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The Possibility of Learning from the Mistakes of Others

In the United States, a financial crisis began in 2008 from a few simultaneous events. The housing bubble burst which exposed many debtors as unworthy of their prior investments. Also, commodity prices decreased rapidly around the world. Finally, speculation, an ever persistent problem contributed to the crisis. In the 1990's, an equally troublesome crisis occurred in South East Asia. Beginning with Thailand, and spreading to other surrounding economies in the region an entanglement of epic proportions occurred. Each situation has fundamental causes that can be attributed to the failure of the financial institutions in each region. Even though many similarities do exist between the East Asian financial crisis and the 2008 crisis, major key differences distinguish the two crises and their underlying causes.

Two main similarities occurred in each financial crisis. First, the banking institutions both required bailouts from external entities. In the East Asian financial crisis, the banks invested in companies, even if they were high risk investments. In the American 2008 crisis, banks supported consumers similarly. In both cases, their respective governments not only supported the banks decisions, but provided economic incentives that encouraged poor decision-making. In a stable appearing economy; however these decisions can be understood. In this crisis, though, no safety mechanisms or built-in fail-safe systems were institutionalized. This is one of the main reasons that bailouts were given; it was the partly the fault of the entity giving the bailout.

Second, both financial institutions had a relative amount of speculation which occurred in their respective regions. Asian banks speculated against their own currencies. They invested in the American dollar, and as a result brought the value of their own currency to new levels of worth. This is an understandable decision when the economy is in growth although it is a poor one when it is in decline. The economic tides changed and the weaker economies like Thailand began to fail. In America, individual investors speculated against the commodities market and especially food. Similarly, this is a reasonable choice in economic prosperity and a poor one as the economies of the world turn south. Both decisions are gambles; however, because they are betting against institutions that are valuable to the success of a society. Food and currency are two vital pieces that compare to a man betting against his job and home. A man can make plenty if he wins, and lose a great deal more if he loses.

To be fair, speculation has occurred for the better part of the 20^{th} and start of the 21^{st} centuries. In fact, it is arguable to say that speculation has occurred since the emergence of the market system and has helped to shape the current market model. Modern day economics factor in for speculation, and although speculators are considered to be enemies of politicians, politicians have a direct incentive to make speculators the main cause for economic woes. Speculators often bet against currency. Since currency tends to show the value of a State, a speculator also has a propensity to devalue political institutions and expose the fallacy that exists in politics.

In fact the major difference that existed in the American 2008 Crisis is the pro-cylindrical leverage that existed. Liquidity and overall market growth intensifies when positive growth intensifies. This intern creates more positive growth and an increased amount of overall economic prosperity with one caveat. If the growth is in the negative direction, this entire cycle reverses and produces high levels of decline. In East Asia, the economic crisis had opposing forces since a great deal of the investment came from foreign entities. Major mistakes in the East Asian financial crisis were due to shutting out this foreign investment. In a sense, the East Asian financial institutions created a cylindrical leverage at a time when decline already existed. The 2008 American crisis does not have the benefit of a foreign investment of the magnitude that the East Asian crisis did. In fact, one of the greatest sources of investment, China, was also drastically affected along with other international markets.

The final major difference occurred after the United States had a series of economic bubbles. In particularly after the housing bubble, a biased monetary policy allowed for the slashing of interest rates. This was an attempt to recover quickly. Overall this can be seen in a series of three failed attempts. The first was the loosening of the monetary policy controls in 2001. The second was a tightening of the same monetary policy in 2004 until 2006; which reversed any progress the first policy made. Thirdly, the lowering of the interest rate to 2% was an attempt to alleviate the financial panic during the onset of the 2008 crisis, but in actually has yet to fit an economic rationale.

It is clear that the similarities of any economic crisis are present and constant. This is due to the ramifications and implications that are naturally present with an economic crisis; however, it must be regarded that each instance has inherent differences based on surrounding events. Since it is nearly impossible to replicate the events of each crisis exactly, it is impossible to utilize the solutions of a prior crisis to the advantage of a current one. While true, if the East Asian financial crisis were to have seen similar solutions that had occurred in Latin America, the outcome could have been relatively more efficient and their economy might have recovered at a faster rate. These solutions, of course, would have had to been adapted to the financial institutions in East Asia. Likewise, if the 2008 crisis adapts solutions from prior crises, not simply the East Asian or Latin American cases, then their hardships could possibly be relieved sooner. The result; however, must be attained through difficult decision making, and a general acceptance of responsibility by economic and political leaders within the current institutions.