BOOK REVIEW

The Economics of the Great Depression: A Twenty-First Century Look Back at the Economics of the Interwar Years by Randal E. Parker. Cheltenham, UK and Northampton, MA: Edward Elgar, 2007.

The Great Depression (from the "crash" of the New York Stock Exchange in October 1929 until the Second World War) is a matter of great interest and great debate in economics. In fact, some macroeconomists might say that it is *de rigueur to* have studied the Depression and to have formed an opinion on the causes of the Depression, not least because it is the event of note in the modern era for understanding business cycles. *The Economics of the Great Depression* by Randall E. Parker, Professor of Economics at East Carolina University, is a wonderful introduction to the topic as well as an excellent summary of the landmark research to date on the Depression.

The book is made of two parts. The first 28 pages are Parker's "An Overview of the Great Depression" which provides his own take on the economic conditions leading up to the Depression and then describes in historical and methodological terms the evolution of different explanations for the Depression. The second section is made of interviews with twelve of the most renowned economists who are studying the Depression today. This second section is a follow-on to Parker's 2002 book, *Reflections on the Great Depression*, which contained interviews with eleven economists who lived through the Depression, whereas the new set of interviews focuses on economists who came into their own in the field after the Depression. Therefore the book is both about macroeconomics *and* a sociological take on economists who study the Depression with a "new set of eyes," page x.

A study of the Great Depression must first begin with the causes of the stock market crash, then move to an analysis of what prolonged a recession into a depression, then finally evaluate what caused the end of the Depression, usually agreed to be the beginning of the Second World War. Parker's overview contains sections entitled The 1920s, The Beginnings of the Great Depression, The Economy Stumbles, The Economy Crumbles, Contemporary Explanations (those of the first generation of economic scholars on the Depression), Modern Explanations (which contains second and third generation research under subsections on The Monetary Hypothesis, The Nonmonetary/Financial Hypothesis, The Gold Standard Hypothesis and The Real Business Cycle Hypothesis), Recovery and the New Deal, and, A Twenty-First Century Look Back at the Economics of the Interwar Era (which begins the collection of interviews). It should be noted here too a matter of definition. It is not prolonged negative growth which defines the Great Depression, growth was positive in the USA beginning in 1933 excepting a recession in 1937–1938. It is unemployment, which remained around 15% until World War Two.

In his overview of "the roaring twenties" Parker describes how at the time this period was thought to have ushered in a new era in the United States, quoting Milton Friedman and Anna Schwartz as labeling the 1920s as "the high tide of the Reserve System," page 3. The Federal Reserve System, founded in 1913, was seen to be a success at the time because it may have counteracted the recession of 1920–21 through monetary policy. However we learn as the story ensues (with Parker citing papers by Peter Temin and Barry Eichengreen, both of whom are interviewed in the book) that the Fed was aided by two factors in the early 1920s which were not present in the late 1920s; demand by a World War One-devastated Europe for U.S. exports and the absence of a non-functioning inter-national gold standard.

By 1929 Europe had recovered from the First World War (the US economy was fully 50% of the world economy after the First World War and 25% of the economy at the time of the Depression) and, most importantly, by 1929 due to lack of political will[1], the gold standard was no longer functioning, the world by then had a *de facto* 'dollar standard'. The non-functioning gold standard lead to world-wide deflation which suppressed economic recovery in each country that remained on the malfunctioning international system. To fast forward to The Gold Standard Hypothesis (with citations of works by Ehsan Choudri and Levis Kochin, Eichengreen and Jeffrey Sachs, Temin, and Ben Bernanke and Harold James) we learn that the Depression cannot be studied in isolation on a country-by-country basis. Recovery for each country did not begin until that country pulled out of the gold standard. For example, France entered the gold standard (half-heartedly, with a limited ability to trade gold for francs) with an undervalued franc in 1926 and did not pull-out and begin recovery until 1936. England returned to the gold standard after the First World War in 1925 with an overvalued pound, and pulled out in 1931. The United States began recovery in 1933 when it pulled-out of the gold standard. We also learn that the Fed purposely targeted a 'pop' in the stock market bubble beginning with a monetary tightening in 1928 and that the Fed was not willing to intervene in the initial wave of bank failures after the 1929 crash due to fears of exacerbating the deflation imposed by the gold standard.

The question of continued unemployment after economic growth had resumed in the USA is addressed in the section Recovery and the New Deal. This approach might be considered 'institutional' in methodology however it is not labeled as such by Parker. Parker cites works by Michael Weinstein, Michael Bernstein, and Harold Cole and Lee Ohanian which show that the National Industrial Recovery Act (NIRA) of 1935 and the Agricultural Adjustment Act of 1933 (both later deemed unconstitutional by the Supreme Court) purposefully raised prices and wages and limited output, and that the Federal Emergency Relief Administration (FERA) and later the Works Progress Administration (WPA) were put in place to make the US Government the paymaster of last resort. Parker, citing the National Bureau for Economic Research (NBER) "business cycle chronology", states how these policies may have again created a 13 month recession beginning in 1937, page 26. Highlighting recent trends in research, Parker ends his overview citing Cole and Ohanian who show that the "NIRA codes are responsible for about 60 percent of the difference between actual and trend output from 1934 to 1939", page 28.

However what is missing from this Overview is explicit analysis that Federal government 'stabilization' of the economy actually began earlier in the 1920s under Herbert Hoover (both as Secretary of Commerce and as President) and that perhaps the policy-directed factor rigidities, not present in the US economy prior to the First World War and perhaps anathema to US entrepreneurial culture, may have prevented a more rapid return to full employment.[2] To his credit Parker, in Contemporary Explanations, mentions the (heterodox today but mainstream then) Austrian School's belief that the "Depression was the inevitable result of the credit boom/overinvestment cycle during the 1920s [e.g., the Fed expansion] that led to an imbalance in the structure of production between long-lived and short-lived goods," pages 9–10.[3] This Contemporary Explanations section also contains an interesting review of the Hoover Administration and Federal Reserve Board's "liquidationists" (who obviously lost out in policy discussions) and who "viewed the events of the Depression as economic penance for the speculative excesses of the 1920s", page 10. Also of note is that in the Modern Explanations section Parker laments the dearth of rational expectations research into the 1931–1933 early recessionary period, while noting works by Christina Romer and Paul Flacco and Parker himself on income expectations uncertainty leading to the initial downturn after the stock market crash.

The second part, and the bulk of the book, contains interviews with 12 leading experts on the Depression; Peter Temin, Ben Bernanke, James Hamilton, Robert Lukas, Lee Ohanian, Christina Romer, Barry Eichengreen, Stephen Cecchetti, James Butkiewicz, Michael Bordo, Charles Calomiris and Allan Meltzer. Parker, obviously an expert on the Depression himself, is well prepared for the interviews and asks insightful questions about the authors' motivations and geneses of interest in the Depression, on details of their work and how their work relates to the work of others. These interviews are engaging and are substantial enough to bring to the fore the personalities of the each interviewee. Each author's section starts with an introduction to the author's educational and professional background and the primary contributions the author has made to the study of the Great Depression. The interviews are spontaneous and wide-ranging and cover in depth many of each author's area of expertise. These interviews make for good reading for trained economists as cover both the Depression and each author's individual methodological approach. However that being said the reader must have at least read the Overview in order for the interviews to be understood in the larger context of the events of the Great Depression. The interviews are also more of use, of course, for those readers who have more in-depth knowledge of the work of each of the authors who are interviewed. This makes the book an excellent reference for on-going study.

In summary, including its 13 pages of references, *The Economics of the Great Depression* is highly recommended those interested in economic history, economic methodology and the theory of business cycles, and, the book is required reading for those of us who are students of all that the Great Depression can continue to teach us.

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Notes

1. See Temin's article "The German crisis of 1931: evidence and tradition", *Cliometrica*, Vol II:I (April 2008) for further research on the thesis that "politicians are the villains who caused the Great Depression," page 6. Temin also makes the argument that it is tradition, not objective analysis, which has blamed bankers instead of politicians in previous research on the causes and prolongation of the Great Depression.
2. See William J. Barber, *From New Era to New Deal: Herbert Hoover, the Economists, and American Economic Policy, 1921–1933*, Cambridge, UK: Cambridge University Press, 1985, for more information on Hoover's "stabilization" policies.
3. Parker cites F.A. Hayek's *Monetary Theory and the Trade Cycle*, New York: A.M. Kelley, [1929] 1967, and a recent (2004) work by Eichengreen and Kris James Mitchener in his discussion on the Austrian School.