The Strange Death of Liberal Europe

Jesús Fernández-Villaverde
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1University of Pennsylvania
On Europe in 1914

“...for [the middle and upper classes] life offered, at a low cost and with the least trouble, conveniences, comforts, and amenities beyond the compass of the richest and most powerful monarchs of other ages. The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth... he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages.... He could secure... cheap and comfortable means of transit to any country or climate without passport or other formality....But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable.”
A world without a World War I

- Hitler dies as an unknown, failed painter in Munich.
- Lenin dies as a bitter, resentful exiled revolutionary in Switzerland.
- Stalin dies in his exile in Siberia after picking up a fight with a policeman.
- Winston Churchill dies as a minor British politician that could not follow party’s discipline and had colorful youth adventures in South Africa.
- This course is being taught at the University of Berlin, as Die Grundlagen der Marktwirtschaft.
World War I starts

• Balance of power: a Serbian kills an Austrian prince in Bosnia; Russia, unhappy, declares war on Germany, and, thus, to prevent Germany from defeating France, New Zealanders land in Turkey.

• Proximate cause was the killing of Archduke Franz Ferdinand of Austria in Sarajevo, Bosnia.

• Dispute with Serbia, escalation with Russia.

• Events swamp France and the United Kingdom.

• In particular, the liberal government of Asquith in the United Kingdom hesitates: Should it intervene or remain neutral?.

• Germany invades France through Belgium.

• Coming of war is a surprise to many, including financial markets.
Table 1. Selected Financial Indicators, June–July 1914

<table>
<thead>
<tr>
<th>Date</th>
<th>U.K., 2.5% consols</th>
<th>France, 3% rentes</th>
<th>Russia, 5% of 1822</th>
<th>Austria, 4%</th>
<th>Germany, 3% of 1891</th>
<th>Austria, 3% of 1891</th>
<th>Germany, 3% of 1891</th>
<th>Interest on commercial bills, first-class (percent a year)</th>
<th>Three-month-forward exchange rates (currency units per pound sterling, January 7 = 100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 5</td>
<td>3.38</td>
<td>3.49</td>
<td>4.13</td>
<td>4.71</td>
<td>3.90</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2⅕%</td>
<td>Paris</td>
</tr>
<tr>
<td>June 12</td>
<td>3.39</td>
<td>3.49</td>
<td>4.13</td>
<td>4.82</td>
<td>3.90</td>
<td>2⅛%</td>
<td>2⅛%</td>
<td>2⅛%</td>
<td>100.01</td>
</tr>
<tr>
<td>June 19</td>
<td>3.34</td>
<td>3.55</td>
<td>4.13</td>
<td>4.82</td>
<td>3.90</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>100.01</td>
</tr>
<tr>
<td>June 26</td>
<td>3.33</td>
<td>3.59</td>
<td>4.13</td>
<td>4.71</td>
<td>3.90</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>100.03</td>
</tr>
<tr>
<td>July 3</td>
<td>3.31</td>
<td>3.58</td>
<td>4.13</td>
<td>4.65</td>
<td>3.90</td>
<td>1⅛%</td>
<td>1⅛%</td>
<td>1⅛%</td>
<td>99.89</td>
</tr>
<tr>
<td>July 10</td>
<td>3.30</td>
<td>3.62</td>
<td>4.13</td>
<td>4.65</td>
<td>3.92</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>100.03</td>
</tr>
<tr>
<td>July 17</td>
<td>3.29</td>
<td>3.62</td>
<td>4.13</td>
<td>4.94</td>
<td>3.92</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>99.95</td>
</tr>
<tr>
<td>July 24</td>
<td>3.33</td>
<td>3.69</td>
<td>4.13</td>
<td>5.00</td>
<td>3.95</td>
<td>2⅕%</td>
<td>2⅕%</td>
<td>2⅕%</td>
<td>100.01</td>
</tr>
<tr>
<td>July 31</td>
<td>3.55</td>
<td>3.64</td>
<td>4.24</td>
<td>5.13</td>
<td>4.11</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>98.5</td>
</tr>
</tbody>
</table>

Source: The Economist.
the war and was reversed before the war's end as a result of government intervention. Gold, because the United States genuinely maintained convertibility throughout the war, did not vary in price in New York as it did in London. Figure 5 makes clear that, as a hedge against inflation in the United States, gold was not the optimal commodity to buy in 1914. Again, however, there was no detectable prewar move to invest in strategic commodities as a hedge against war risk.

The stakes for investors had thus been very high in the summer of 1914, although few of them seem to have known it before the storm broke. The impact of the war was very far from uniform on the various asset classes open to a typical capitalist of the prewar years. John Maynard Keynes's archetypal prewar rentier, sipping his tea and playing the global markets from the comfort of his London boudoir, had little suspected what havoc would be wrought by "the projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion."53 These forces were indeed the serpent in the paradise of pre-1914 globalization. But the serpent's bite was more fatal to some portfolios than to others.

Figure 4. U.K.-U.S. Exchange Rate, 1913–14

Dollars per pound sterling
John Alfred Spender, recalling a conversation with Sir Edward Grey.

“I had two short talks with Grey during the “twelve days.” I ran into him on the stairs of the Foreign Office on Saturday, August 1st [...] I saw him again late in the evening at his room at the Foreign Office on Monday, August 3rd, and it was to me he used the words which he has repeated in his book, “The lamps are going out all over Europe, and we shall not see them lit again in our lifetime.” We were standing together at the window looking out into the sunset across St. James’s Park, and the appearance of the first lights along the Mall suggested the thought.”
Historiography

• Historiographical discussion of the origins of the war has never ceased to be an intense area of debate.

• Key: Fritz Fisher’s contribution looking at German archives.

• Important for us:
  
  1. Role of Germany.
  
  2. Role of economic motives.

• But, please, do not pay much attention to “history channel” or “airport bookstore” arguments.
  
  1. The Guns of August by Barbara W. Tuchman is the worst of the crop, perhaps because it is so well written from a stylistic perspective.
  
  2. Blackadder Goes Forth is one of the best British comedies ever, but relation to reality is “weak.”
Fritz Fischer

Germany’s Aims in the First World War

with an introduction by Hajo Holborn

“A book at once scholarly and dramatic; without it neither the history of modern Germany nor the First World War can be adequately understood.” — Fritz Stern, Columbia University
Structural reasons

• Any other cause might have delivered the same result: Moroccan quarrel, the Bosnian crisis, and then again the Moroccan question.

• Germany rolled the dice one time too many.

• Austria-Hungary was reckless in its search to punish “Slavic” nationalism.

• Russia and Serbia, however, should also share an important part of the blame.

• Economic motives (imperialism, trade disputes, ...) are nowadays considered less important (some exceptions).

• Similarly, the Anglo-German naval arms race was effectively over by 1912.
The ethnic groups of Austria-Hungary in 1910 according to *Distribution of Races in Austria-Hungary* by William R. Shepherd, 1911.
The prewar arms race and the causes of the Great War

Jari Eloranta

Figure 1 Military spending before World War I, 1870-1913

Note: MILBUR = average of the military burdens of 16 nations.
Germany in 1914

- Peculiar structure created by German unification.

- A “sonderweg”?

- Political system under intense pressure:
  1. SPD vote in 1912 elections to the Reichstag.
  2. Budget deficit and federal constitution.
  3. Sense of isolation in Europe and that time is running against Germany.
  4. Extreme nationalism of middle and upper class.

- In July 1914, a small elite in Germany and Austria-Hungary decides to trigger a general war.

- Most likely, under more democratic systems, this would have not been the case.
Max Weber, The National State and Economic Policy

“[W]e all consider the German character of the East as something that should be protected, and that the economic policy of the state should enter into the lists in its defense. Our state is a national state, and... we have a right to make this demand...

Certainly the vulgar conception of political economy is that it consists in working out recipes for making the world happy... However... [reality] prevents us from imagining that peace and happiness lie hidden in the lap of the future, it prevents us from believing that elbow-room in this earthly existence can be won in any way than through the hard struggle of human beings with each other...

The economic policy of a German state, and that standard of value adopted by a German economic theorist, can therefore be nothing other than a German policy and a German standard... Our successors will not hold us responsible before history for the kind of economic organization we hand over to them, but rather for the amount of elbow-room we conquer for them in the world...”
The economics of World War I

- First modern, total war among industrialized economies. Known for decades as the “Great War.”

- U.S. Civil War was actually an important precedent. Think about the Siege of Petersburg (1864-1865) and Ulysses S. Grant’s strategy from late 1863 onward.

- As of today (2021), there are parts of France you CANNOT visit due to destruction from the war (Zone rouge).

- Enormous impact in Africa, Middle East, Asia, Oceania, and the Americas.

- Even in neutral countries: Spain.

- Death toll: 10 million deaths in the fighting, 20 to 40 million deaths from the flu pandemic in 1917/18, and up to 2 million deaths in the Armenian Genocide.

- End of mass migration of previous decades and reduction of trade flows.
Introduction
Stephen Broadberry and Mark Harrison
Nuffield College, Oxford; University of Warwick
The Great War of 1914-1918 formed the 20th century. At the time, the Anglosphere knew it as the Great War because no one could imagine a still greater conflict. Figure 1 provides a simple illustration. Only when that greater conflict arose in 1939 did anyone start to conceive that the great war that the world had witnessed between 1914 and 1918 was merely a first “world war”, now followed by a second.

Figure 1  The renaming of the Great War as World War I, 1910-1960

Note: The vertical axis measures the unsmoothed relative frequency of “Great War,” “World War I”, and “World War II” in the Google Books English-language corpus.

The downturn set in. Spain fared the best with GDP per capita in 1918 remaining only slightly under its pre-war level. The outcome was worst for the Netherlands. At the same time, the main belligerents recorded mixed outcomes. GDP per capita increased in the UK, fell slightly below the Dutch level in Germany, and decreased by considerably more in France (Bolt and van Zanden 2014).

Figure 1 Change in real GDP per capita of six neutral countries, 1913-1920

The general movement of growth or mild decrease during the first phase of the war was a combined result of industries that were able to amass huge profits, despite lower production volumes and import substituting investments. The rapid downturn during the second half was mainly the result of trade restrictions because of the strengthening of Allied blockade measures and unrestricted submarine warfare by the Germans. Moreover, the entrance of the US into the war restricted policy options for the neutral countries still more, as American policymakers were strongly in favour of a total embargo on trade with the neutrals. As a result, neutral countries experienced food shortages and food prices rose. At the same time, the neutrals’ food exports to the belligerent countries became more lucrative, because shortages in the economies at war were still worse and prices there still higher.
Figure 2  World exports, 1870-2010

The Economics of the Great War: A Centennial Perspective

Reviewing the many and varied contributions that we have been able to assemble within a couple of months, we find that our feelings are mixed. Every page reminds us of the waste and tragedy of war. Our authors, and we ourselves, have devoted many years of our lives to study of the waste and tragedy that ensue when human beings organised in nation states fail to agree to disagree. That is a burden—although a much lighter burden than the direct experience of war, from which most of us have been spared.

As scholars, we are also heartened. Since the first round of our work on the Great War (Broadberry and Harrison 2005), there has been a tremendous broadening of the focus of serious investigation, which now embraces the psychology of decision making, anthropometric history, the natural environment, migration and displacement, the global financial architecture, and inequality of wealth and incomes. There is always something new to discover from the study of war, and discovery is what drives scholarship forward.

If humans will ever learn to prevent war, scholarship will have played its role.
The economics of World War I

- Allies have many more resources than the Central Powers and control the sea routes, telegraphic communications, and international finance.

- In particular, Britain sets up a naval blockade, is able to receive large amounts of supplies from its Empire, and manipulate flow of information from Europe to the rest of the globe.

- However, Central Powers have a well-entrenched position, the superior fighting ability of the German army, and submarine warfare.

- Neither side has the military knowledge to break the stalemate in the Western front (in particular, logistics to exploit a breakthrough have fallen behind) and Eastern front is too huge for decisive victories.
Table 1  The alliances in World War 1: Resources of 1913

<table>
<thead>
<tr>
<th>Territory</th>
<th>GDP in 1990 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Population, million</td>
</tr>
<tr>
<td><strong>Allies</strong></td>
<td></td>
</tr>
<tr>
<td><strong>November 1914</strong></td>
<td></td>
</tr>
<tr>
<td>Allies, total</td>
<td>793.3</td>
</tr>
<tr>
<td>UK, France, and Russia only</td>
<td>259.0</td>
</tr>
<tr>
<td><strong>November 1916</strong></td>
<td></td>
</tr>
<tr>
<td>Allies, total</td>
<td>853.3</td>
</tr>
<tr>
<td>UK, France, and Russia only</td>
<td>259.0</td>
</tr>
<tr>
<td><strong>November 1918</strong></td>
<td></td>
</tr>
<tr>
<td>Allies, total</td>
<td>1,271.7</td>
</tr>
<tr>
<td>UK, France, and USA only</td>
<td>182.3</td>
</tr>
<tr>
<td><strong>Central Powers</strong></td>
<td></td>
</tr>
<tr>
<td><strong>November 1914</strong></td>
<td></td>
</tr>
<tr>
<td>Central Powers, total</td>
<td>151.3</td>
</tr>
<tr>
<td>Germany and Austria-Hungary only</td>
<td>117.6</td>
</tr>
<tr>
<td><strong>November 1915</strong></td>
<td></td>
</tr>
<tr>
<td>Central Powers, total</td>
<td>156.1</td>
</tr>
</tbody>
</table>

Source: Broadberry and Harrison (2005: 7-10).
How did the German war economy perform? Once war broke out, prosperity turned quickly to decline. Table 1 shows the wartime evolution of real GDP of the major European powers, as reported in the Maddison database. While the figures on aggregate output continue to be discussed and revised, and therefore should be viewed with some caution (e.g. Baten and Schulz 2005, Ritschl 2005), the broad-brush impressions provided in the table are sufficiently reliable for our purposes.

Table 1
Real GDP of the main belligerents, 1912-1920 (1913 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Germany</th>
<th>Austria-Hungary</th>
<th>France</th>
<th>United Kingdom</th>
<th>Russia (USSR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1912</td>
<td>95.7</td>
<td>100.5</td>
<td>100.6</td>
<td>96.4</td>
<td>...</td>
</tr>
<tr>
<td>1913</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>1914</td>
<td>95.2</td>
<td>83.4</td>
<td>92.9</td>
<td>99.9</td>
<td>97.6</td>
</tr>
<tr>
<td>1915</td>
<td>80.9</td>
<td>77.4</td>
<td>91.0</td>
<td>106.8</td>
<td>102.3</td>
</tr>
<tr>
<td>1916</td>
<td>81.7</td>
<td>76.5</td>
<td>95.6</td>
<td>108.0</td>
<td>92.5</td>
</tr>
<tr>
<td>1917</td>
<td>81.8</td>
<td>74.8</td>
<td>81.0</td>
<td>107.7</td>
<td>82.1</td>
</tr>
<tr>
<td>1918</td>
<td>82.0</td>
<td>73.3</td>
<td>63.9</td>
<td>107.2</td>
<td>50.1</td>
</tr>
<tr>
<td>1919</td>
<td>66.0</td>
<td>61.8</td>
<td>75.3</td>
<td>94.4</td>
<td>42.7</td>
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<tr>
<td>1920</td>
<td>71.7</td>
<td>66.4</td>
<td>87.1</td>
<td>87.6</td>
<td>42.0</td>
</tr>
</tbody>
</table>

Sources and notes: For all countries except Russia, real GDP is recovered by multiplying figures for real GDP per head and population found in the Maddison dataset at http://www.ggdc.net/maddison, updated and described by Bolt et al. (2018). For Russia (within interwar Soviet frontiers) see Markevich and Harrison (2011, 680).
**Figure 1** Pre-war population and real GDP of the Great Powers: Allies, ratio to central powers

![Graph showing pre-war population and real GDP ratios for Great Powers during 1914 and 1918.](image)

*Source:* Broadberry and Harrison (2005: 11). The figure counts Britain, France, and either Russia (in 1914) or the US (in 1918) against Germany and Austria-Hungary. All figures are based on 1913, because wartime changes are not known for all countries. GDP is measured in international dollars at 1990 prices.

**Figure 2** Cumulative wartime production: Allies, ratio to Central Powers

![Bar chart showing cumulative wartime production categories.](image)

*Sources:* War production from Adelman (1988: 45), except UK from Broadberry and Howlett (2005: 212) and Austria-Hungary from Schulze (2005: 88).
By early 1917, nearly all economies are at a breaking point:

2. Germany → Turnip Winter (Steckrübenwinter).
3. France and Italy have run out of financial resources. Supported only by British loans.
4. The British Empire getting close to bankruptcy.

Decisive entry of the U.S. in the war (April 6, 1917).

On the other hand, Russian leaves the war and Germany “wins” in the East. Treaty of Brest-Litovsk (March 3, 1918). Template for German’s expansion plans during World War II.
History and Uncertainty

For ninety years, historians have been industrious in devising ex post facto explanations for the First World War. Many have sought to heap blame on Germany, arguing that the leaders of the Kaiserreich embarked on a reckless "bid for world power" that was as much a product of domestic political conflicts within Germany as of any rational grand strategy. Some British historians have identified a failure in London effectively to deter Germany with a credible military commitment to the continent. But for the weariness of the British titan, in this view, the German gamble on war might never have been attempted. In truth the war arose because each of the European empires felt threatened in some way or other. Without the desire of the elites in Vienna and Budapest to reckon with Serbia's "South Slav" pretensions to Balkan hegemony, the war could not have happened. Without the almost frivolous readiness of the tsar's ministers to wager his crown on a confrontation with the German powers—less than ten years after Russia's humiliation at the hands of Japan—the war might have been localized in the Balkans. Imperial insecurities were exacerbated by the tantalizing advantages that seemed within reach—if only one's army could be enlarged still further, if only one's ally could be bound still closer. Domestic political factors were important, too. It was the rise of an organized

Figure 5. Selected Commodity Prices before and after the First World War

Indexes, Jan. 1913 = 100

Source: Global Financial Data.
a. Figure uses U.S. data, which are more readily available than U.K. data.
Figure 3. Inflation-Adjusted Total Returns for U.K., U.S., and German Securities before and after the First World War

Indexes, 1913 = 100

Source: Global Financial Data.
Failed reconstruction

• After four years of war, Central powers collapsed rather quickly.

• Reasons: military and economic. German leadership tries to save as much as possible of its future.

• Unfortunate consequences (the stab-in-the-back myth, Dolchstoßlegende).

• German, Austria-Hungarian, Ottoman and Russian empires disappear.

• Allies organize a peace conference in Versailles:
  1. Decide what to do with Germany.
  2. Reorganize the world political system.
  3. Reorganize the world economy.
On the Reconstruction of Europe

The Treaty includes no provisions for the economic rehabilitation of Europe, –nothing to make the defeated Central Empires into good neighbors, nothing to stabilize the new States of Europe, nothing to reclaim Russia; nor does it promote in any way a compact of economic solidarity amongst the Allies themselves; no arrangement was reached at Paris for restoring the disordered finances of France and Italy, or to adjust the systems of the Old World and the New.

The Council of Four paid no attention to these issues, being preoccupied with others,–Clemenceau to crush the economic life of his enemy, Lloyd George to do a deal and bring home something which would pass muster for a week, the President to do nothing that was not just and right. It is an extraordinary fact that the fundamental economic problems of a Europe starving and disintegrating before their eyes, was the one question in which it was impossible to arouse the interest of the Four. Reparation was their main excursion into the economic field, and they settled it as a problem of theology, of polities, of electoral chicane, from every point of view except that of the economic future of the States whose destiny they were handling.
On Clemenceau

Clemenceau was by far the most eminent member of the Council of Four, and he had taken the measure of his colleagues. He alone both had an idea and had considered it in all its consequences. His age, his character, his wit, and his appearance joined to give him objectivity and a defined outline in an environment of confusion...

He felt about France what Pericles felt of Athens –unique value in her, nothing else mattering; but his theory of politics was Bismarck’s. He had one illusion –France; and one disillusion–mankind, including Frenchmen, and his colleagues not least. His principles for the peace can be expressed simply. In the first place, he was a foremost believer in the view of German psychology that the German understands and can understand nothing but intimidation, that he is without generosity or remorse in negotiation, that there is no advantage he will not take of you, and no extent to which he will not demean himself for profit, that he is without honor, pride, or mercy. Therefore you must never negotiate with a German or conciliate him; you must dictate to him. On no other terms will he respect you, or will you prevent him from cheating you.
On Wilson

The President was not a hero or a prophet; he was not even a philosopher; but a generously intentioned man, with many of the weaknesses of other human beings, and lacking that dominating intellectual equipment which would have been necessary to cope with the subtle and dangerous spellbinders whom a tremendous clash of forces and personalities had brought to the top as triumphant masters in the swift game of give and take, face to face in Council...

He not only had no proposals in detail, but he was in many respects, perhaps inevitably, ill-informed as to European conditions. And not only was he ill-informed—that was true of Mr. Lloyd George also—but his mind was slow and unadaptable. The President’s slowness amongst the Europeans was noteworthy...

He did not remedy these defects by seeking aid from the collective wisdom of his lieutenants. He had gathered round him for the economic chapters of the Treaty a very able group of business men; but they were inexperienced in public affairs, and knew (with one or two exceptions) as little of Europe as he did, and they were only called in irregularly...
THE DELUGE

THE GREAT WAR, AMERICA
AND THE REMAKING
OF THE GLOBAL ORDER,
1916–1931

ADAM TOOZE

AUTHOR OF THE WAGES OF DESTRUCTION
Roaring twenties

- Somehow surprisingly, the world experienced a prosperous decade in the 1920s.

- Large increments in productivity.

- Electricity, cars, radio, housing, etc.

- After a few difficult early years, even Germany stabilizes. Hyperinflation of 1923 has more of a political than of an economic origin.

- In fact, the first country to depart from the Versailles order is Italy, with fascism (1922). Italy had been a victor.

- Large capital flows between the U.S. and Europe.

- By around 1928, Keynes’ worst nightmares looked too pessimistic.
Exchange rate index, 1919-1921
(September 1919=100)

Fuente: Eichengreen (1992)
Real GDP per capita index (1913=100)

Source: Maddison project dataset
ALL out-of-doors is at the immediate command of the owner of the universally popular Ford model.
Long acknowledged as the lowest cost transportation for five passengers it offers, at the present price, even greater quality and value.
The Ford Touring Car is built to afford the greatest number of people the greatest amount of satisfaction. With it you can go anywhere a motor car can be driven, at the lowest possible cost, and with the comfortable certainty that it is built to withstand the hardest usage.
Turn your motor car wishes into realization. The Ford Touring Car is your immediate opportunity.
Ask us about the Ford Weekly Purchase Plan which makes it still easier for you to own a Ford.

Ford
Touring Car

$298
F. O. B. DETROIT

(Advert with image of vintage automobile and scenic background.)
WITH the Radiola Grand, radio raises on a new meaning. The simplicity of tuning in—just a knob or two to turn. The big distances it covers—picking up far-away stations with volume enough to fill a room. The perfection of tone with which the loudspeaker—carefully built in like the horn of a fine phonograph—gives forth the music and speech. All this—combined in a cabinet of skillful workmanship and tasteful design—places Radio in the home where beauty counts—and performance.

Points to Note:
All the batteries—dry cells—are hidden away inside.
You can regulate the volume of sound by a control that governs the loud-speaker.
For long distance, plug in the headphones. Cost to cost reception is no unusual record for Radiola Grand!
Famous for true reception, undistorted. For keen sensitivity. And for beauty.

"There's a Radiola for every price!"
at your nearest Radio or Electrical Dealer.

Radio Corporation of America
200 Broadway, New York
212 Wabash Ave., Chicago, Ill.
424 California St., San Francisco, Calif.

Radiusa Grand and Mahogany Stand with "B" batteries and a Radiophone WD-11 dry cell vacuum tube, $595.00.
Gold standard and the price-flow mechanism

- David Hume (1757).
- Current account deficits = gold outflows.
- Central bank intervention (rules of the game).
- Deflation (adjustment mechanism).
- Requirement: price stability.
Monetary Policy Trilemma (Mundell-Fleming model)

Independent monetary policy

Fixed exchange rate

Free K mobility

The gold standard
The classical gold standard (1870-1914)

- Globalization (trade, finance, and labor).
- Economic growth.
- International cooperation.
Great Depression

- On the summer of 1929, the U.S. economy enters into recession.

- Black Tuesday (October 29, 1929) signals the start of the collapse of the stock market.

- Quickly, the collapse in economic activity extends worldwide. Credit Anstalt, in Austria, was revealed to be bankrupt in May 1931.

- By the end 1931, it engulfs most countries of the world.

- Worst recession ever, changed events decisively.

- Hard to see NSDAP reaching power in Germany without the Great Depression or Japan attempting to conquer East Asia.
Market Value of Companies on the NYSE, 1925-31

- In billion $
- As a % of GNP
A. Volume of World Trade and World GDP

Figure 1: Measures of World Trade and Production, 1924-1938


1929 = 100

World Trade

World GDP

B. Manufactured Goods: Volume of World Trade and Production
US unemployment rate 1926-1943

Source: Mathy (2016)
UK unemployment rate 1920-1939

Source: Boyer and Hatton (2002)
Regional unemployment rate UK July 1926

Source: Luzardo-Luna (2020)
• One of the most disputed issues in macroeconomics.

• The answer to the question colors our understanding of how to conduct economic policy.

• A relatively “mainstream” view: a severe, but not exceptional recession was transformed into a great depression by policy mistakes.

• Some of those were avoidable: the behavior of the Federal Reserve System in the U.S. (Friedman and Schwartz, A Monetary History of the U.S.).

• Some of those were unavoidable: came from the world economic organization created by Versailles.
Table 1: Exchange Rate and Payments Regimes, Sample Countries, 1929-1936

<table>
<thead>
<tr>
<th>Year</th>
<th>Sterling bloc countries</th>
<th>Gold bloc countries</th>
<th>Exchange Controls</th>
<th>Others with Depreciated Currencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929</td>
<td>Argentina, Australia</td>
<td></td>
<td></td>
<td>Canada, Brazil, Spain, Uruguay</td>
</tr>
<tr>
<td>1930</td>
<td>New Zealand</td>
<td></td>
<td></td>
<td>Peru, Turkey</td>
</tr>
<tr>
<td>1931</td>
<td>Denmark, Egypt, Finland, Norway, Japan, India, Sweden, United Kingdom, Portugal, Thailand</td>
<td>Austria, Bulgaria, Czechoslovakia, Denmark, Germany, Hungary</td>
<td>Colombia, Mexico</td>
<td></td>
</tr>
<tr>
<td>1932</td>
<td></td>
<td>Romania</td>
<td></td>
<td>Chile, Greece</td>
</tr>
<tr>
<td>1933</td>
<td>South Africa</td>
<td></td>
<td></td>
<td>Cuba, United States, Philippines</td>
</tr>
<tr>
<td>1934</td>
<td></td>
<td>Italy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1935</td>
<td></td>
<td>Belgium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1936</td>
<td></td>
<td>France, Netherlands, Switzerland</td>
<td>Poland</td>
<td>Indonesia</td>
</tr>
</tbody>
</table>

Note: Year of departure from the gold standard for columns 1, 2, and 4. Year of imposition of exchange controls for column 3.
Figure 2: Average Percentage Tariff Rate on Imports, various countries, 1928, 1935, 1938

Source: see text.
Industrial production, 1929=100

Responses: U.S.

- Hoover administration tries to keep wages high. Why?
- Roosevelt’s New Deal.
- Large package of measures.
- First New Deal:
  2. Glass–Steagall Act: FDIC.
  3. Gold Reserve Act. $20.67 per troy ounce to $35.
  4. TVA, CCC,...
- Second New Deal:
  1. Social security.
  2. National Labor Relations Board.
Figure 2 - Manufacturing Employment and Hours per Worker
(Sept 1929 = 100)
Responses: Other countries

- France: initial reluctance to change, victory of Popular Front in 1936.
- Scandinavian countries: aggregate demand management, construction of the modern welfare state.
- Latin America countries: start of import substitution.
- Germany, Italy: false hopes...
• War in Europe stars on September 1, 1939, when Germany invades Poland.

• But war in Asia had started on July, 7 1937, with the Marco Polo Bridge Incident. China suffered nearly as many deaths (15-20 millions) as the Soviet Union (20-27 million).

• Most destructive conflict in history.

• Furthermore, a war where economic forces play a vital role:
  
  1. Decision to go to war by Germany (running out of time and foreign reserves).

• First war where economists determined much of strategy: U.S. and the U.K. In the case of the U.S.: 90 divisions gamble.
THE ECONOMICS OF
WORLD WAR II
Six great powers in
international comparison

Edited by MARK HARRISON
Wartime GDP of the main belligerents, 1939-45
International 1990 dollars (billions)

<table>
<thead>
<tr>
<th></th>
<th>1939</th>
<th>1940</th>
<th>1941</th>
<th>1942</th>
<th>1943</th>
<th>1944</th>
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<td></td>
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<td>Allied Total</td>
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<td>1,906</td>
<td>2,224</td>
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<table>
<thead>
<tr>
<th></th>
<th>1939</th>
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<td>Axis Total</td>
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<td>643</td>
<td>715</td>
<td>902</td>
<td>895</td>
<td>748</td>
<td>466</td>
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Source: Harrison (1998)