

Announcements

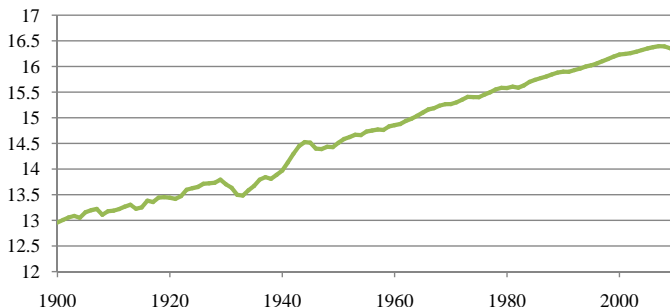
- Final exam is on Wednesday, May 2nd from 2pm to 3:30pm (note the 1.5 hour length)
- The final exam is not cumulative (past material will come up only as it relates to new material)
- Exam covers everything from slavery to the end of the class
- Atack and Passell chapters: 7, 8, 9, 11, 12
- Required articles: Steckel (1986), Haines and Hacker (2011), Carter and Sutch (1999), Goldin (1998)
- Papers are due May 8th by 5pm and should be submitted electronically, see syllabus for penalties for turning it in late
- Office hours: Sunday, Monday and Tuesday 1pm to 4pm

The Great Depression



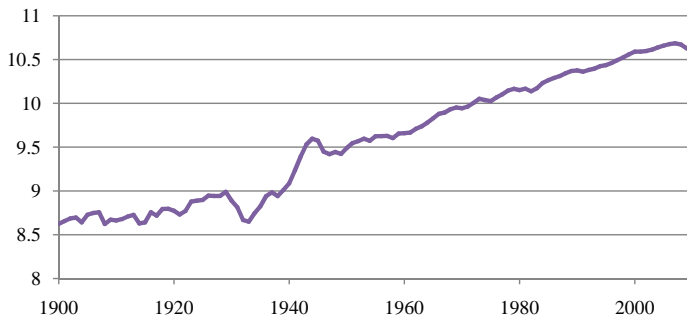
The Basics of the Great Depression

Log of real GDP, 1900-2010

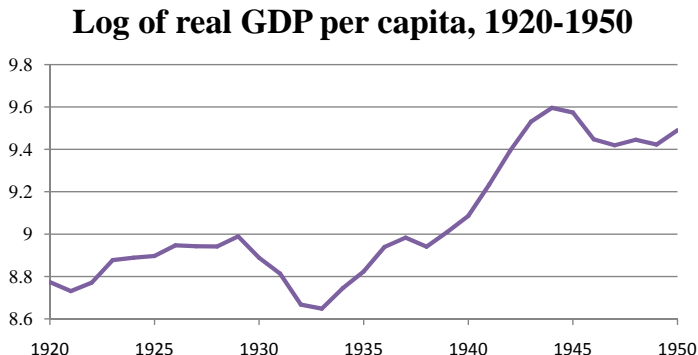


The Basics of the Great Depression

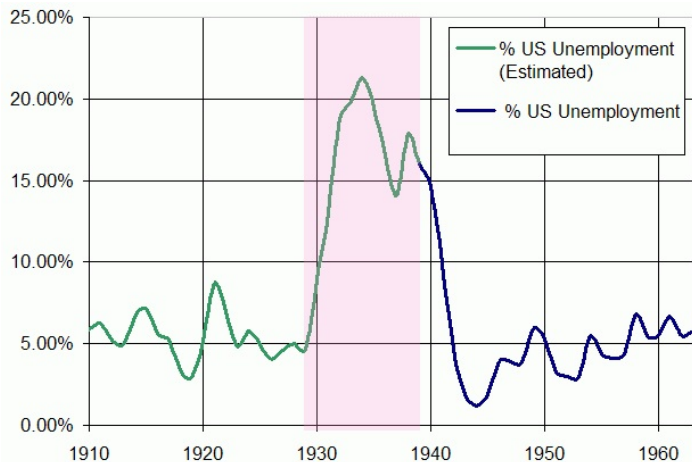
Log of real GDP per capita, 1900-2010



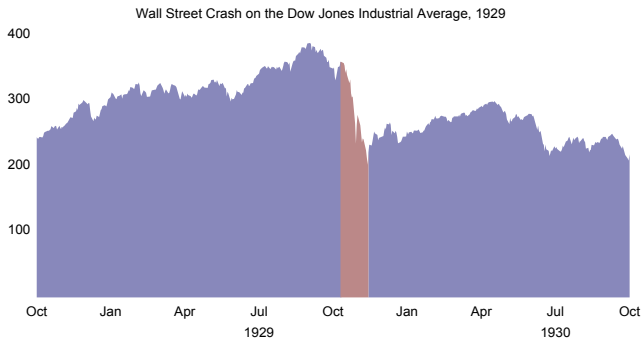
The Basics of the Great Depression



The Basics of the Great Depression



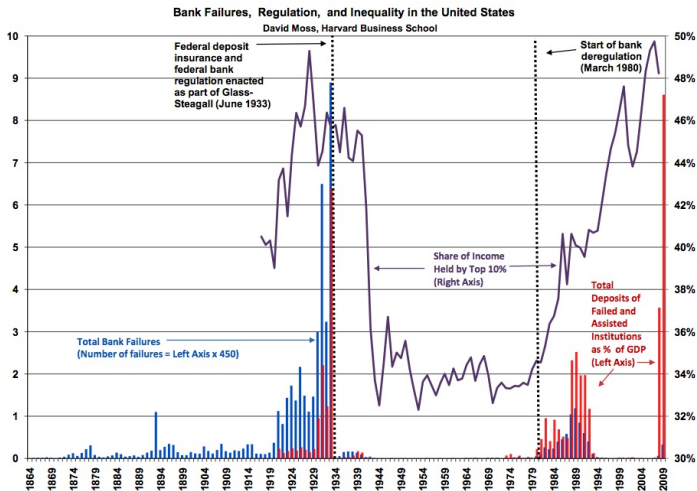
The Basics of the Great Depression



The Basics of the Great Depression



The Basics of the Great Depression



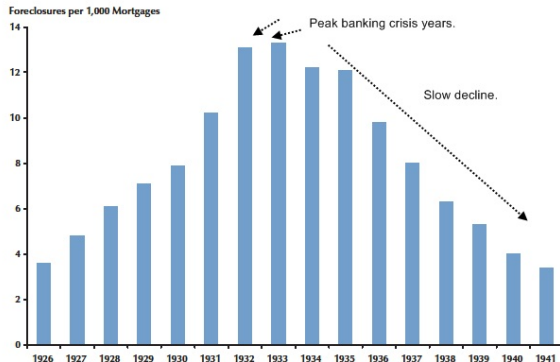
The Basics of the Great Depression



The Basics of the Great Depression

Figure 5

Nonfarm Real Estate Mortgage Foreclosure Rate, 1926-41



The Causes of the Great Depression

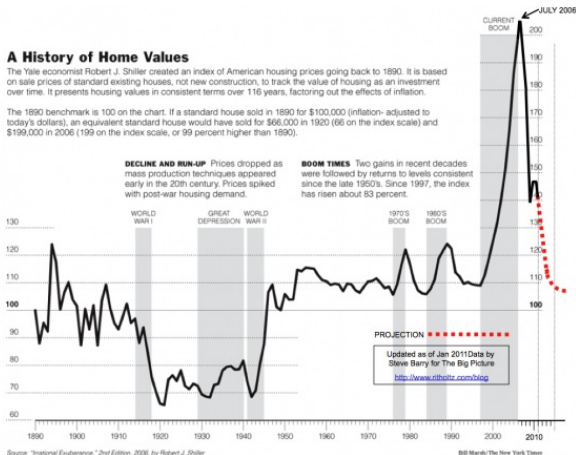
- The causes of the Great Depression have been a source of tremendous debate
- Explanations of the Depression can be categorized into aggregate demand stories and monetary stories
- Aggregate demand stories focus on reductions in consumption and investment spending (typically due to a loss of confidence)
- Monetary stories focus on the effects of bank failures, the Fed, gold flows, etc. on the money supply

Construction and Demand for Housing

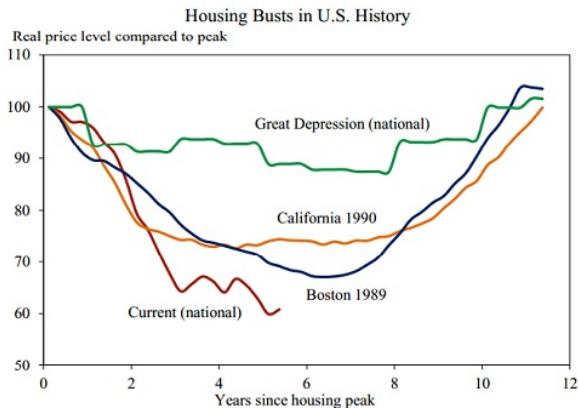
A History of Home Values

The Yale economist Robert J. Shiller created an index of American housing prices going back to 1890. It is based on sale prices of standard existing houses, not new construction, to track the value of housing as an investment over time. It presents housing values in consistent terms over 116 years, factoring out the effects of inflation.

The 1890 benchmark is 100 on the chart. If a standard house sold in 1890 for \$100,000 (inflation-adjusted to today's dollars), an equivalent standard house would have sold for \$66,000 in 1920 (66 on the index scale) and \$199,000 in 2006 (199 on the index scale, or 99 percent higher than 1890).



Construction and Demand for Housing



Consumer Spending



Ford Touring Car \$295

F. O. D. DETROIT
Standard and Recommended Sales 1919 Model

OF all the times of the year
when you need a Ford car,
that time is NOW!

Wherever you live—in town
or country—owning a Ford car
helps you to get the most out
of life.

Every day without a Ford means lost
hours of healthy motoring pleasure.

The Ford gives you unlimited chance
to get away into new surroundings
every day—a picnic supper or a cool
spin in the evening to enjoy the
countryside or a visit with friends.

These advantages make for greater
enjoyment of life—bring you rest and
relaxation at a cost so low that it
will surprise you.

By stimulating good health and effi-
ciency, owning a Ford increases your
earning power.

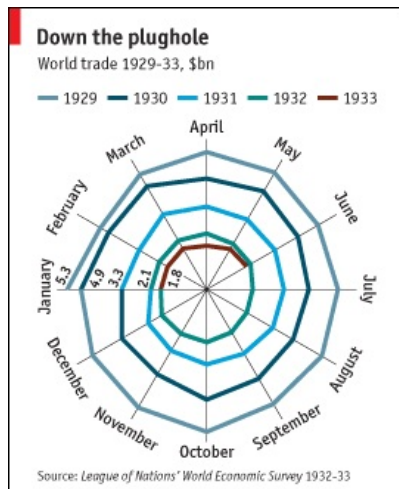
Buy your Ford now or start weekly
payments on it.



Tariffs and International Trade



Tariffs and International Trade



The Role of the Federal Reserve

Let me end my talk by abusing slightly my status as an official representative of the Federal Reserve. I would like to say to Milton and Anna: Regarding the Great Depression. You're right, we did it. We're very sorry. But thanks to you, we won't do it again.


—Ben Bernanke, 2002

The Role of the Federal Reserve

DECEMBER 24, 1913-SIXTEEN PAGES. PRICE TWO CENTS

PRESIDENT'S SIGNATURE ENACTS CURRENCY LAW

Wilson Declares It the First of Series of Constructive Acts to Aid Business.



PRESIDENT WOODROW WILSON

Makes Speech to Group of Democratic Leaders.

Conference Report Adopted in Senate by Vote of 43 to 25.

Banks All Over the Country Hasten to Enter Federal Reserve System.

Gov.-Elect Walsh Calls Passage of Bill A Fine Christmas Present.

WILSON SEES DAWN OF NEW ERA IN BUSINESS

aims to Make Prosperity Free to Have Unimpeded Momentum.

HOME VIEWS OF CURRENCY ACT

WASHINGTON, Dec. 23.—President Wilson signed the Glass-Steagall currency bill at 4 o'clock tonight (1st) after a session of members of his Cabinet. The Congressional Commission on Banking and Currency and Democratic leaders in Congress gave credit to the enactment of the Currency bill.

FOUR PENS USED BY PRESIDENT

WASHINGTON, Dec. 23.—President Wilson signed the Glass-Steagall currency bill at 4 o'clock tonight (1st) after a session of members of his Cabinet. The Congressional Commission on Banking and Currency and Democratic leaders in Congress gave credit to the enactment of the Currency bill.

With a few strokes of the pen, the President completed this law.

The Role of the Federal Reserve

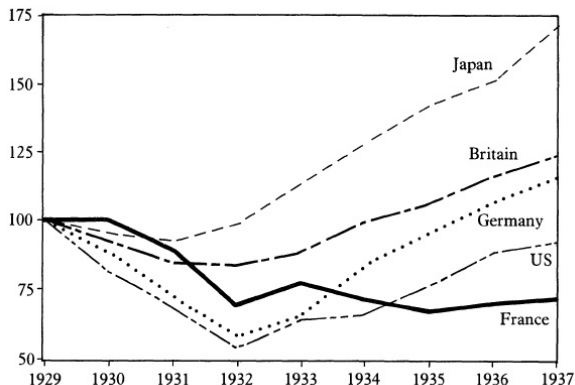


Benjamin Strong, 1872-1928

The Gold Standard and Prolonged Depression

Industrial production, 1929=100

Reproduced from Eichengreen, 'Origins', 1992.



Dates countries left gold standard: US - 1933, Britain - 1931, Japan - 1931, Germany - 1931, France - 1936

Recovery From the Great Depression

Liquidate labor, liquidate stocks, liquidate farmers, liquidate real estate it will purge the rottenness out of the system. High costs of living and high living will come down. People will work harder, live a more moral life. Values will be adjusted, and enterprising people will pick up from less competent people.

—Andrew Mellon, 1929

Recovery From the Great Depression

Narrowest and largest margins of victory in presidential elections

| Year | Candidates | Total votes changed | Votes needed to change per 100,000 voters | Rank (1=narrowest margin, 44=widest margin) |
|------|-----------------------------------|---------------------|---|---|
| 2000 | Bush-Gore | 269 | 5 | 1 |
| 1884 | Blaine-Cleveland | 575 | 49 | 2 |
| 1960 | Nixon-Kennedy | 11874 | 163 | 3 |
| 1968 | Nixon-Humphrey | 135284 | 174 | 4 |
| 1916 | Hughes-Wilson | 1887 | 189 | 5 |
| 1932 | Hoover-Roosevelt | 874643 | 5335 | 34 |
| 1856 | Fremont-Buchanan-Fillmore | 34363 | 5728 | 35 |
| 1984 | Reagan-Mondale | 2675811 | 6020 | 36 |
| 1904 | Roosevelt-Parker | 196679 | 6039 | 37 |
| 1956 | Eisenhower-Stevenson | 1124223 | 6054 | 38 |
| 1860 | Lincoln-Douglas-Breckinridge-Bell | 73984 | 6577 | 39 |
| 1964 | Goldwater-Johnson | 2058258 | 7987 | 40 |
| 1924 | Coolidge-Davis-Lafollette | 571783 | 8146 | 41 |
| 1972 | Nixon-McGovern | 3174786 | 8297 | 42 |
| 1920 | Harding-Cox | 596492 | 8580 | 43 |
| 1936 | Landon-Roosevelt | 1948318 | 10231 | 44 |

Recovery From the Great Depression

Throughout the nation men and women, forgotten in the political philosophy of the Government, look to us here for guidance and for more equitable opportunity to share in the distribution of national wealth... I pledge myself to a new deal for the American people. This is more than a political campaign. It is a call to arms.

–Franklin Roosevelt, 1932

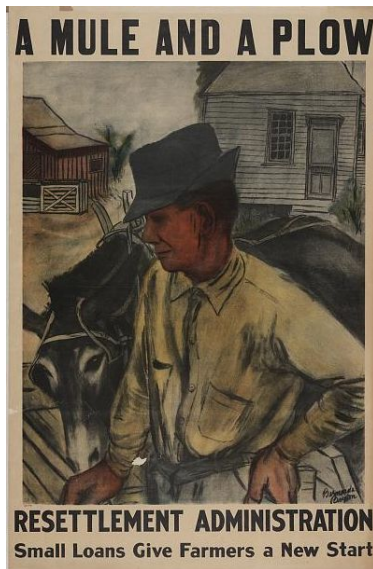
Elements of the New Deal

- The goals of the New Deal were the three R's: Relief, Recovery and Reform
- Bank holiday and the Emergency Banking Act
- Works Progress Administration
- Resettlement Administration, Rural Electrification Administration, Tennessee Valley Authority
- Agricultural Adjustment Act
- Repeal of Prohibition
- National Industrial Recovery Act, National Labor Relations Act
- Social Security Act
- United States Housing Authority

Public Works Administration Projects



Assistance to the Agricultural Sector



Assistance to the Agricultural Sector



Assistance to the Agricultural Sector



The Goals and Outcomes of New Deal Spending

New Deal Outlays per Capita, 1933-1939

| State | Allocation (\$) | Rank |
|--------------|-----------------|------|
| Nevada | 1499.39 | 1 |
| Montana | 986.3 | 2 |
| Wyoming | 896.91 | 3 |
| Arizona | 791.46 | 4 |
| Idaho | 744.15 | 5 |
| North Dakota | 707.84 | 6 |
| South Dakota | 701.61 | 7 |
| New Mexico | 689.76 | 8 |
| Utah | 569.49 | 9 |
| California | 538.1 | 10 |

The Goals and Outcomes of New Deal Spending

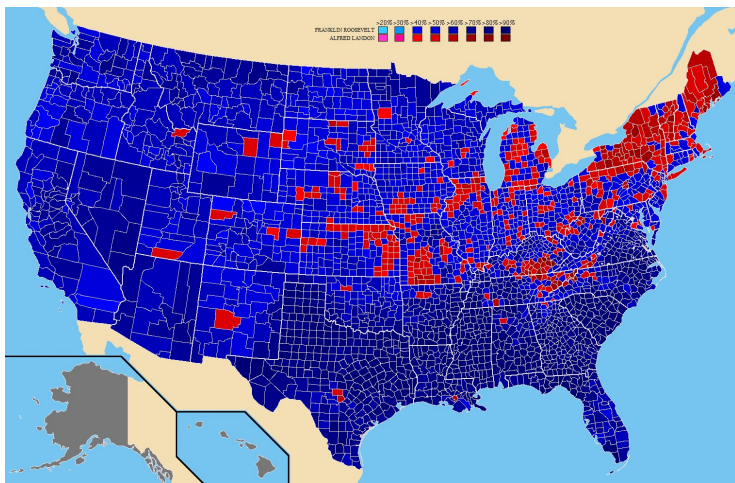
New Deal Outlays per Capita, 1933-1939

| State | Allocation (\$) | Rank |
|----------------|-----------------|------|
| South Carolina | 306.43 | 38 |
| Massachusetts | 286.26 | 39 |
| Georgia | 272.69 | 40 |
| West Virginia | 265.11 | 41 |
| Pennsylvania | 260.88 | 42 |
| Virginia | 254.91 | 43 |
| Kentucky | 251.04 | 44 |
| New Hampshire | 247.76 | 45 |
| Rhode Island | 246.56 | 56 |
| Connecticut | 236.92 | 57 |
| North Carolina | 227.55 | 48 |

The Goals and Outcomes of New Deal Spending

- Reading (1973) argues the goals of spending were first relief and recovery and then reform
- Relief and recovery: fix the immediate economic damage from business failure and unemployment
- Reform: low productivity, racial discrimination, wealth distribution, agricultural sector
- Reading finds that expenditures went to states with big drops in income and big unemployment
- Says this means dollars were committed to relief rather than reform
- Spending didn't match up with states with lowest per capita income, why?

The Goals and Outcomes of New Deal Spending



Consensus on the Great Depression

| Question | Agree | Agree with provisions | Disagree |
|---|-------|-----------------------|----------|
| <u>Economists</u> | | | |
| Monetary forces were the primary cause of the Great Depression. | 14 | 33 | 52 |
| <u>Historians</u> | | | |
| | 17 | 17 | 66 |

Consensus on the Great Depression

| Question | Agree | Agree with provisions | Disagree |
|--|-------|-------------------------|----------|
| 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. | 32 | <u>Economists</u> 43 | 25 |
| | | <u>Historians</u> 47 | 22 |

Consensus on the Great Depression

| Question | Agree | Agree with provisions | Disagree |
|---|-------|-----------------------|----------|
| <u>Economists</u> | | | |
| A fall in autonomous spending, particularly investment, is the primary explanation for the onset of the Great Depression. | 18 | 44 | 39 |
| <u>Historians</u> | | | |
| | 23 | 29 | 49 |

Consensus on the Great Depression

| Question | Agree | Agree with provisions | Disagree |
|--|-------|-----------------------|----------|
| | | <u>Economists</u> | |
| The passage of the Smoot-Hawley Tariff exacerbated the Great Depression. | 60 | 26 | 14 |
| | | <u>Historians</u> | |
| | 64 | 21 | 15 |

Consensus on the Great Depression

| Question | Agree | Agree with provisions | Disagree |
|---|-------|-----------------------|----------|
| <u>Economists</u> | | | |
| Taken as a whole, government policies of the New Deal served to lengthen and deepen the Great Depression. | 27 | 22 | 51 |
| <u>Historians</u> | | | |
| | 6 | 21 | 74 |