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Elmus Wicker. *The Banking Panics of the Great Depression.* New York: Cambridge University Press, 1996. xvii + 174 pp. $80.00 (cloth), ISBN 978-0-521-56261-4.

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Banking and the Great Depression: New Findings but Still No Consensus

The Great Depression is the enduring puzzle of American economic history. This event, which ushered in the New Deal, seems to have permanently altered the role of the government in the economy and the economic ideology of the electorate. Because the workings of the economy are so complex and because the Great Depression was such an extraordinary and unique event, it has defied easy analysis. There is no consensus among American economic historians about the causes of the Great Depression.

One leading interpretation is found in Milton Friedman and Anna Schwartz, *The Great Contraction* (Princeton, 1965). They conclude that "monetary forces were the primary cause of the Great Depression." They argue that a series of banking panics from late 1930 to early 1933 caused the money supply to shrink at a rapid, unprecedented rate which caused the economy to collapse. They place considerable blame on the Federal Reserve (the central bank of the United States) and contend that "throughout the contractionary period of the Great Depression, the Federal Reserve had ample powers to cut short the process of monetary deflation and banking collapse. Proper action would have eased the severity of the contraction and very likely would have brought it to an end at a much earlier date" (p. xi). Another leading interpretation rejects much of this line of reasoning and argues that the banking failures were a symptom, not a cause, of the depression. The most notable proponent of this argument, Peter Temin (*Did Monetary Forces Cause the Great Depression?*, New York, 1976), maintains that "a fall in autonomous spending, particularly investment, is the primary explanation for the onset of the Great Depression" (p. 137).

Recent work on the Great Depression has turned away from looking, as Friedman and Schwartz did, at aggregate national statistics. In *The Banking Panics of the Great Depression*, Elmus Wicker (Emeritus Professor of Economics, Indiana University) shows the power of this more microeconomic approach. After briefly surveying the banking situation in the United States from 1921 to 1933, Wicker builds a careful historical narrative of each of the five banking panics of the Great Depression. He makes a detailed analysis of the geographical spread of each panic, using the Federal Reserve District-level data for much of his empirical work, but also turning to newspapers to identify the cities in which banks failed, the day-to-day events in each panic, and the names of failing banks. Unfortunately, neither the Federal Reserve data nor the newspaper accounts are as informative as one would like. "Because newspaper editors were conscious of their responsibilities not to exacerbate banking disturbances," Wicker writes, "their description of what was happening was held to a not very informative minimum" (p. xvii). Wicker does all he can to reconstruct events, but concludes that "some significant details" are still missing and will never be found.

Wicker presents a substantial amount of information in fifty tables and figures. His analysis of the data is always careful, and his interpretations are cautious. The result is a number of important findings. First, Wicker identifies a new banking panic (June 1932, centered in Chicago) that earlier scholars had overlooked. Second, he shows that the first four of the panics were not nationwide in scope, but concentrated in one or a few areas. Third, he finds that the banking panics of the Great Depression were unlike those from the period before the Federal Reserve (the Fed) was established in 1914. Earlier banking panics had started in New York City and spread to the rest of the country. During the Depression, panics began in a number of locations but never spread to Wall Street, where interests rates and the stock market barely reacted. Next, Wicker shows that most of the banking panics of the Depression do not fit the common descriptions of indiscriminate runs on banks by depositors whose confidence in the entire banking system has been shattered. Runs were generally directed

against particular banks that were known to be weak. Large, secure banks had little to worry about. In addition, Wicker shows how idiosyncratic the final, devastating run (February and March, 1933) was. He argues that this panic was actually a panic among politicians (especially state governors and legislators who shut down banks, declaring a "bank holiday") rather than among depositors.

In 1994, I surveyed members of the Economic History Association asking them to "generally agree," "agree–but with provisos," or "generally disagree" with forty propositions concerning American economic history (see Robert Whaples, "Where Is There Consensus among American Economic Historians? The Results of a Survey on Forty Propositions," *Journal of Economic History*, Vol. 55, March 1995). The answers showed considerable consensus on a wide variety of topics, including the costs of the Navigation Acts to colonial America, the profitability of slavery, and the role of the railroads in nineteenth century American economic growth. However, the survey demonstrated widespread disagreement about the causes of the Great Depression. Among economic historians in economics departments, 48 percent agreed with Friedman and Schwartz's contention that monetary forces were the primary cause of the Great Depression. The other half (actually 52 percent) disagreed. Slightly more (61 percent) agreed with Temin that a fall in spending is the primary explanation for the onset of the depression. Yet, quite a few (39 percent) generally disagreed with this theory. Finally, 32 percent generally agreed that the Fed had ample power to cut short the banking collapses and terminate the depression at an early date. The largest group (43 percent), "agreed-but with provisos" with this proposition, while 25 percent generally disagreed with it. With the publication of Wicker's book, how will these numbers change? How will *The Banking Panics of the Great Depression* alter the collective wisdom of the profession about the causes and nature of the Great Depression?

The answer is that Wicker's book won't tip the balance much one way or another. For example, Wicker concludes that the first bank panic "generated by the failure of Caldwell and Company was an autonomous disturbance generated by questionable managerial and financial shenanigans" rather than being caused by the recession. Yet he also concludes that, "econometric evidence gives conflicting interpretations of the causal role of bank failures," so "the jury is still out" (p. 160). Likewise, Wicker will not change too many minds about the ability of the Fed to have terminated the downturn before it became the Great Depression. He thinks the Fed could and should have done a lot more, but is not as sanguine as many.

However, Wicker may change some minds about the culpability of the Fed in causing the Depression. Friedman and Schwartz argued that the Fed was not merely guilty of inaction (i.e. allowing banks to fail by doing little to stop the bank panics) but that the Fed's perverse actions helped cause the Great Depression–when it increased its rate of interest to banks at a critical juncture in the banking panic of October 1931. Wicker deflates this argument by showing that this banking panic was well underway and nearing an end before the Fed's actions. Moreover, Wicker praises the Fed for keeping the panics from spreading to New York and for providing an elastic currency supply. He portrays a Fed that was puzzled why the provision of an elastic supply of currency alone was not sufficient to halt banking panics and which never understood how to restore depositor confidence in the banking system and undo the hoarding of money outside of banks. His Fed is perplexed and timid, rather than bumbling. Yet, like Friedman and Schwartz, he damns the Fed for "abdicating" its responsibility for maintaining the stability of this U.S. banking system. The Fed did not exercise leadership and did not take seriously its responsibility as a lender of last resort to banks on the brink of failure; instead it allowed this important function to fall into (or through) less capable hands.

Wicker's book is the product of decades of rumination on the causes of the Great Depression and the nature of American banking during this era. It is a valuable addition.

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