Should Government Intervene in the Economy During Economic Recessions?

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Abstract

This research explores the implication of government intervention with two major hypothesis. By comparing major economic indicators under various United States and German presidencies in term of the extent of government intervention, this study demonstrates the idea that government intervention is effective in recovering from economic recessions by the measures of increased employment and production. Moreover, from the cases of China and India, I agree that countries with more government intervention in the economy tend to have less ecoomic impacts from economic recessions.

Introduction

Government Intervention refers to the government regulatory actions for the purpose of affecting or interfering with decisions made by individuals, groups, or organizations regarding social and economic matters (Howell & Sorour, 2016). It aims to achieve the purpose of facilitating economic growth, addressing market failures, creating job opportunity, and manipulating price level of goods and services in the market. Typical examples of intervention are managing the money supply, interest rates, tax rates, and government spending, as well as imposing tariffs and production quotas. Economically, intervention is ordinarily described as a perspective favoring government intervention in the market process to correct market failures and promote the general welfare of people.

Methodology

Hypotheses

1. Increased government intervention will increase the speed of economic recovery from a recession.

2. Countries with more government intervention in the economy tend to have less negative economic impacts from recessions.

Methodology

1. Comparing the main economic indicators such as the GDP growth rate and unemployment rate under various presidencies in term of different extent of government intervention during recessions

2. Comparing the economic impacts from economic recessions between countries with more government intervention and countries with less intervention

Results

Hypothesis 1

Year	G.D.P Percent Change (Annually), based on 2017/02 dollars	Unemployment Rate
1930	-11.9	8.67
1931	-16.0	15.82
1932	-23.1	23.53
1933	-4.0	24.75

Under U.S President Herbert Hoover during the Great Depression

Year	G.D.P Percent Change (Annually), based on 2017/02 dollars	Unemployment Rate
1934	16.9	21.60
1935	11.1	19.97
1936	14.3	16.80
1937	9.6	14.18

Under U.S. President Franklin Roosevelt during the Great Depression (More government intervention)

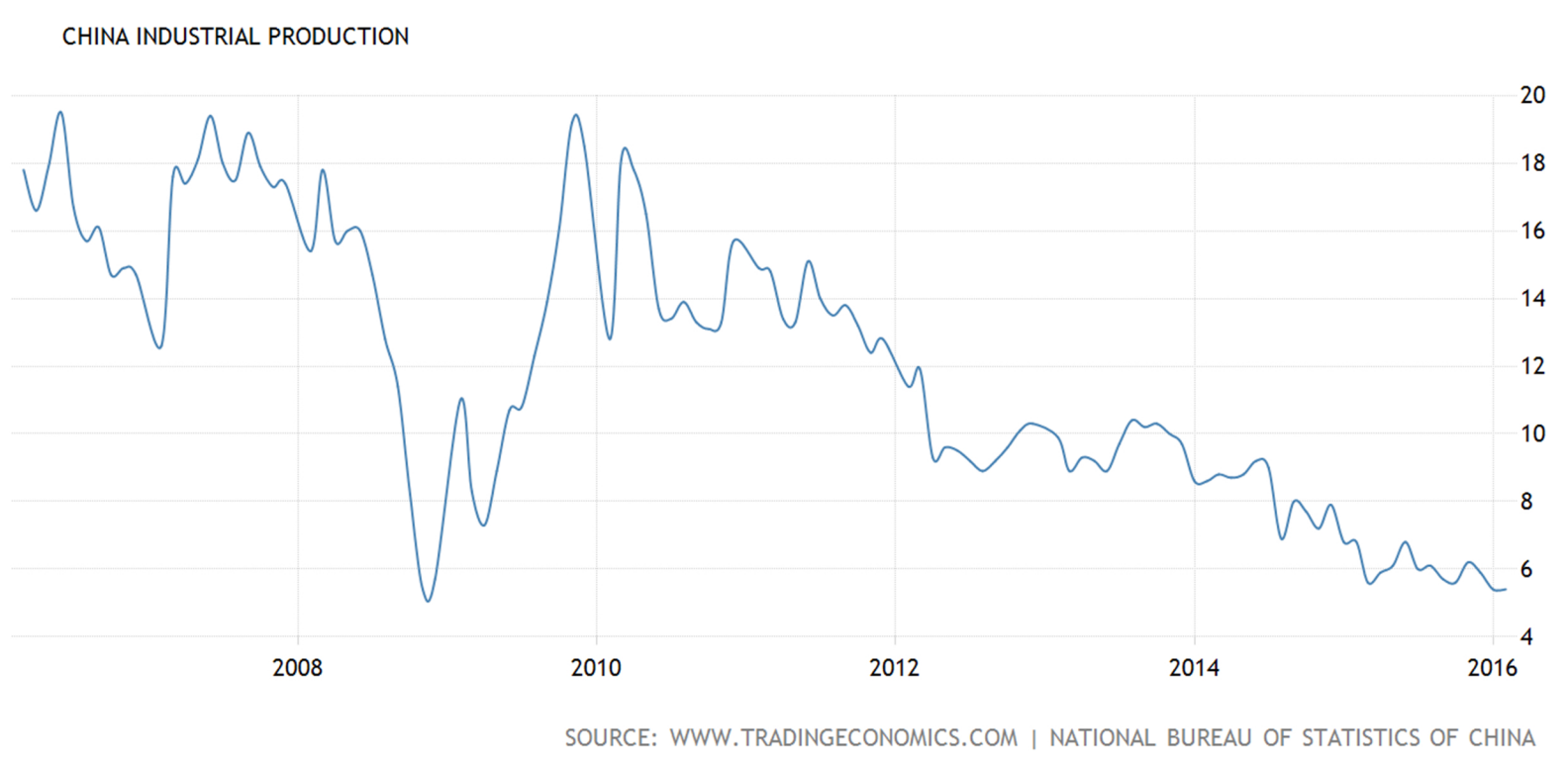
Year	Real National Net Product (1928 Prices, in billion RM)	Unemployment (in millions)
1928	84.0	1.4
1929	78.9	1.8
1930	76.1	3.1
1931	67.9	4.5
1932	66.2	5.6

Under German Chancellor Heinrich Brüning during the Great Depression

Year	Real National Net Product (1928 Prices, in billion RM)	Unemployment (in millions)
1933	74.8	4.8
1934	81.9	2.7
1935	90.6	2.2
1936	99.4	1.6
1937	109.8	0.9

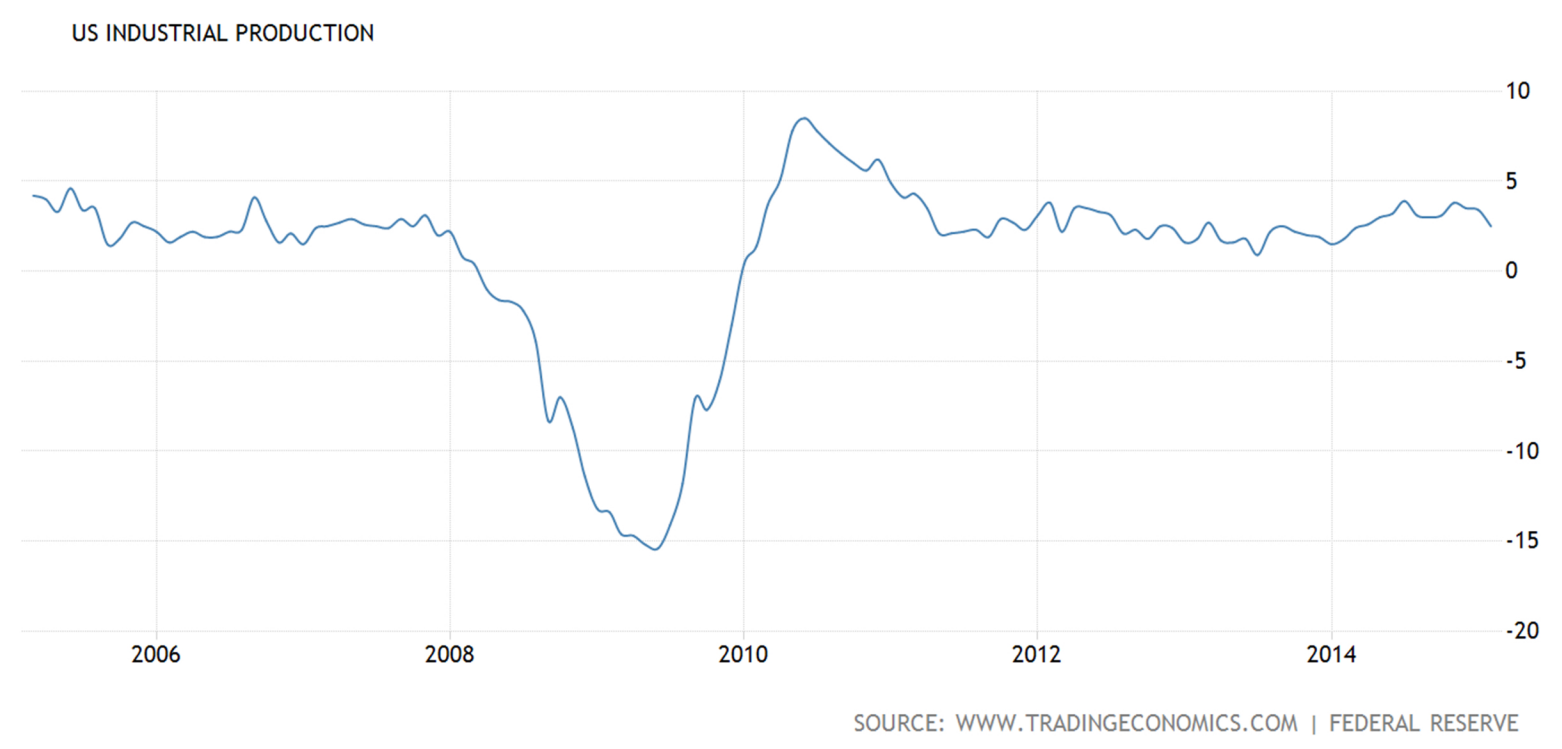
Under German Chancellor Adolf Hitler during the Great Depression (More government intervention)

Hypothesis 2



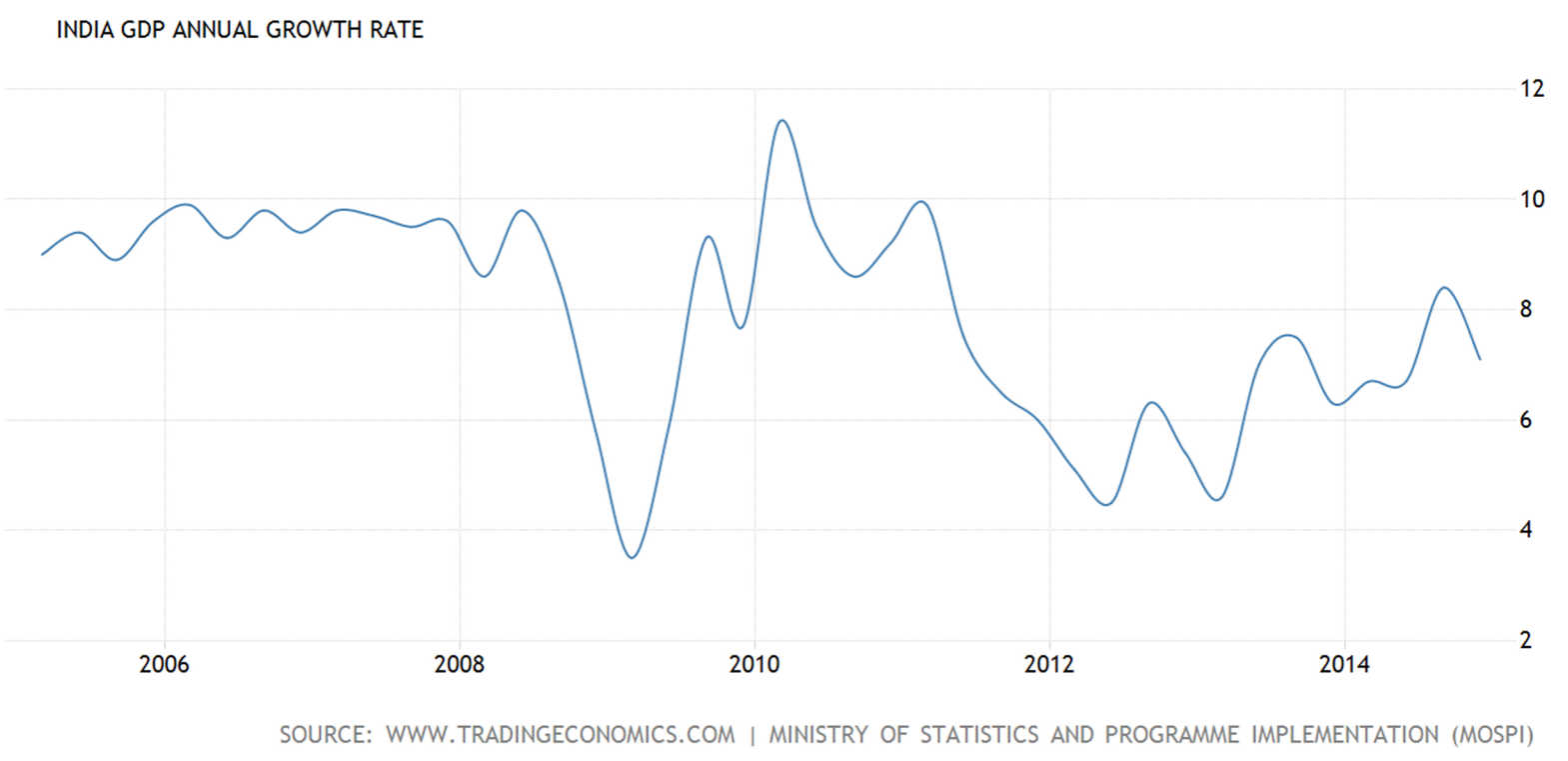
SOURCE: WWW.TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA

China Industral Production Growth Rate during the Great Recession (More government intervention)



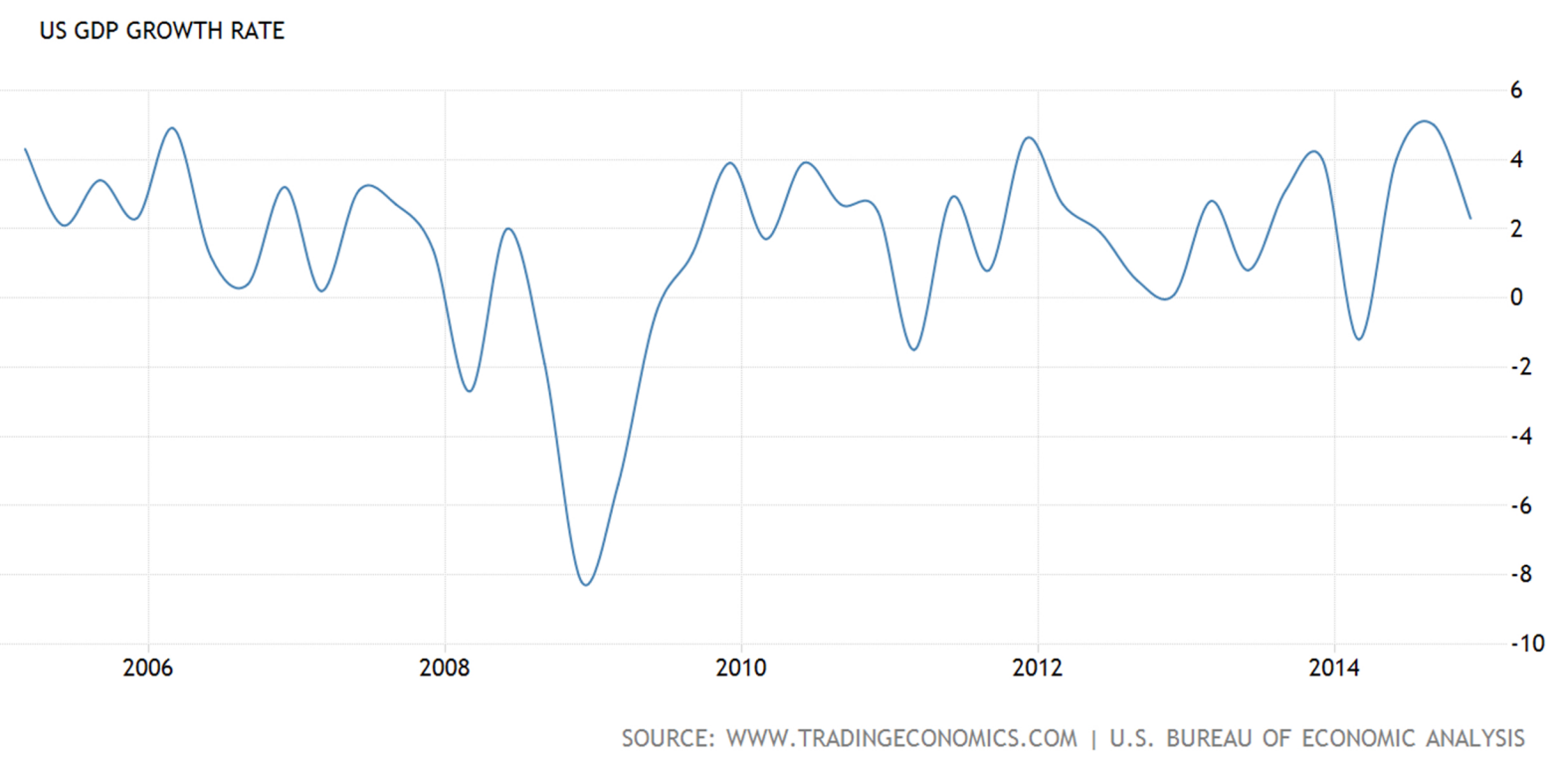
SOURCE: WWW.TRADINGECONOMICS.COM | FEDERAL RESERVE

The U.S. Industral Production Growth Rate during the Great Recession (Less government intervention, developed country)



SOURCE: WWW.TRADINGECONOMICS.COM | MINISTRY OF STATISTICS AND PROGRAMME IMPLEMENTATION (MOSPI)

India GDP Growth Rate during the Great Recession (More government intervention, developing country)



SOURCE: WWW.TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMIC ANALYSIS

The U.S. GDP Growth Rate during the Great Recession (Less government intervention, developed country)

Conclusion

The data analysis shows support for the hyotheses 1 and 2.

Hypothesis 1: The data suggests that the Roosevelt Presidency and the Hitler Administration, which are considered to have higher levels of government intervention, are more effective in recovering from economic recessions by the measures of increased employment and production.

Hypthesis 2: The data suggests that countries with higher levels of intervention are believed to be less impacted by recession. By using China and India as cases of developing countries with greater government intervention than developed countries such as the United State, it demonstrates that both China and India had experienced less impact from the Great Recession in term of GDP growth rate and industrial production after the Great Recession took place.

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