The Impact of the Great Depression of the 1930s and Its Relevance for the Contemporary World.

Review Author[s]:
J. Bradford DeLong

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Famine in Peasant Societies is a provocative book well worth reading for the questions it raises.

MICHELLE MCALPIN

The Impact of the Great Depression of the 1930s and Its Relevance for the Contemporary World. Edited by Ivan T. Berend and Knut Borchardt. Budapest: Karl Marx University of Economics, 1986. Pp. 562. $25.00.

This volume is a collection of essays written for the 1986 Bern meeting of the International Economic History Association. The essays cover a wide range of countries, as is natural with such a multinational authorship. I would, however, have been more pleased had the essays covered an even broader range of countries, for only three out of twenty-two essays deal with the world outside Europe and its overseas settlement colonies. The essays by Eugene White, Shri Prakash, and Ryszard Stemplowski and Menryk Szlajfer are welcome exceptions to the "European" (in the widest possible sense: including Australia and North America) focus of the rest of the volume.

As is almost inevitable for a book that is the byproduct of a conference, the volume does not make a satisfactory whole. As an overview of the Depression, it is no match for Charles Kindleberger's *World in Depression* (New York, 1973). The individual contributions are too uneven and too disparate in themes and concerns for the volume to find a secure place on bookshelves as a reference on what economic historians are thinking in the mid-1980s about the Great Depression. And the requirements of a conference paper place too great a straightjacket on individual authors' arguments; those essays I found most impressive, by White, D. H. Aldcroft, and Kindleberger, suffered most from being too short and too sketchy and definitely deserve treatment at much greater length (as Aldcroft and Kindleberger have given their topics).

Nevertheless some common themes emerge. There are currents of thought that cannot help but affect even widely separated authors writing independent essays. I wish to discuss one theme that emerges relatively often in the volume: economic historians' general retreat from the belief that there was a large gap between what governments could easily have done and what governments did do to ameliorate the Depression. I suspect that the emergence of "counterfactual pessimism"—of the belief that the political and economic constraints on governmental action were such that not much could have been done—has quite possibly led economic historians further away from a balanced view of the Great Depression and from indicating to noneconomic historians how the Great Depression might provide useful analogies for thinking about the economic problems of the world today.

Authors of the 1950s, 1960s, and 1970s like E. Cary Brown, Peter Temin, Milton Friedman, and Anna J. Schwartz are all certain that the Great Depression was an avoidable manmade economic disaster. The Depression need never have happened; having begun, the Depression could have been relatively rapidly cured by a bold application of the proper economic policies; and only the threefold failure of economic theory to understand the roots of the Depression, of economic education to make people aware of the enormous benefits of bold restorative policies, and of political will to take those steps that would have brought the Depression to a rapid end made it into the decade-long human disaster that it was.

By and large, the essays in this volume draw back sharply from this counterfactual optimism. Only Kindleberger, and perhaps Hugh Rockoff and Geofrey Mills, boldly prescribe counterfactual cures for the Depression. A few make no concessions whatsoever to the Keynesian orthodoxy that had seen the Depression as unnecessary.

The strongest statement comes in D. H. Aldcroft's closely argued and powerful essay, which: "deals . . . with the issue of getting back to full employment in the U.K. . . . following a lengthly period of heavy unemployment as in the 1930s and 1980s. . . . It seeks to demonstrate . . . that there is no quick and viable solution to unemployment through conventional Keynesian policies because of the constraints these policies would encounter. Because of these any strong fiscal thrust, while providing temporary relief to unemployment, would eventually be negated and at the expense of the long-term viability of the economy."

Aldcroft rests this conclusion on two principal arguments. The first is that expansionary fiscal policies would trigger financial panic: "the leverage which financial markets can exert over government policy means that budget deficits cannot be manipulated at will by governments bent on pursuing . . . full employment policy" without causing "exchange depreciation, inflation, capital flight" and so forth. The second is that expansionary policies cause only inflation as long as there is "real wage resistance." Aldcroft sees mass unemployment as principally caused by a collapse in profitability. In each of 1919-21, 1929-32, 1973-75, and 1979-82, he sees the origins of the recession in a rise in industry's real input costs. Wage-earners exercise "their power of real wage resistance . . . [and] pass on to capital . . . the loss arising from external shocks. . . . The resulting squeeze on profits . . . depresses the demand for labor and . . . investment. . . . The unwinding . . . occurs when real wage growth begins to moderate under the influence of labourglut [and] productivity improves through drastic labour shedding. . . . [P]rofits begin to recover and in time this has a favorable influence on investment and employment."

Déjà vu. These arguments are not new. They were made in the 1930s by Lionel Robbins and by Friedrich Von Hayek in support of their belief that to cure Depression unemployment by "artificially" stimulating the economy would be a cruel attempt at kindness. The "confidence" argument appears weak given findings like those of Barry Eichengreen and Jeffrey Sachs (December 1985) in this JOURNAL that those countries that devalued most in the 1930s suffered least from the Depression, and given the ability of the United States in the 1980s to act as fiscal locomotive for the world economy and take on an additional trillion dollars of government debt over five years without triggering renewed inflation or a collapse of confidence. The "real wage resistance" argument appears, to me at least, even less satisfactory. It seems to require that union leaders would make deliberate choices to sacrifice the livelihoods of some union members to increase the real wages of others, and this fits awkwardly with the fact that the establishment of a union is only possible with a large degree of mutual concern for each other's welfare on the part of union members.

In the case of the Depression of the 1930s, arguments that mass unemployment was unavoidable and could not be easily reduced without serious damage to the long-run growth prospects of the economy are moot. The necessity of fighting the Second World War took care of the unemployment problem in Britain and in North America. In the case of the 1980s, the problems of European economies are perhaps more complex. And it may be that Keynesian expansion (which has had very satisfactory effects on employment growth in the United States) would do less good than would some restructuring of the labor market to establish large incentives for job creation. But I cannot help but think that the emergence of "counterfactual pessimism" in the study of the 1930s is the result of a shadow cast by the problems of the 1980s. And I suspect that economic history is ill-served by projecting the pessimism of the 1980s back onto an earlier age in order to conclude that Keynes was wrong and that Hayek and Robbins were right after all.

J. BRADFORD DELONG, *Boston University*