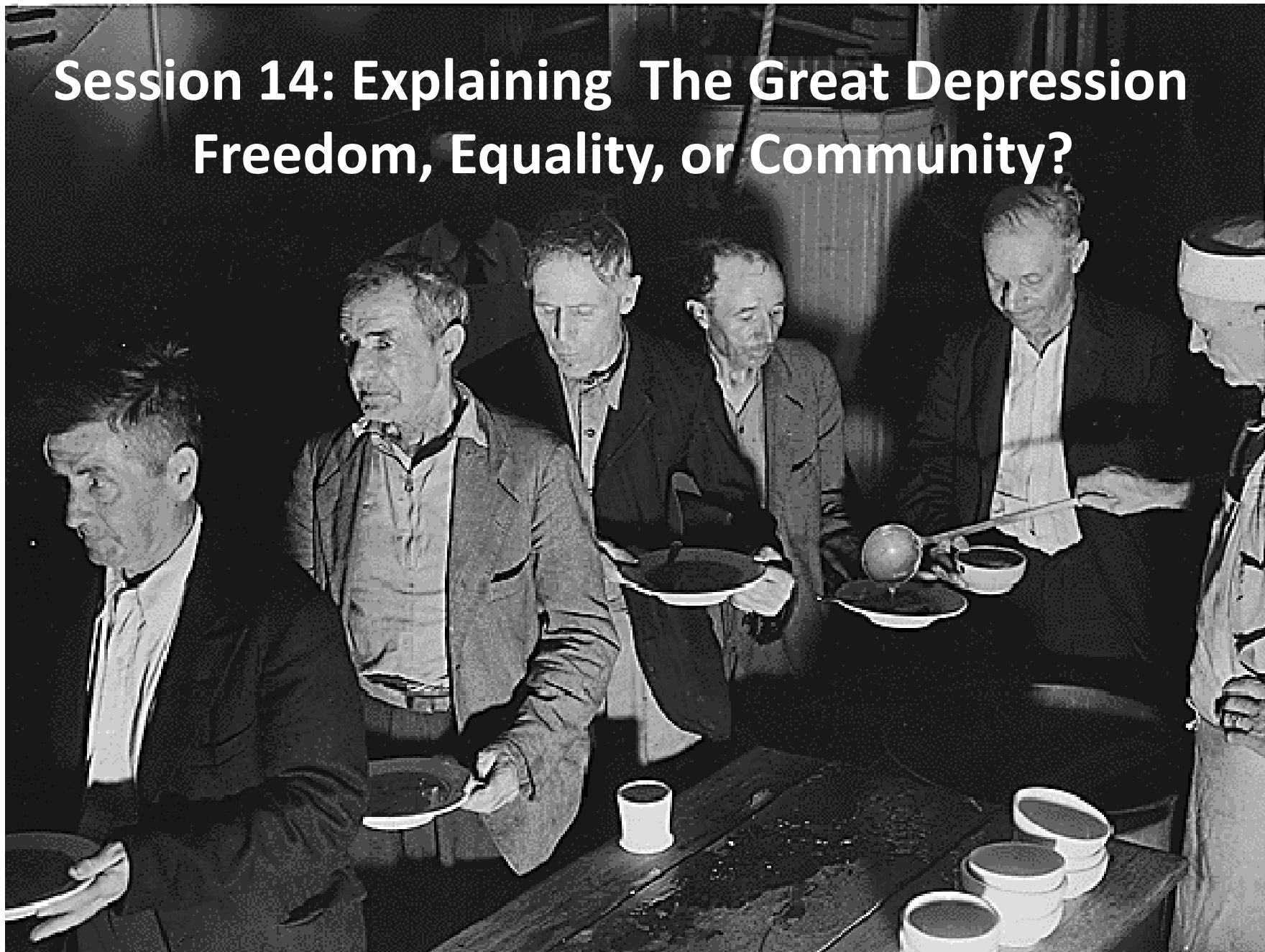


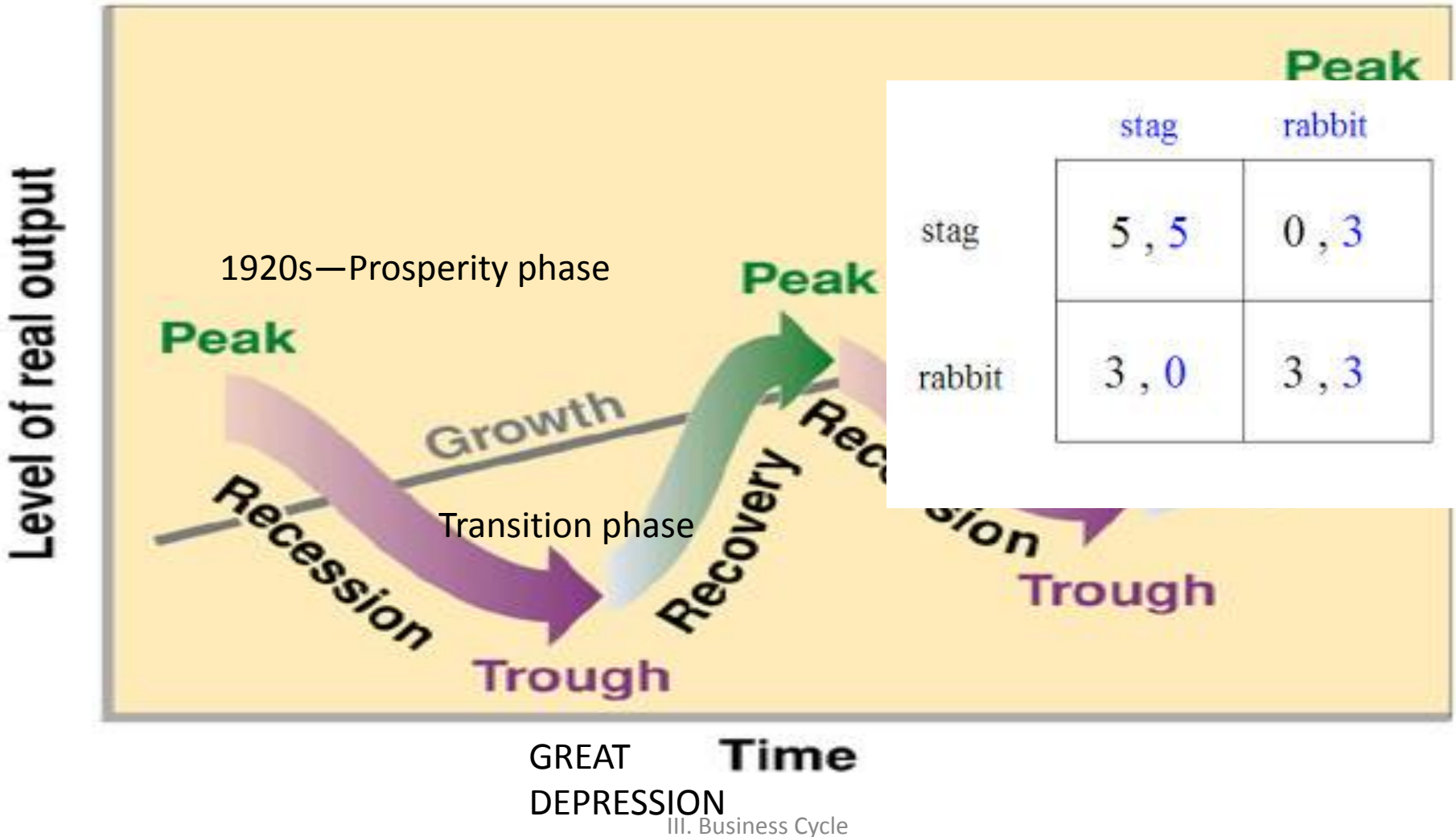
“buying stock on the margin” means

- A. making a down payment for the stock that you can't quite afford.
- B. buying a stock that may be suspicious—part of a pyramid scheme

Session 14: Explaining The Great Depression Freedom, Equality, or Community?



Liberal Explanation: Depression is the low point in The Business Cycle



Market solution to contraction: “purge rottenness out of the system”

- After the 1929 crash, Treasury Secretary Andrew Mellon advised the government to **cut spending to balance the budget**, and leave desperate banks, businesses, and families to fend for themselves because the market alone would "purge the rottenness out of the system."

The Prosperity Phase in the 1920s:

- The Liberal Dream comes true!



Consumerism

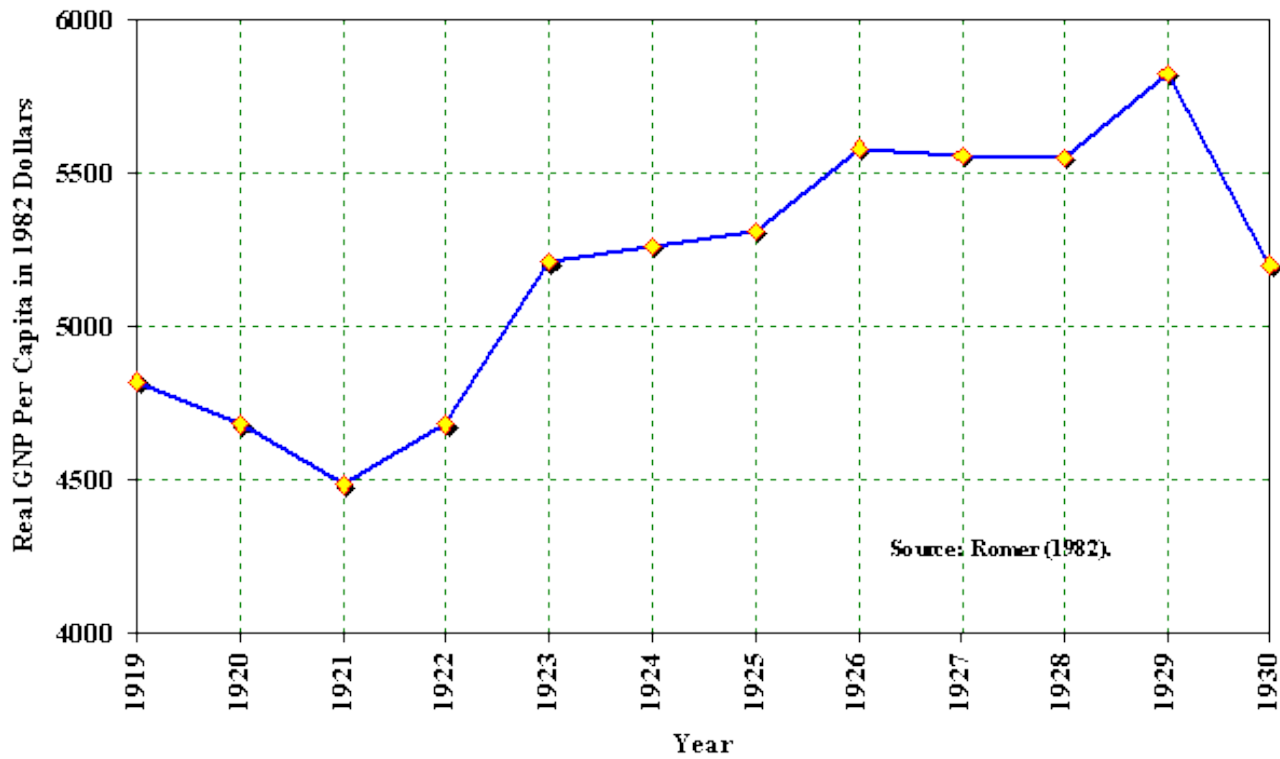
Advertising



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Economic Growth

Figure 1: Real GNP Per Capita, 1919-1930



The gold standard led to trade

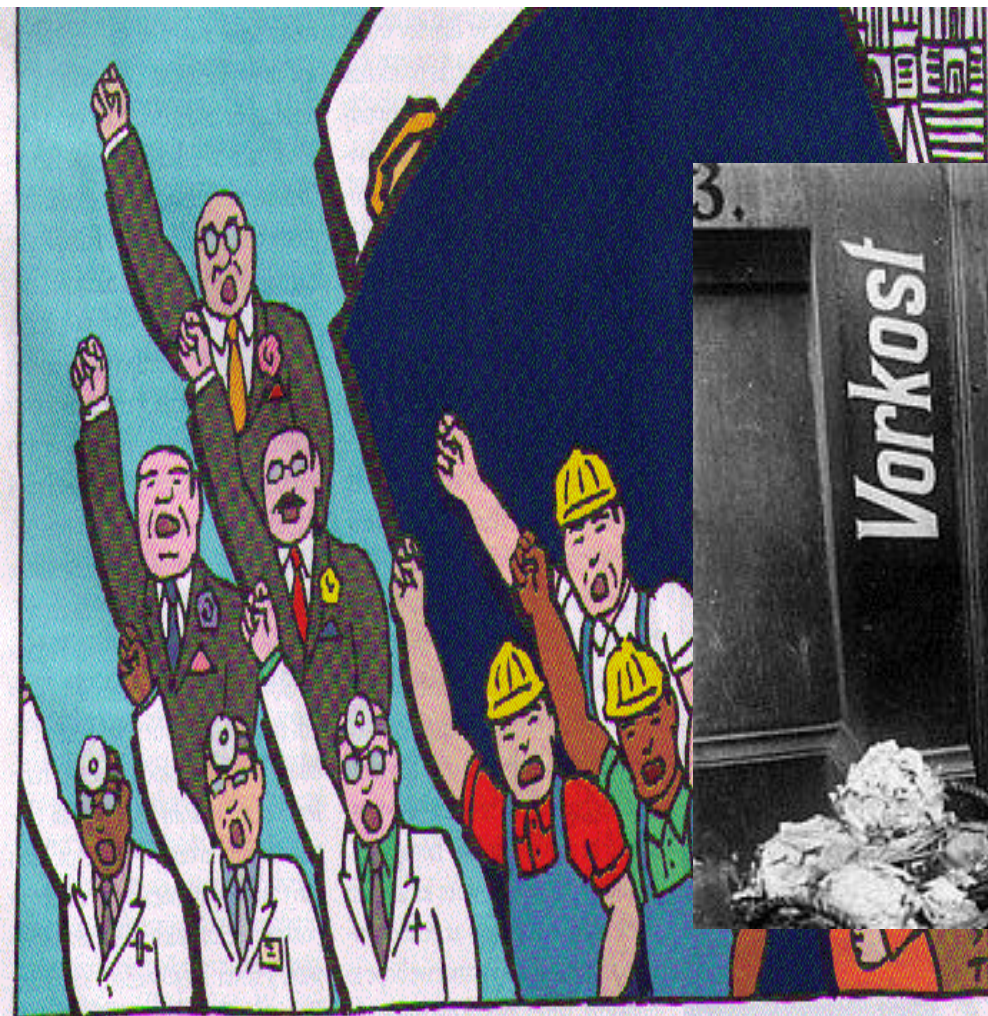
- The Gold standard
- Freely exchangeable currency
- Gold Standard led to fluid exchanges in trade
- Multilateralism in Trade
- Comparative Advantage was working
- The beginning of consumer credit
- Growth of banking sector



Britain as the world's creditor



But while all are thriving.....Germany failed the test of the Market-Democracy Link: Hyperinflation!



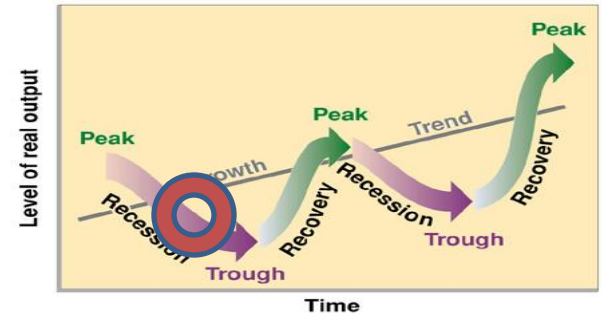
Pundits like Thomas Frank deplore the role of interest-group lobbying, but aren't we all part of some interest group or other?

Fictitious Commodity exposed!

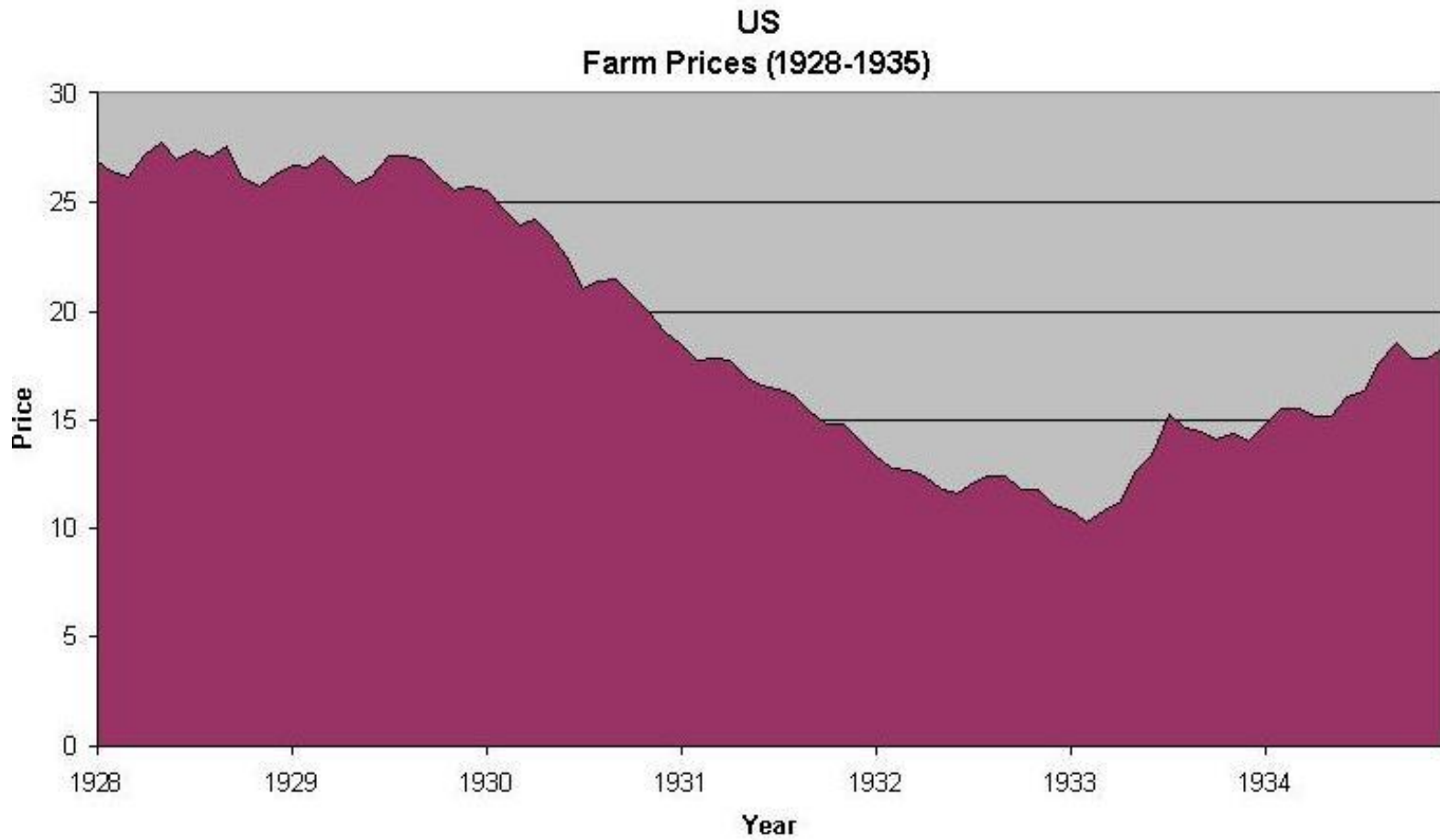


And there were also hidden problems in the U.S. . . . (transition phase)

- Wages lagged behind profits
- Fewer purchases
- So prices fell
- Especially commodity prices: Farmers couldn't pay debts
- And couldn't purchase goods
- Manufacturing began to lose jobs and profits...

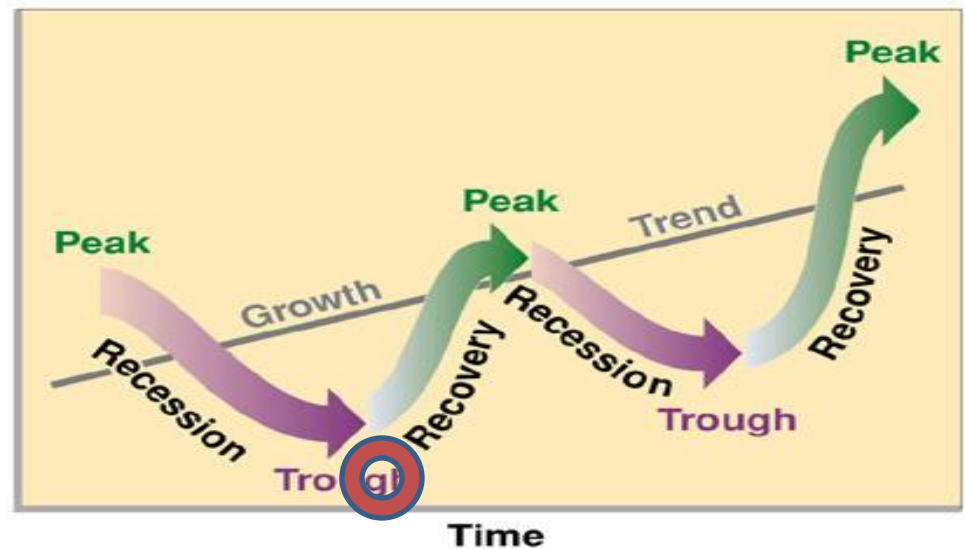
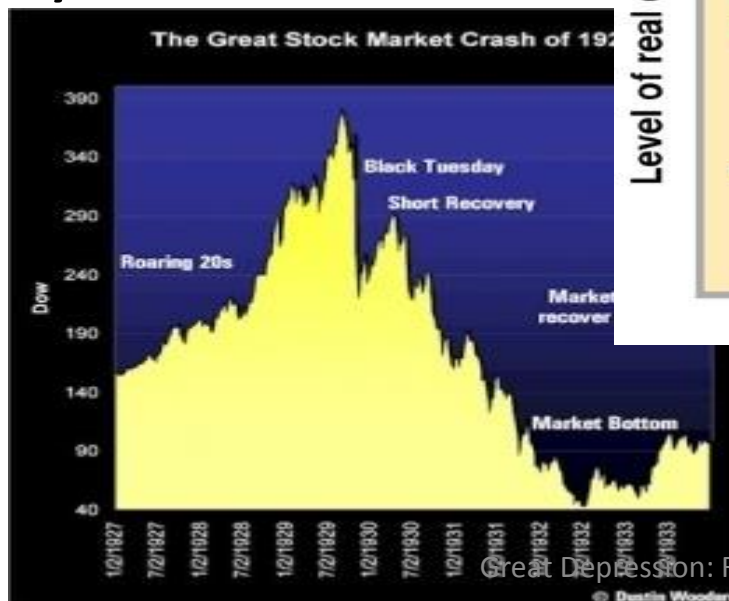


Agricultural Decline and Depression



The crash of 1929 and the spread of economic crisis

- World prices plunge
- World Trade falls
- Unemployment skyrockets





clinging to the gold standard makes things worse



The Silliest Show on Earth

What happens when you are in a balance of payments deficit and you are tied to the gold standard?

- What if a country's economy was declining and it began to import more than it exported. (balance of payments deficit)



1) Try to expand your exports (sell more so you can buy more)

–HOW? DECREASE YOUR CURRENCY VALUE BY LOWERING INTEREST RATES.....

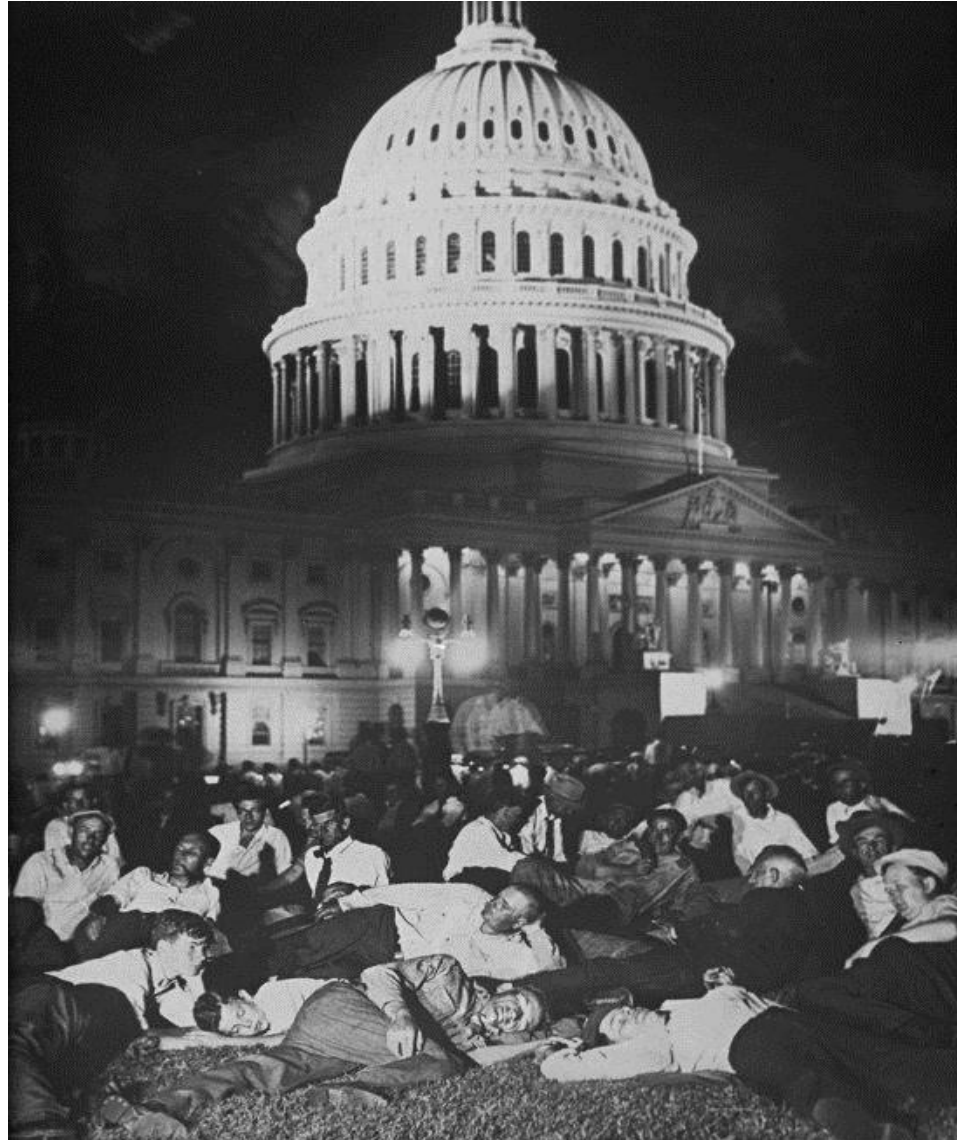
–But NO.....they couldn't do that. Why?

– **The currency value was fixed to the price of gold.**

2) Raise interest rates and deflate the economy even further.....

- Raise interest rates so that speculators wouldn't convert investments into gold.
- **This won't do either! Why?**

Protest



The Gold Standard left governments immobilized

- Why?
- What was the way out of immobilization while still clinging to the gold standard?
- Was the system really “self regulating?”
- Britain’s role

Depression took away Britain's ability to be the world's creditor



Without credit, governments would be toppled if they clung to the gold standard

- Their only choice was to deflate their economies and deflation was unacceptable....
- So they abandoned gold
- **And unmasked the unsustainability of the gold standard**

Leaving the Gold Standard Standard

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.



WILSON SEES DAWN OF NEW ERA IN BUSINESS

Aims to Make Prosperity Free to
Have Unimpeded Momentum.

Makes Speech to Group of
Democratic Leaders.

Conference Report Adopted in
Senate by Vote of 43 to 26.

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

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

HOME VIEWS OF FOUR PENS USED
CURRENCY ACT BY PRESIDENT

Currency values plunged....



Protectionism: Tariffs, quotas, and other trade barriers enacted



The world responds with economic nationalism



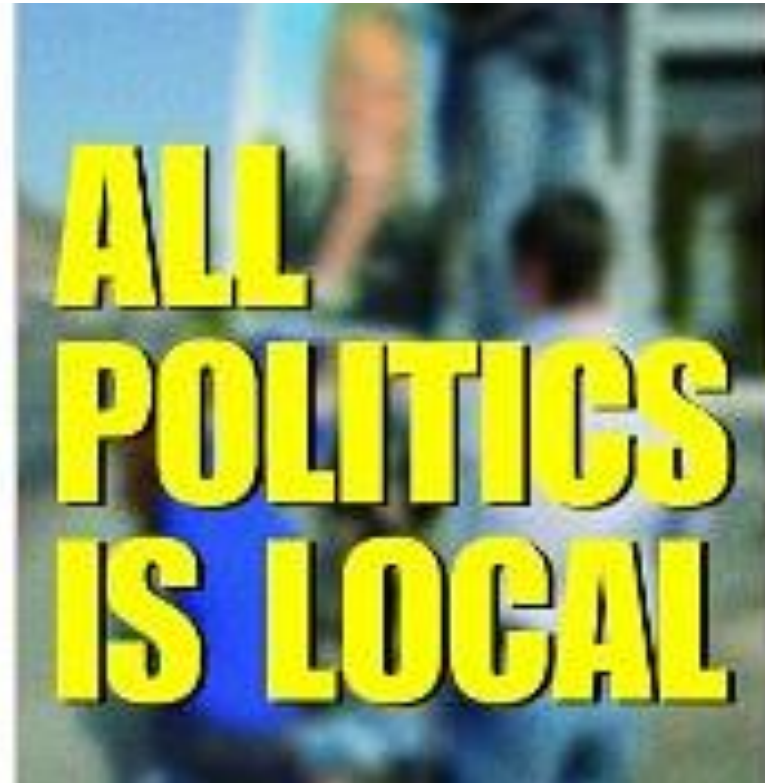
Trade stops, US economy declines even more



The Tendency toward Economic Nationalism

- **The Logic of Protectionism**
 - **Contradictions between needs of the domestic political economy and the International economy**
 - **Markets require national economies to be open for free trade to flourish**
 - **But markets fluctuate and can have negative effects on society**

Big contradiction between liberal international economy, state power, and stable political systems

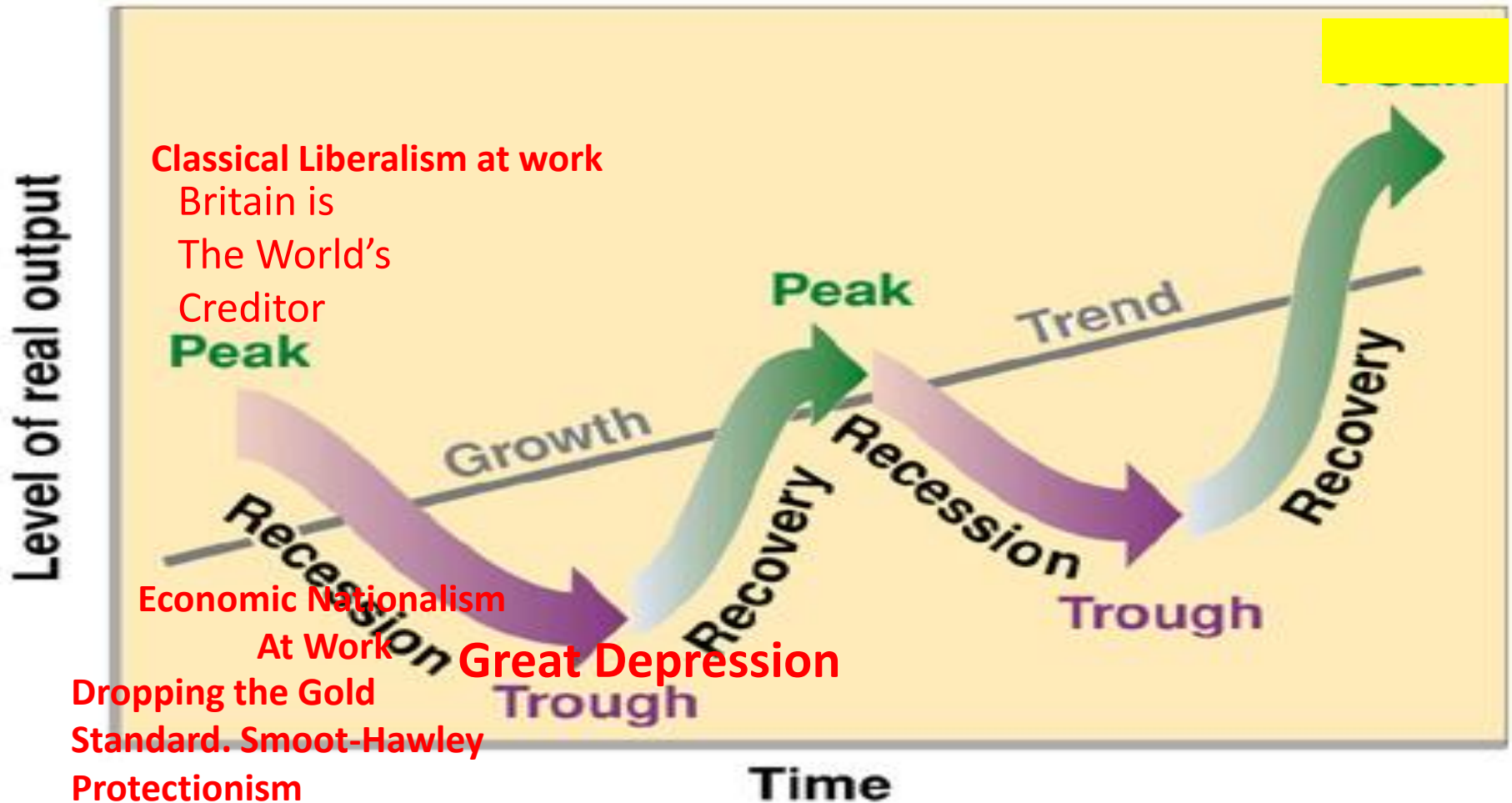


Tendency toward economic nationalism: explaining protectionism as a PD Game

	Cooperate (free trade)	Defect (protectionism)
cooperate	<p>5, 5</p> <p>Comparative advantage Growth for all, I keep my market open even with BOP deficits because I know things will get better</p>	<p>0,3</p> <p>I keep my market open but you close yours; I lose so eventually I will retaliate</p>
Defect (protectionism)	<p>3,0</p> <p>You keep your market open, I close mine, I win, you lose and eventually you retaliate</p>	<p>1,1</p> <p>We both close our markets; you close yours, I retaliate, you retaliate, and so on.....no more free trade</p>

Contradictions between needs of the domestic political economy and the International economy

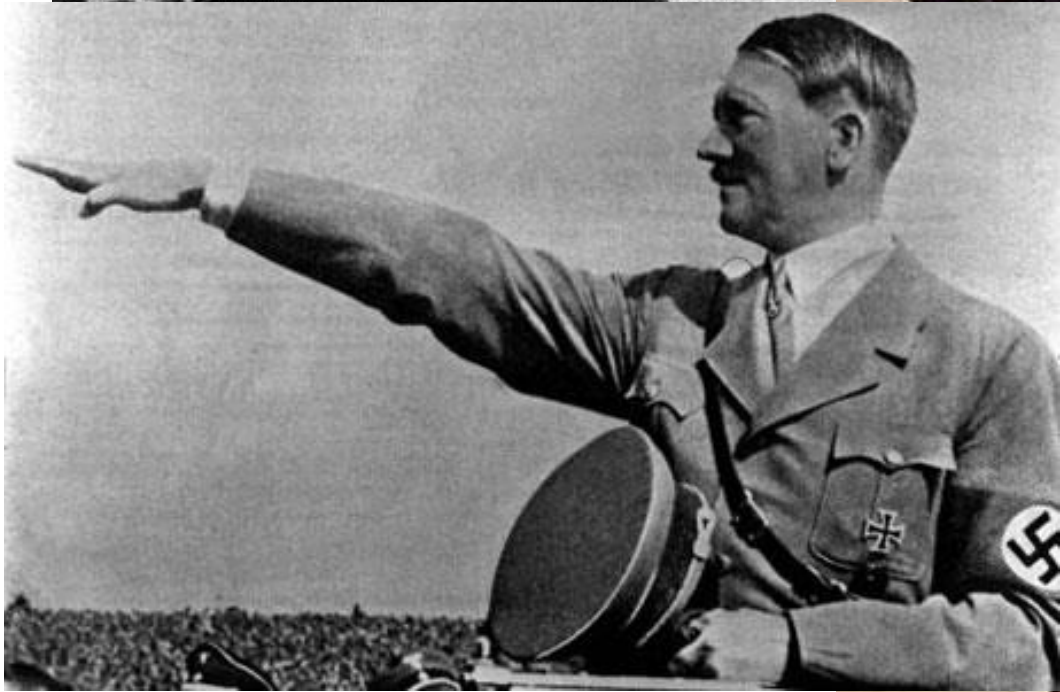
Sure enough....the world moved from Liberalism to Economic Nationalism



Capitalism in Crisis: The Great Depression and backlash against liberalism



The Great Depression showed that the classical liberal response was too risky for governments—democracies failed



War and Genocide



Could it happen again?

