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Mark Wheeler, ed. *The Economics of the Great Depression*. Kalamazoo, Mi.: W.E. Upjohn Institute for Employment Research, 1998. iii + 213 pp. \$17.00 (paper), ISBN 978-0-88099-191-9; \$35.00 (cloth), ISBN 978-0-88099-192-6.

Reviewed by Elmus Wicker (Department of Economics, Indiana University)
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The Great Depression of the 1930s remains perhaps the most enduring economic enigma of the twentieth century despite the voluminous literature it has generated.

There have been two general approaches to the study of the Great Depression: as a specific country phenomenon and as a global event. Friedman and Schwartz (1965) preferred the former and concentrated on the U.S. Charles Kindleberger (1973) and, more recently, Barry Eichengreen (1992) have preferred the latter.

The occasion for this book was a series of six lectures given during the academic year 1996-97 at Western Michigan University. The editor boasts that these essays take a fresh approach to the study of the Great Depression, but it is not always easy to detect wherein that "freshness" resides.

Four of the six papers continue the specific country approach: Robert Margo reexamines the U.S. labor market in the 30s; James Fackler constructs and tests a macroeconomic model of the U.S. for the 1921-37 period, and Michael Bernstein attempts to revive a version of the economic maturity hypothesis popular in the post World War II period. David Wheelock links events in the Great Depression to the inflation bias of the Fed and the ultimate collapse of the Bretton Woods international monetary arrangements. Carol Heim's essay is the only paper specifically global in scope. It examines the incidence of the Great Depression in the U.S., the U.K. and in some less developed economies including Latin America, India, China, and Japan.

If the Great Depression was a global event, it rarely has received systemic and extensive treatment across continents. We know more about what happened in

the U.S. and Europe than we do about what happened in Japan, China, India and Africa. Carol Heim has performed yeoman service by drawing our attention the differential impact of the Great Depression across continents, among nations and among industries within individual countries. Heim begins by contrasting the depression's impact on the U.S. and the U.K. Great Britain, unlike the U.S., suffered from an industrial malaise during 1920s. The Great Depression simply exacerbated the situation. Still, some industries continued to grow while others declined, but labor failed to move away from the depressed areas. In the U.S., the South managed to improve its relative, if not its absolute, position partly as a consequence of labor migration and the effects of the New Deal.

Heim breaks new ground when she describes the impact of the Great Depression on the less developed countries. Japan continued to grow, while China does not seem to have been affected. Heim attributes the moderate effects of the Great Depression on the less developed countries to the "delinking" of domestic currency from the international economy. Resources were shifted from the export to domestic industries, thereby stimulating economic development. This is an interesting hypothesis which needs to be worked out more fully than what was possible in a short lecture. The Great Depression as a stimulus to economic growth in the less developed countries is a "fresh" and provocative idea.

The other five papers treat the Great Depression as a specific country event. James Fackler constructs an econometric model of the U.S. economy for the period 1921-37. It is a variant of the standard aggregate demand/aggregate supply with IS and LM underpinnings. His purpose is to attempt to differentiate between alternative propagation mechanisms. He identifies three:

a decline in the money stock (Friedman and Schwartz), autonomous changes in consumption (Temin), and the debt-deflation or credit view (Fisher and Bernanke). Fackler recognizes the they may not be mutually exclusive. It is doubtful how much we have learned from this exercise. Alternative propagation mechanisms can not be ruled out. The “best,” he surmises, appears to be a shock to the IS curve whose source, however, can not be identified!

Robert Margo’s paper is more modest in its aspirations but, nevertheless, makes two “fresh” contributions to the behavior of the labor market during the Great Depression. He presents new evidence about the labor participation rate of wives of husbands on WPA projects and the effects of the Great Depression on income distribution. Using microeconomic data, Margo refutes the “added worker effect” hypothesis—that other family members have an incentive to seek employment when the head of household becomes unemployed. What he finds is that the WPA inhibited the wives of husbands on WPA from seeking a job. Even if wages were relatively low on WPA projects, they were still better than what married women could earn. Margo’s conclusion that WPA work was essentially full time and excluded job search is consistent with the Lucas-Rapping (1972) model of the Great Depression where the labor market is presumably in continuous short-term equilibrium.

Margo also questions the conventional wisdom that the Great Depression helped to produce a more egalitarian distribution of income. This did not happen because earnings differentials widened between skilled and unskilled workers—the decline in hours worked was greater among the unskilled. By 1939, however, the differential had returned to what it had been in the late 1920s. Instead, a substantial decline in the inequality of wages occurred between 1940 and 1950.

The papers of Wheelock and Cecchetti are less concerned with the causes of the Great Depression than with its legacies. Wheelock maintains that institutional change spawned by the Great Depression imparted an inflationary bias to monetary policy and completely undermined any lasting commitment to the gold standard which led inevitably to the rejection of the Bretton Woods agreement in 1971. He concludes correctly that the Fed’s commitment to the full gold standard was weakened by gold sterilization in the twenties, the priority of domestic stabilization objectives, a reluctance to raise rates in 1931, and the final abandonment of gold temporarily in 1933. It was not the Great Depression

that weakened the U.S. commitment to the gold standard but the realization when “push comes to shove” exchange rate rigidity must be subservient to domestic stabilization objectives.

Cecchetti derives three lessons of the Great Depression for current policy: the central bank’s function as lender of last resort is of primary importance, deflation is extremely costly, and the gold standard is very dangerous! One lesson that we should have learned, but which Cecchetti omits, is that the initial structure of the Federal Reserve (as embodied in the original Federal Reserve Act) was faulty. All banks were not required to become members, thereby excluding those banks that later were in most need of Federal Reserve support. A faulty Federal Reserve Act and not inept management was the primary cause of the Fed not having done more.

Bernstein eschews the relatively short-run view of the Great Depression. He prefers an explanation couched in terms of secular changes in technology and shrinkage of investment outlets that bears a strong resemblance to the older theories of Kalecki, Schumpeter, and Hansen. The key is to be found in the concept of industrial maturity which he derives from the work of the Austrian economist Joseph Steindl (1976). In the Steindl version, there were long-run tendencies toward capital accumulation in capitalist development which led to diminished competition and investment. Bernstein acknowledges that Steindl’s explanation does not have the unequivocal support of the historical evidence.

There is no simple interpretation of the Great Depression to which these six essays point. Nor do they make any pretense at summarizing the state of the art. They represent a combination of singular efforts to come to terms with specific problems. Some are more successful than others.

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