of funds) is a way of stimulating growth in the economy. Business cycle movements from a recession to a depression, requires that governments accumulate enough reserves. This implies that such reserves should be in excess or rather in surplus. In the event that this is not the case, increasing deficits are characteristic of the government budget plans. However, government spending may fail to offer a solution to such problems, thereby failing to achieve the desired results for increased government spending. In such a case, Krugman points out that the general price level would need to be increased in order to realize what was actually expected when government spending was increased in the first place. It is important to note that increasing the general price level in the economy is actually raising the inflation level. Current economic condition and the consequent performance of the sectors of the economy determine the applicability and functionality of the Keynesian principles in that particular economy.

The Return of Depression Economics and the Crisis of 2008 by Paul Krugman offers its recommendations in the context of the depression and the crisis as well for such similar events in future. In his recommendations, Krugman presents the need for intense government spending at such critical times as that when the crisis was actually experienced. Huge amounts of money were allocated for bail-out purposes in the financial sector (Smith 232). These firms were responsible for the explosion of the crisis after the depression situation worsened. They had taken advantage of the situation (the depression) so as to benefit by making quick windfall profits (Smith 233). The direct implication of this recommendation was that the very same firms that caused the crisis would benefit from the consequent activities that would result from it. Huge charges should have been imposed on the firms that took part in developing the crisis to full bkast. However, this was not the case because Krugman identifies that the government actually bailed out firms out of a crisis they had took part in making. When such a scenario occurs, the government does not seem to mind the welfare of the larger population, but that of just a few. Such a government t can be said to be one that only serves the wealthy elites through a leadership process referred to as fascist dictatorship (Smith 246).

Paul Krugman’s book is not short of great lessons to lessons to learn. The depression and the year 2008 crisis was characteristic of suffering and pains to many sectors of the economy, and more especially to the lower level population in terms of social and economic welfare. The macroeconomic policies pointed out earlier (monetary and fiscal policy) by the Keynesian economic principles are major essentials of economic management. These policies can further be integrated in the economy adjustment procedures in the moderation of the economy, focusing major emphasis on the business cycle characterized by different activities in all sectors of the economy. In the recent past, it has become more prevalent for governments to defraud the public and consequently benefit the haves at the expense of the have-nots.

The governments dealt with the depression and the resultant crisis in a way left the middle level and lower groups of the populations in a fix. According this book by Paul Kraugman, the governments engaged in " personal" dealings with the financial sector of the economy to deceive and consequently defraud the people they serve of funds in a bid to undertake the so called bail-out mission for the sector that is crucial to any economy. The unfortunate thing about the whole process is that it served the interests of just a few at the expense of many. For example, during this depression and financial crisis, the United States of America government demonstrated fascist dictatorship through its efforts to bail out firms that it had declared privatized in the past years. In addition, no charges were imposed on the firms for the harm they had done the economy by the virtue of creating a crisis out of a depression. These firms had received huge packages of salaries alongside other payments that were actually not retrieved by the government when it struggled to bail them out of the crisis they had contributed to make (Smith 266). The governments' concerns for the few elites imposed huge costs and unfavorable social and economic conditions to the middle level and lower population, who constitute a greater percentage of the economy movers. Worsening the case of these groups only meant further suffering to the economy, but the government turned a deaf ear to this scenario. This book through the consequent expressions of the author creates an understanding wave of the Keynesian theory and its role in the economy. The book also helps in the contemplation and definition of the characteristic relationship between the government and the financial services providers and financiers in the context of the depression and the 2008 financial crisis, outlining the behavior and role of each in the same circumstance.

Works Cited

Smith, David. The age of instability: the global financial crisis and what comes next. Chicago: Profile Books. 2010.