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Nobody can reliably predict the market. But nobody can predict the government either.

Is this the biggest financial crisis since 1987? Since the 1970s? Since the Second World War? Since the Great Depression? Since the word 'finance' was coined?

Who knows—my economist can beat up your economist. Like those American political commentators who try to predict the results of elections with absurd comparisons—'A two-term Senator from Texas who hasn't ever been a three-term Governor has never taken the White House in a year divisible by 32'—history too often distorts our understanding of contemporary events more than it enlightens.

What historical comparisons do show, however, is that the last three hundred years of liberal capitalism have been a never-ending series of crises and crashes. The economic history of the United States reads like a slapstick cartoon: there was the panic of 1797, the depression of 1807, panics in 1819, 1837, 1857 and 1873, the 'Long Depression' between 1873 and 1896, further panics in 1893 and 1907, a recession following the First World War, the Great Depression, recessions in 1953 and 1957, and an oil crisis in 1973. A recession has opened each decade since the 1980s.

The *Semper Augustus*, the most expensive tulip sold during the Dutch tulip mania of the 1630s.

In Australia, when the financial journalist Trevor Sykes documented the continuous corporate failures that have dominated our history, that experience led him to title his book on the topic *Two Centuries of Panic*. More recently the former Reserve Bank Chairman Ian Macfarlane has described seven financial downturns since 1980.

When Walter Russell Mead delivered the 2008 CD Kemp Lecture for the Institute of Public Affairs in Melbourne in December, he made an important point: our long history of crashes, depressions, panics and recessions are an integral part of the system. When firms fail—even when entire market structures fail, as it appears they have for the more aggressive Wall Street trading firms—we discover better ways to manage risks, better ways to seek profit. Mead argued that the history of liberal capitalism is the history of markets gaining complexity until they were beyond our understanding, leading to a spectacular crash, followed by a recovery based on what we have learnt went wrong, and then another, inevitable building up of complexity. Mead pointed out that since the Dutch tulip mania of the 1630s, none of these crises had fundamentally shifted the West off its path of liberal economic development. Markets crash, and markets recover.

But this resilience of financial institutions and of individuals transacting within them is not the only factor to worry about. The other side of the equation is how governments respond to market panics and crashes. As Julie Novak points out in this issue, the financial crisis is exposing weaknesses in governments' policy settings across the board, and bringing old ideological biases out of the political basement.

The risk is that, in its eagerness to respond to the crisis as forcefully and politically popular as possible, the government will subsidise, or regulate, or tax, or redistribute in a way that makes the recovery slower, or fundamentally redirects the economy off a path whereby individuals look to their own self-interest.

As Andrew B. Wilson writes in his article '5 Myths of Great Depression', also in this issue of the *IPA Review*, there is good reason to believe that the Roosevelt administration's New Deal did much to prevent the economy from recovering as it otherwise would have.

It seems indicative that while we don't know whether Australia has yet gone into formal recession—although it seems highly likely—and unemployment is still at historical lows, the federal government has immediately plunged itself into a massive deficit.

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