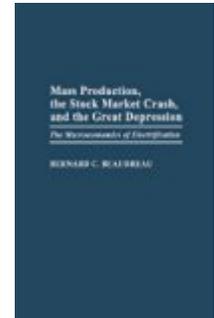




**Bernard C. Beaudreau.** *Mass Production, the Stock Market Crash, and the Great Depression: The Macroeconomics of Electrification.* Westport: Greenwood Press, 1996. xx + 182 pp. \$59.95, cloth, ISBN 978-0-313-29920-9.



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Beaudreau asserts boldly on the first page of his book that his purpose is to "provide a definitive account of the Great Depression and the events leading up to this cataclysmic event" (p. xv). At least he didn't claim to have written "the" definitive account. In fact, this is a highly idiosyncratic treatment that explores a number of events of the 'teens, 20s, and 30s. There is much that is outrageous, along with occasional insights that warrant further study. The fundamental argument is that productivity-enhancing structural changes in industry in the 1920s set the stage for the events that were to follow. The treatment of the period thus fits within the basic approach economic historians such as Michael Bernstein (*The Great Depression: Delayed Recovery and Economic Change, 1929-1939*, Cambridge University Press, 1987) and, more recently, Rick Szostak (*Technological Innovation and the Great Depression*, Westview Press, 1995) have taken.

The chain of logic is clearly defined but long. The electrification of industry ("the most important process innovation in this century"), because it set the process in motion, is actually the villain

of the piece. The electrification of the assembly line in the 1920s (a process led by the Ford Motor Company) substantially raised productivity and led to an era of mass production. This brought conditions of "oversupply," initially hidden by labor hoarding. Eventually, aggregate income failed to keep pace with productivity, not because profits rose substantially, but because wages failed to rise. By 1928 Senator Reed Smoot, with the support of Hoover, proposed restricting access to the U.S. market by raising tariffs. The prospect of passage of the tariff bill in 1928 set off the speculative stock market boom. The failure of the bill in the Senate the following year precipitated the stock market crash. Planned investment then was cut drastically, setting off the decline in income and the Great Depression. The National Industrial Recovery Act was the only policy response that had a chance of reversing the process, but this experiment in cooperative behavior aided by government was cut short by the Supreme Court. This is all laid out in the introduction. Twelve chapters, each of them short, then attempt to either flesh

out the bare bones of the logic, or offer asides on some aspect of the historical process.

Because the chain of logic is long, it can be attacked at numerous points. Take, for example, the monocausal view of the course of the stock market. In two chapters and an appendix, Beaudreau links the prospects of the tariff bill as reported in the press to stock market activity. A correlation can be established, but the causality is obscure, relying heavily on an indirect link to planned business investment. One important aspect of the event that is not mentioned is the fact that industrial stocks actually rose much less than public utility stocks, especially stocks of public utility holding companies, a sector not much affected by the prospective tariff. In the end the correlation is not sufficient to prove the point.

The book contains some interesting chapters. In one, a game-theoretic model is used to show how an economy may get stuck in a low-growth equilibrium in the presence of a productivity-enhancing technological shock. It carries some heavy assumptions, the critical one being that firms will not raise wages in response to the shock (without some third-party intervention). It is conceivable that such a process had a role to play in bringing on the depression.

This book is not a definitive account of the events surrounding the Great Depression. The basic approach of exploring structural changes as the root cause of the depression is, however, a worthy endeavor. Perhaps if the author had been more modest in his claims, my reaction would not have been as critical.

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