

## Economics 450

### Senior Seminar: The Great Depression

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Office Hours: T-Th 1:30 – 3:00pm; W 11:00am – 12:00pm and by appointment

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T-Th 10:10 – 11:40 am

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With the US economy stuck in its worst recession since at least the early 1980s, and with the onset of that recession emerging from problems in the financial markets, this is an ideal time to try to come to grips with the most important US economic event of the 20<sup>th</sup> century: the Great Depression. What started as a fairly severe recession in 1929 quickly devolved into the worst economic disaster in American history. For over a decade, unemployment remained in double digits, with three years over 20%, and peaking at close to 25% in 1933. Industrial production plummeted, people saw their life savings decimated as over a third of US banks failed in the late 20s and early 30s, and the economy did not get back to its long term growth trend until sometime in the 1940s, depending on how one measures it. The images we hold in our heads from that era of soup lines, jobless men searching vainly for work, and mothers and children trying to figure out how to survive, perhaps best captured in *The Grapes of Wrath*, have not lost their power more than 75 years later. Milton Friedman once said that central bankers and other policy makers are always “trying not to make their last mistake.” He then added that “the last mistake will always be the Great Depression.” We have seen this in our own time in the way in which the Fed and Congress have reacted in the last two years.

For all of these reasons, and many others, there has never been a better time to gain an understanding of this transformative event. Aside from the profound impact the Great Depression had on the people who lived through it, it also decisively influenced both the institutional configuration of the US economy and the ideological beliefs of generations of Americans. It also changed economics: there was no real “macroeconomics” as we now understand it before the Great Depression. In our work this semester, we will explore the events of the Great Depression in great detail, but our overriding goal is to understand the big picture: What caused the Great Depression to start? What caused it to be so deep? What made it last so long? And, perhaps most important, how do we avoid a recurrence? Exploring the institutional and ideological residues of the Great Depression will be an ongoing theme.

Our “muse” will be what we will call the four-part “high school history” version of the Great Depression: “Laissez-faire capitalism caused the stock market crash, Herbert Hoover believed in laissez-faire and he and the rest of the federal government on his watch did nothing while the economy collapsed, FDR and the New Deal saved us from disaster, and World War II finally pulled us out of the Depression completely.” Our readings this semester will critically assess all four of the components of that story and, in so doing, offer economic-historical evidence that challenges each part of the “high school history” narrative. The result, I hope, is that a better understanding of the Great Depression will better inform our understanding of the current crisis.

In addition to several readings posted on Angel, there are four required books for the course: Milton Friedman and Anna Schwartz's *The Great Contraction*, Murray Rothbard's *America's Great Depression*, Gene Smiley's *Rethinking the Great Depression*, and Amity Shlaes' *The Forgotten Man*. In addition, you will be expected to keep on top of current events related to the US economy. In order to see the relevance of the Great Depression for the current recession, you need to be conversant with both the economic facts and what people are saying about them. Daily visits to CNN.com or another major news site would be sufficient and reading, either on paper or online, a really good newspaper like the *New York Times*, the *Wall Street Journal*, or *The Washington Post* would be very helpful as well.

## ASSIGNMENTS AND GRADES

The centerpiece of your work this semester will be a **research project** on a topic of your choosing that relates to the Great Depression. The final product will be a paper of approximately 20 pages, but you will also be required to do graded preliminary work on the paper (e.g., an annotated bibliography, an outline, a full draft) as well as some ungraded but required pieces. The project in total will be worth 40% of your grade, with the different pieces of the project counting for different portions of that 40% total. An additional 15% will come from you presenting that work and commenting on the paper of another student in an end-of-the-semester **Symposium on the Great Depression**. I will provide more details about the research project and the symposium in separate handouts.

The other 45% of your grade will come from three components. Each of you will be required to be our **discussion leader** for one day of class this semester. After the first couple of weeks, none of the readings are especially complicated theoretically or empirically, and each of you will be required to prepare a class day where you are leading our discussion. This is not a "lecture." It is you guiding us through a discussion of the day's reading. It will count for 10% of your grade. Each of you will also be required to keep an **interactive electronic journal** for the course. In each half of the semester you will turn in, via an emailed Word file, 4 entries in this journal, for a total of 8 for the semester. I will engage your entries in dialogue in the Word document and return it to you for the next entry. This journal will count for 20% of your grade. More information about these assignments will be in separate handouts.

Class participation and attendance will count for the remaining 15%. It should go without saying that in a senior seminar, the expectation is that you all will be the driving force of what happens in the class from day to day. I do not plan to spend the semester lecturing at you – we will engage in discussions and you are expected to participate. For those of you who are quieter in class, you should make sure you are here every day and contribute at least something, and then make exceptional use of the electronic journal to demonstrate your engagement with the course.

Even though I have taught this course once before, I can't guarantee that we'll stick exactly to the schedule below. Your interest and the quality of our discussions may make minor changes necessary. I reserve the right to make those changes at any time I deem necessary. I will inform you of those changes in multiple ways as promptly as possible, but it remains your responsibility to be aware of them.

## Tentative Schedule

Topic	Reading
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<b>INTRODUCTION (2 classes)</b>	
Th 8/26:	Introduction/syllabus/ “The High School History of the Great Depression” Cargill and Mayer (1998)
Tu 8/31:	Overview of events of GD and review of money and banking and labor economics Smiley (1); Hughes and Cain (2007: ch. 24)

We'll start with a brief discussion of our “muse” for the semester: what I have termed the “high school history” version of the Great Depression. We'll then do a quick once-over of the events of the Great Depression then take some time to review some key bits of money and banking and labor economics to make sure that we are all on the same page with those theoretical tools.

<b>MONETARY EQUILIBRIUM THEORY (2 classes)</b>	
Th 9/2:	Inflation, Deflation and the Austrian Theory of the Business Cycle Horwitz (1996); Rothbard (1)
Tu 9/7:	Capital-based Macroeconomics Garrison (2001); Rothbard (2-3)

To understand both the 1920s and then the great contraction of the early 1930s, we need another set of theoretical tools from monetary theory. We'll spend a couple of days looking at inflation and deflation as well as the so-called “Austrian” theory of the business cycle and the role that capital plays in that theory. This will serve as a foundation for the next two sections of the course.

**No class on Thursday September 9<sup>th</sup>**

<b>THE PRELUDE OF THE 1920s (2 classes)</b>	
Tu 9/14	Some basic economic data Hughes and Cain (2007: ch. 23); Shlaes (intro, 1, 2)
Th 9/16:	The lurking troubles Smiley (2); Rothbard (4-5)

Although the Great Depression is normally dated as beginning with the stock market crash in 1929, most economic historians believe you cannot understand that crash without paying some attention to what happened during the 1920s. After reviewing the US economy in general in the 1920s, we'll pay some specific attention to monetary issues, as they were, in many people's view, the source of the lurking troubles.

## 1929-33: FROM CRASH TO DEPRESSION (7 classes)

Tu 9/21:	The Great Contraction	F&S (preface, intro, pp. 11-91)
Th 9/23:	The Great Contraction	F&S (pp. 92-160)
Tu 9/28:	The Great Contraction	F&S (pp. 160-217)
Th 9/30:	The legacy of Hoover	Rothbard (7-9)
Tu 10/5:	<i>Library workshop on Economics and History databases</i>	
Th 10/7:	Troubles worsen	Shlaes (3-4); Rothbard (10-11)
Tu 10/12:	Massive unemployment	Vedder and Gallaway (1993); Rothbard (12)

The depths of the Great Depression were in the first four or five years, as the stock market crash and subsequent recession quickly spiralled downward into a very deep crisis. The last section tried to answer the question of what *started* the Great Depression and this one tries to answer the question of why it got so bad, so fast. We'll spend several days on Friedman and Schwartz's analysis of the Fed's actions, which, since its publication in the early 1960s, is now considered "the" answer to that question. As the Fed's mismanagement deepened the crisis, the Hoover administration responded very aggressively with activist government, contrary to the historical myth. We'll look at what Hoover did and we'll also see how it made an already bad situation significantly worse. The Vedder and Gallaway reading provides an excellent analysis of the rapidly rising unemployment rate that the mistakes of the Fed and Hoover combined to produce.

**Fall Break**

## 1933-35: FDR AND THE FIRST NEW DEAL (4 classes)

Tu 10/19:	FDR the Experimenter	Smiley (3); Shlaes (5)
Th 10/21:	FDR and Big Business	Shlaes (7)
Tu 10/26:	The NRA	Shlaes (8); Powell (2003)
Tu 11/2:	Regime uncertainty	Higgs (2006a); Horwitz (2009)

**No class on Thursday October 28<sup>th</sup>**

The New Deal is conventionally broken into two stages, with 1935-36 being the break between them. We'll start this section by looking at FDR's first 100 days and the variety of programs and other government activity it brought forth. We'll then turn to look more specifically at his relationship to the business community and the market economy in general. Perhaps the most ambitious attempt to reform the institutions of the market in his presidency was the National Industrial Recovery Act and the National Recovery Administration it created. The NRA was declared unconstitutional in 1935, effectively ending the first New Deal. We'll look at what the NRA tried to do and the story of its fate in the Supreme Court. The last part of this section will introduce the concept of "regime uncertainty" in order to help us understand why private investment remained low throughout the 30s, despite, or perhaps because of, the various "stimuli" of the New Deal.

### 1935-41: THE SECOND NEW DEAL AND THE RECESSION OF 1937-38 (3 classes)

Th 11/4:	Re-election and aborted recovery	Shlaes (9); Smiley (4)
Tu 11/9:	Re-election and aborted recovery	Shlaes (11-13)
Th 11/11:	Pushback against the New Deal	Shlaes (14-15)
Tu 11/16:	<i>In class workshop on papers and oral presentations</i>	

With other parts of the first New Deal declared unconstitutional, Roosevelt “turned left” in his re-election campaign of 1936, ratcheting up his anti-business and anti-market rhetoric. Not long after his second inauguration, just as the economy seemed to be recovering somewhat, 1937 and 38 brought about the “recession within the Depression,” leading many to feel we might never recover. We’ll explore some explanations for that recession and then see whether some people’s patience with FDR was beginning to wear thin.

### DID WORLD WAR II END THE GREAT DEPRESSION? (1 class)

Th 11/18:	WWII and the Great Depression	Higgs (2006b); Smiley (5)
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Of all the pieces of the high school history version of the Great Depression, the belief that World War II ended it seems the most widespread. Recent work by economic historians has challenged that argument and we’ll take a look at the story they tell and the evidence they provide for it. The belief that war, or preparation for it, is a cure for recessions or depressions is a dangerous one, given that the costs of war are usually greater than those of economic downturns. If the commonly held belief is wrong, what *did* get us out of the Great Depression and does any of this have any relevance for the current crisis?

Tu 11/30:	Individual conferences on research project
Th 12/2:	Individual conferences on research project

### THE GREAT DEPRESSION SYMPOSIUM

Tu 12/7:	Panel I
Th 12/9:	Panel II
M 12/13 6pm:	Panels III and IV

We’ll end the semester with a symposium where each of you will have a chance to present your research and comment on the research of one of your colleagues.

#### Grading breakdown:

Electronic journal (2 x 10%)	20%
Discussion leader	10%
Class participation/attendance	15%
Symposium presentation	15%

<u>Research Project:</u>	<u>40%</u>
Annotated bibliography	10%
Full draft	20%
Final draft	10%

## BIBLIOGRAPHY

### Books:

Friedman, Milton and Anna Schwartz. 2008. *The Great Contraction: 1929-1933*, Princeton: Princeton University Press.

Rothbard, Murray. 1963. *America's Great Depression*, Auburn, AL: Mises Institute.

Shlaes, Amity. 2007. *The Forgotten Man: A New History of the Great Depression*, New York: Harper Collins.

Smiley, Gene. 2002. *Rethinking the Great Depression*, Chicago: Ivan R. Dee.

### Articles:

Cargill, Thomas and Thomas Mayer. 1998. "The Great Depression and History Textbooks," *The History Teacher* 31: pp. 441-458.

Garrison, Roger. 2001. *Time and Money: The Macroeconomics of Capital Structure*, New York: Routledge. [chapter 4]

Higgs, Robert. 2006a. "Regime Uncertainty: Why the Great Depression Lasted So Long and Why Prosperity Resumed after the War," in *Depression, War, and Cold War: Studies in Political Economy*, Oxford: Oxford University Press.

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Horwitz, Steven. 1996. "Capital Theory, Inflation, and Deflation: The Austrians and Monetary Disequilibrium Theory Compared," *Journal of the History of Economic Thought*, 18, pp. 287-308.

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Hughes, Jonathan and Louis P. Cain. 2007. *American Economic History*, 7<sup>th</sup> edition, Boston: Pearson/AddisonWesley. [chapters 23, 24]

Powell, Jim. 2003. *FDR's Folly: How Roosevelt and His New Deal Prolonged the Great Depression*, New York: Three Rivers Press. [chapter 9]

Vedder, Richard K. and Lowell E. Gallaway. 1993. *Out of Work: Unemployment and Government in Twentieth-Century America*, New York: Holmes and Meier. [chapter 5]