

Lessons from the Great Depression
POLI SCI 695 : Proseminar: Topics in Political Science
Tuesdays, 4:30-6:30, Granger 1140

Dr. Margaret Peters
Department of Political Science
201A North Hall
Email: mepeters3@wisc.edu

Office Hours
Tuesdays 1:30PM-3:30PM
and by appointment

Overview

This is an upper level undergraduate class geared towards students interested in the political economy of the Great Depression and the Great Recession. The goal of the class is to explore the causes of both crises, the different policy reactions and the lasting lessons of the Great Depression for today. In this class, we examine why policymakers chose the economic policies they did and what effect these policies had on their own economies and the world economy. The class will focus on the role of the US and its politics, but will compare the US to many other countries. Finally, the class will examine what lessons we can learn from the Great Depression that are applicable to the Great Recession and other economic recessions.

The class is organized to some extent in chronological order and to some extent by topic. The first few weeks examine the 19th century era of globalization, the settlement of World War I and how the crisis begins. Then we examine different facets of the crises and the responses to the crisis. Towards the end of class we examine whether the Great Depression led to the rise of the Nazi Party in Germany, what effects the rise of the Third Reich have on policy today and what lessons we can apply to the reactions of some countries to become more autocratic today. Finally, we conclude by examining the lessons of the Great Depression for policymakers today.

Requirements

- Class participation (20%)
 - There are few assignments. Therefore, I expect that you will have done all the reading and listened to the podcasts prior to class. Further, I expect everyone will be engaged in class discussion. Simply showing up for class will only earn you a C.
- Class presentation/ Midterm paper (40%; 20% presentation, 20% paper)
 - Each student will choose one week to present on. That week, the student will lead discussion. Students should prepare a Powerpoint presentation discussing the key points from each reading and then prepare discussion questions for the class. As part of the presentation, students should find one or more current news item that the theories from the week apply to. For example, if a student was presenting on the week about the Gold Standard, they might also present on some recent topic on the Eurozone crisis. The

student should explain how the weeks reading apply; which best explain the current situation and what is left unexplained.

- Further, each student will write a 4-5 page (double-spaced, 12pt, 1in margins) paper critically reviewing that week's reading and podcasts. The paper should summarize (briefly) each reading and podcast, evaluate the argument, and compare them.
- Final paper (40%)
 - The final paper is an 8-10 page policy paper (double-spaced, 12pt, 1in margins). Each student should choose a country from among US, Spain, Italy, Greece, Great Britain and Germany and write a policy paper on what that country should do to fix its economy. What is the most important problem affecting the economy? Lack of demand? Structural impediments to employment? Foreign factors? In the case of the Eurozone countries, should they stay in the Euro? What policy/ies should the country adopt to lead to growth? Who are the winners and losers from this choice? Use examples from the Great Depression and from other modern cases to guide your argument.

Students with disabilities

People with disabilities will be fully included in this course. Please inform me if you need any special accommodations in the curriculum, instruction, or assessments of this course to enable you to participate fully. Confidentiality of the shared information will be strictly maintained. Certain accommodations may require the assistance of the McBurney Disability Office on campus. The McBurney Disability Resource Center can be reached at [\(608\) 263-2741](tel:6082632741) or via email at mcburney@odos.wisc.edu.

Readings

The readings from this class are from both books and articles. Books should be available for purchase at the various local bookstores and, of course, from online retailers like Amazon. A copy of the books will be held on reserve at the library as well if you do not wish to purchase the books. Further, some readings are available as e-resources and will be on the Learn@UW website. E-resources are marked with an asterisk (*). Additionally, there will be links to all the podcasts on the Learn@ site.

- Required
 - Rauchway *The Great Depression and the New Deal: A Very Short Introduction*
 - Eichengreen, *Golden Fetters*
 - Krugman, *End this Depression Now*
- Recommended
 - Frieden, *Global Capitalism*
 - Smiley *Rethinking the Great Depression*
 - Kindleberger *The World in Depression*
 - Fox Piven and Cloward *Regulating the Poor*
 - Epping, *A Beginner's Guide to the World Economy*

- Johnson “Financial Crisis for Beginners”
<http://baselinescenario.com/financial-crisis-for-beginners/>

Other readings/ podcasts of interest (not required):

- Simon Johnson’s blog <http://baselinescenario.com/> market
- Ezra Klein’s Wonkbook at the Washington Post (<http://www.washingtonpost.com/blogs/ezra-klein/>): A good aggregator of today’s political and economic news.
- Paul Krugman’s blog (<http://krugman.blogs.nytimes.com/>)
- Brad DeLong’s blog(<http://delong.typepad.com/>)
- NPR’s Planet Money Podcast
- Marketplace Podcast
- Project Syndicate (<http://www.project-syndicate.org/>)

Week 1: Introduction and Key Concepts/ Theories You Need to Know

This week introduces the history of the Great Depression as well as some key concepts/ theories that you will need to know to understand the rest of the class, including the Trilemma, Gresham’s Law, Competitive Devaluation and the Ricardo-Viner and Stolper-Samuelson theories of trade.

Readings:

- Rauchway, *The Great Depression and the New Deal: A Very Short Introduction*
- Krugman, *End this Depression Now*, Introduction and ch. 1

Podcasts:

- Planet Money: “We’ve Been Here Before”

Week 2: The 19th Century Global Economic Order

This week examines what the economic order was in the 19th century and into the 20th century prior to World War I. The ideas about what happened during this century and how the economy was managed greatly influenced policymakers after World War I and into the Great Depression. It was their notion of what the economy should ideally look like. Without understanding what historical notions states took from the 19th century, we cannot understand why they reacted as they did.

Readings:

- *Frieden *Global Capitalism*, Ch. Prologue, 1 & 2
- Eichengreen *Golden Fetters*, Ch. 2

Week 3: The Settlement of World War I & the Roaring ‘20s Compared to the 1990s-2000s

Keynes argues that the settlement of World War I led to the Great Depression. What was the settlement and how might it have led to the Great Depression? Were the ‘20s Roaring? If so, for whom and why? This class also examines some of the factors that led to up the recent crisis.

Readings:

- *Frieden *Global Capitalism*, Ch. 6
- Eichengreen *Golden Fetters*, Ch. 3
- *Evans *The Coming of the Third Reich* "Descent into Chaos"

Podcasts:

- Planet Money: "Deep Read: Let them Eat Credit,"
- TAL: "The Giant Pool of Money"

Week 4: The Crises That Started the Great Depression and the Great Recession

What sparked these crises? What were the immediate shocks to the system? How similar were the beginnings of the crises?

Readings:

- *Frieden *Global Capitalism*, Ch. 8 p. 173-188
- *Friedman and Schwartz *The Great Contraction 1929-1933*, Ch. 1
- Eichengreen *Golden Fetters*, Ch. 8
- *Smiley *Rethinking the Great Depression*, Ch. 2, p. 31-58
- *Romer "The Great Crash and the Onset of the Great Depression"
- Krugman *End this Depression Now* ch. 3

Podcasts

- TAL: "Another Frightening Show about the Economy"
- Planet Money: "What Is Deleveraging"

Week 5: Banking Failures

Why do banking failures cause so many problems? What should be done about them? Should we worry about moral hazard?

Readings:

- *Friedman and Schwartz *The Great Contraction 1929-1933*, Ch. 3
- Krugman *End this Depression Now* ch. 4, p. 54-63 & ch. 7, p. 109-116

Podcasts:

- TAL: "Bad Bank"
- Planet Money: "How Spain Created A Banking Monster," "Three ways to Stop A Bank Run," "A New Mom, Bjork's Dad and the President of Iceland"

Week 6: What can Central Banks do?

What did the Fed do wrong in the Great Depression? What have central banks learned since then? What should they do now?

Readings:

- *Friedman and Schwartz *The Great Contraction 1929-1933*, Ch. 5-7

- *Bernanke and Mihov “Deflation and Monetary Contraction in the Great Depression: An Analysis by Simple Ratios”
- *Keynes *A Tract on Monetary Reform*, Preface, 3.1, 4, 5.2

Podcasts:

- TAL: “The Invention of Money”
- Planet Money: “How Europe Saved Itself. For Now,” “Japan’s Lost Lesson,” “Are Central Bankers to Blame” “A Time to Be Reckless”

Week 7: Leaving Gold and Staying in the Euro

Why was the Gold Standard so pernicious? Which states left the Gold Standard and why? What were the effects of leaving Gold? Did competitive devaluations make things worse or better? What does this say about the Euro Zone?

Readings:

- *Kindleberger *The World in Depression 1929-1939*, Ch. 11
- Eichengreen, *Golden Fetters*, Ch. 9 & 10
- *Bernanke and James, “The Gold Standard, and Financial Crisis in the Great Depression: An International Comparison.”
- *Eichengreen and Temin “Fetters of gold and paper”
- Krugman *End This Depression Now* ch 10

Podcasts:

- Planet Money “How to Kill a Currency,” “Should Iceland Kill the Krona,” “The Gold Standard” “Gold Standard, RIP”
- TAL: “Continental Breakup”

Week 8: Regulating Financial Markets

What were the regulations prior to the Great Depression? What regulations were created in the wake of the Great Depression? What were the regulations before the Great Recession? What is Dodd-Frank?

Readings:

- *Landis “Legislative History of the Securities Act of 1933”
- *Kroszner and Rajan “Is the Glass-Steagall Act Justified? A Study of the U.S. Experience with Universal Banking Before 1933”
- *Barth, Brumbaugh, and Wilcox “Policy Watch: The Repeal of Glass-Steagall and the Advent of Broad Banking”
- Krugman *End this Depression Now* ch. 4, p. 63-69 & 5

Podcasts:

- TAL: “The Watchmen”
- Planet Money: “Can We Create Banks We Love?,” “What the Finance Bill Doesn’t Tell us?” “Is the Joyride on Wall Street Really Over,” “The Pros and Cons of Financial Innovation,” “Crisis, Regulate, Repeat”

Week 9: Is Austerity the Answer?

Does austerity work? Why is it such a prominent idea?

Readings:

- *Smiley *Rethinking the Great Depression*, Ch. 4 & Ch. 5
- *Keynes "The Macmillan Committee," "Letter to MacDonald 5 August 1931"
- Krugman *End this Depression Now* ch. 8, 9 & 11

Podcasts:

- TAL: "What Kind of Country"
- Planet Money: "What if We Paid Off the Debt?," "Discipline and Forgiveness"

Week 10: Keynes

Who was John Maynard Keynes? What were his revolutionary ideas? Did they work?

Readings:

- *Keynes *General Theory*, Ch. 18, 19, 21, 24 "The Means to Prosperity," "Proposals relating to domestic monetary policy to meet the present emergency," "How to Avoid A Slump,"
- *Morrison TBD
- Krugman, *End this Depression Now* ch. 2, 6 & Postscript

Podcasts

- Planet Money: "Keynes vs. Hayek,"

Week 11: Was Roosevelt a Keynesian? Is Obama?

Roosevelt takes office in 1933 at the height of the Great Depression. What does Roosevelt do? Was he a Keynesian? Did it work? How about Obama and the stimulus? Was it too small?

Readings:

- *Kindleberger *The World in Depression 1929-1939*, Ch. 10 & 12,
- *Frieden *Global Capitalism*, Ch. 9 & 10
- *Gourevitch "Breaking with orthodoxy: The Politics of Economic Policy Responses to the Depression of the 1930s"
- Krugman *End this Depression Now*, ch. 7, p. 116-238
- *Slate piece on new, new deal

Podcasts:

- Planet Money "If FDR had done Nothing," "The Great Stimulus Experiment" "China's Big Stimulus"

Week 12: Creating A Social Welfare Program in the US

What were the various programs created in the US to help the poor? Who was covered and who was left out? How did US programs vary from programs in other nations? What

lessons does the creation of Social Security have for “Obamacare?” And what does it say about our social welfare system today?

Readings:

- Fox Piven and Cloward *Regulating the Poor*, ch 1-3
- *Lynch & Gollust “Playing Fair: Fairness Beliefs and Health Policy Preferences in the United States
- *Bruch, Marx, and Soss “From Policy to Polity: Democracy, Paternalism and the Incorporation of the Disadvantaged Citizens”

Week 13: The Global Trading Regime Falls Apart & Gets Rebuilt

Why and how does the global trading regime fall apart? How does this affect the Depression? Why did the US pass the RTAA in 1934? What were its effects? What is its legacy?

Readings:

- *Eichengreen “The Political Economy of the Smoot-Hawley Tariff”
- *Eichengreen and Irwin “The Slide to Protectionism in the Great Depression: Who Succumbed and Why?”
- *Irwin “From Smoot-Hawley to Reciprocal Trade Agreements: Changing the Course of US Trade Policy in the 1930s.”
- *Bailey, Goldstein & Weingast “The Institutional Roots of American Trade Policy”
- *Hiscox “The Magic Bullet? The RTAA, institutional reform, and trade liberalization”

Week 14: Did the Great Depression Cause World War II? The Case of Germany and the turn to the Right

In what ways did the Great Depression lead to the rise of the Nazi party and World War II? What is the legacy of German Hyperinflation for today? What lessons do we learn about authoritarianism?

Readings

- Eichengreen, *Golden Fetters*, Ch. 5
- *Evans *The Coming of the Third Reich* “The Great Inflation,” “The Great Depression,” “The Crisis of Democracy,” “The Victory of Violence,” “Fateful Decisions”
- *Jung “Germany in the Era of Hyperinflation”
- *Shepplesle – Blog Posts on Hungary on Krugman’s blog

Podcasts

- Planet Money “The ghost that Haunts Europe’s Debt Crisis”

Week 15: What did Cause the Great Depression; what got us out of it; and what will help us get out of the Great Recession?

In sum, what are the different arguments about what caused the Great Depression and how we got out of it? What will get us out of the Great Recession?

Readings:

- *Kindleberger *The World in Depression 1929-1939*, Ch. 14
- Eichengreen *Golden Fetters*, Ch. 1
- *Abnunia et al. "Lessons from the Great Depression"
- Krugman *End this Depression Now*, ch. 12 & 13

Podcasts

- Planet Money: "The Moral of The Financial Crisis"