THE GREAT DEPRESSION AS PEDAGOGICAL THEME FOR UNDERGRADUATE BUSINESS, ECONOMICS AND FINANCE CLASSES *

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ABSTRACT
The Great Depression was a seminal event in history and is, therefore, widely covered in history courses of all types. It tends, however, to be ignored in current core and advanced undergraduate business, economics and finance courses, as is most history. This paper discusses ways in which the Great Depression can be used as an organizing principle for introductory curricula in such courses, it offers some illustrations of such uses, and it provides a basic assessment of the strengths and weaknesses of these approaches.

Keywords: Great Depression, Gold Standard, money, banking, teaching.

JEL classifications: A20, A22, N12.

1. THE USE OF HISTORY IN TEACHING CURRENT TOPICS
This paper examines the use of a particular historical event – the Great Depression – as a way of organizing, discussing and teaching material in contemporary non-history courses dealing with business, economics and finance. Why is history important to the study of current business, economics and finance? The arguments are well rehearsed in many respects, though perhaps not too well appreciated. One economic

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ISSN 1448-448X © Australasian Journal of Economics Education
Economists should study economic history for at least three reasons. First, it is fun. A skilful narrator and analyst can bring alive exciting or important events, and that is enjoyable. Second, a study of history alerts economists to [the fact that economies]... are sometimes strongly affected by non-economic factors – not only wars, but political impasses, charismatic leaders, or ideological beliefs deeply rooted in public or official psychology – and that contrary to what is usually assumed in formal modeling, the structure of economics changes over time as public attitudes change and as institutions evolve. Third, economists should study history...because it is usually impossible to understand our institutions and attitudes that shaped the legacy from our parents and grandparents.

(Cooper, 1992, p. 2120)

To summarize the pedagogical philosophy underlying this paragraph, one could say that history reveals the drama, context, and process behind different current events and thus elucidates theories and ideas that have been formed to understand (or misunderstand) those events.

Assuming one accepts the argument that history should be used in the classroom, the question arises as to how it should be used? There is no one answer to this question, but I will make the case that it can be very effective to use history in both an extensive and intensive way. By “extensive,” I mean using historical examples broadly, to illustrate a wide range of topics and phenomena that may, on their face, have little to do with history. By “intensive,” I am referring to the use of history not just as a gloss or an aside, but a way of delving deeply into historical dynamics and facts. To use history in these ways can both increase students’ appreciation for history generally, and sharpen their understanding of things that are seen by most people as purely contemporary.

There is an additional argument, frequently made, but worth repeating. The ‘laboratory’ of most social science and professional disciplines is the real world, and so deep and sustained study of past events can be likened to the prolonged exposure of a theoretically trained natural scientist to empirical procedure. Perhaps this is one meaning of Santayana’s idea¹ that to know how something has

¹ His original and now famous phrase was: "Those who do not remember history are condemned to repeat it".

evolved, and to know how it is both similar and dissimilar to analogous things in the past, is to know more deeply the true nature of the thing and also to grasp what might be solidly known, less solidly known, and truly unknown. Students with such understanding have an advantage over students without it when it comes to navigating their way through the modern world of business and finance.

2. THE GREAT DEPRESSION AS A TEACHING TOOL
The Great Depression, touching almost every facet of the economic and political system, was also a full-blown, international epic, affecting every major national economy and the international economic system as a whole. For these reasons alone, the Great Depression can be a useful focus for discussing current topics in economics, business, and finance, to say nothing of other fields such as public policy. Almost nothing was unaffected by the crisis and almost everything was transformed by it. Any significant topic a teacher can think of – financial markets and institutions, organizational form, international trade, public tax and spending, industrial organization, and so on – can be richly explored through the lens of that massive downturn.

In addition, the event shook everything in its path to its fundamentals. This was not merely a superficial, if severe, shock; it was something akin to a seismic shift, which got deep into the inner workings of economies, institutions, and ways of thinking, turned them upside-down and inside-out, and left matters fundamentally altered. In this sense, the rubric of the Great Depression is a good way of exploring basic relationships, concepts and causal dynamics of a variety of phenomena. The Great Depression fits the criteria for a teacher who wants to use a single epoch for both intensive and extensive use of history (as defined in the first section above) to teach current topics. Many different topics can be taught under this rubric, and each topic can be gotten into very deeply if desired. Moreover, very basic cause-and-effect relationships and fundamental theoretical, philosophical and practical questions can be examined in the laboratory of the economic history of the thirties.

The fact that there is still lively controversy, and continuing scholarship about the causes and effects of the crisis adds to the currency of the event. The clash of different models and views of the world, of different empirical methods and findings, and the limits of
modern analysis, are all richly demonstrated by current study of the Great Depression.

The Great Depression also offers a fine opportunity to explore the way in which different events fit into a larger cultural, political, social and economic framework, and particularly in showing how institutional details matter. The economic crisis of the 1930s was intricately related to the particulars of the International Gold Standard (not just an automatic winding and unwinding of anonymous forces as textbook presentations of exchange rates might suggest), the structure of the banking industry, the institutions of the labour market, including labour unions and the corporate personnel “movement” of the 1920s and 1930s, and the inner politics of central banks. But this list is far from exhaustive.

Finally, the Great Depression is an excellent macro-example, with many micro-cases, of historical process, namely how and why things change in the way that they do. Economists have used the rather clumsy term “path-dependence” to name this concept and the crisis of the 1930s is filled with examples of such dependence. Although it occurred close to eighty years ago now, most economic, financial and business institutions were shaped by the event and are still responding to it in many ways. Examples include the international trade and foreign exchange systems, banking and securities regulation, central bank regimes, national fiscal and monetary policy regimes and social insurance. In the United States, which came later than most industrialized nations to large-scale government, social and economic regulation, the links between past and present are even stronger.

There are many different topics, therefore, that can be taught using the Great Depression. Table 1 provides some examples (with scattered academic references that make for excellent course resources). The author himself has taught courses in financial management (public and private), corporate finance, money and banking, public policy, and public finance, and this discussion is focused on topics particularly relevant to courses such as these. A wide range of other economics, finance, management, business and public administration classes which include topics such as industrial organization, labour economics, corporate form and so on, could be discussed as well.

The remainder of the paper outlines two specific cases of actual classroom usage from the author’s teaching experience. The following section outlines how the Great Depression was used to teach a course
in money and banking while the section after focuses on a course in open economy macroeconomics and the functioning of the Gold Standard. The final section of the paper then summarises the argument and draws some broad conclusions.

Table 1: Courses that Can Be Taught Using the Great Depression

<table>
<thead>
<tr>
<th>Course Area</th>
<th>Especially Useful Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour Economics</td>
<td>Jensen (1989); Margo (1993)</td>
</tr>
<tr>
<td>Monetary Policy</td>
<td>Temin (1993)</td>
</tr>
<tr>
<td>Asset valuation: institutional aspects</td>
<td></td>
</tr>
<tr>
<td>Asset valuation: non-institutional aspects</td>
<td></td>
</tr>
<tr>
<td>International trade</td>
<td></td>
</tr>
<tr>
<td>Business Cycles</td>
<td></td>
</tr>
<tr>
<td>Counter-cyclical economic policy</td>
<td>Stein (1969)</td>
</tr>
<tr>
<td>Corporate finance and financial management</td>
<td></td>
</tr>
<tr>
<td>Stock and other financial asset markets</td>
<td></td>
</tr>
<tr>
<td>Economic development and growth</td>
<td></td>
</tr>
<tr>
<td>Market Structure</td>
<td></td>
</tr>
<tr>
<td>Public policy and politics</td>
<td></td>
</tr>
</tbody>
</table>

3. ISSUES IN MONEY AND BANKING

An image indelibly connected with the Great Depression is the sight of people standing in line outside their bank, waiting hopelessly to take out their money. If there is one system that withstood the most assault during the conflagration, it was the banking system. This was especially true in the United States where large segments of the banking system simply collapsed.

First consider the extensiveness of the crisis, confining the discussion to the American scene. In 1930, 5.6% of all operating banks in the US failed. In 1931, another 10.5% failed; in 1932, another 7.8% failed; and in 1933, the first year of the new Roosevelt Administration, 12.9% failed (Bernanke, 1983, p. 259). Between 1930 and 1933, 9,000 banks suspended operations (Romer, 1993).

The causes and effects of this collapse can be used to illustrate almost any dimension of money and banking that one can think of. Do you want to examine bank asset and liability management? The erasure of $2.5 billion in corporate equity value by 1933 (equal to
2.4% of nominal GDP in 1929; see Romer, 1993), defaults on mortgage loans, and general collapse in the value of most real and many financial assets provide a dramatic and detailed case study in a banking asset value squeeze, while the runs on banks and the clamour to remove deposits was the corresponding liability squeeze which put many financial institutions into a desperate corner.

Interested in risk management? Its limits, if nothing else, are demonstrated where even strong banks often could not withstand a general ‘contagion’ of fear and a liquidity crisis in which debt service of borrowers skyrocketed (from 9% of national income in 1929 to 19.8% in 1932-33), where outstanding corporate notes rose from $26.1 billion in 1920 to $47.1 billion in 1928, and where non-federal public debt rose from $11.8 billion in 1920 to $33.6 billion in 1928 (all this against a 1929 national income of $86.8 billion; see Bernanke, 1983, p. 260). There is also considerable evidence that American banks in particular had managed their risks poorly in the 1920s and many were technically or even fraudulently insolvent when the various implosions of the early 1930s commenced the rolling cycle of bank runs and mass shutdowns (Calmoris & Mason, 1997; Grossman, 1994; Wicker, 1980).

How about banking structure as a topic? There is a large literature on the topic demonstrating that concentrated branch banking systems (Canada being a prominent example which faced economic conditions similar to the US) tended to avoid crisis whereas decentralized unit systems (like those found in the US) were more prone to collapse. The nature of banking regulation obviously is intertwined with banking structure, and thus offers another topic that can be explored in detail. And international exchange (explored in more detail in the next section) is a good Depression-era case study as is the effect of monetary policy on the financial system. A large and contentious literature about the conduct of monetary policy during the Depression was spawned by initial contributions from Friedman & Schwartz (1963) and Temin (1976). According to this literature, the Federal Reserve made significant, though perhaps not fatal, policy errors at the beginning of the Depression, and defence of the Gold Standard significantly constrained the course of reflationary policy. Such issues provide excellent case study material with on-going relevance to contemporary economic problems.
The Great Depression spread wide, but it also cut deep, and one can probe down to as fine and fundamental a level as one wishes in exploring its effects. Two examples of how “deep” one can go in the area of money and banking are financial intermediation and money creation processes. The general process of financial intermediation is an especially interesting case. The general price deflation of the era caused a great amount of disintermediation, and not just in terms of banks failing. Deflation, in pure theory terms, should be a neutral process of debtors experiencing welfare losses and creditors experiencing welfare gains. In fact, because of non-neutral effects from the operation of institutions, deflation caused the cost of financial intermediation to rise, thus creating a credit squeeze that very possibly turned a sharp economic downturn in 1929 into a general crisis. In particular, nominal interest rates could only fall to zero while real interest rates could continue rising (an interesting case, by the way, of a portfolio risk that macro-conditions have made harder to hedge against). And defaults caused banks to involuntarily shift (through foreclosures) large parts of their portfolios into real assets, the prices of which were falling, while their financial liabilities were rising in real terms (obviously nominal deposits had to be paid out in dollars which now possessed increased purchasing power in the face of lower commodity prices; see Bernanke, 1983; 1995). The extent of this process is subject to some debate. Hall argues\(^2\) that the Depression turned the US into a “temporarily underdeveloped economy,” something that Bernanke (1983), for example, disputes. But the facts make clear that disintermediation was occurring and that suboptimal reintermediation took up the slack afterwards. Trade credit, for example, grew as traditional finance channels collapsed. One example of such a collapse is that mortgage loans by life insurance companies fell from $525 million in 1929 to $10 million in 1933 (Bernanke, 1983, p. 273).

Of course one fundamental role of modern commercial banking is money creation in which fractional reserves are used to create money from an existing monetary base. The concept is straightforward enough: the government issues money (so-called “high powered money”) that is then taken by people and deposited into banks. Those

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banks then leverage those deposits by keeping only a fraction in their vaults to meet normal cash needs, and lending out the rest. Loan proceeds are redeposited and the process starts again, continuing until there is nothing left to loan out.

Money creation is a fundamental banking operation, fairly straightforward, miraculous in a way, but also mechanical and a bit dry from a pedagogical point of view. The banking runs of the Great Depression, both in the US and abroad, represent an excellent way of bringing this concept to life, and also of exploring the full implications of a leveraged banking system (thus illustrating the important concept of leverage itself). The collapse of the US banking system and Roosevelt’s Bank Holiday is an excellent way of discussing these points and segueing into discussions of monetary policy and financial stability. Fractional reserve banking only works when existing depositors demand, at any one time, no more than the sum total of the reserves on hand. During the Depression, this condition often did not hold, and the fundamental vulnerability of banks to runs and other ultimately unpredictable forms of capital flight is a good way of introducing the subtleties of modern leveraged banking.

For example, what caused the runs on the various banks? And how important were bank runs relative to other ultimate causes of bank failures? The “contagion of fear,” basically an “animal spirits” sort of irrational panic, is one possible cause of runs. Other possibilities which assume rationality on the part of depositors include: increases in liquidity preferences on the part of consumers where shifts in household balance sheets and declining wealth, along with general uncertainty about the economic future, caused depositors to withdraw cash from institutions and hoard it (Mishkin, 1978); monetary policy errors, where central banks lowered the supply of base money and thus the basic stuff of money creation (Friedman & Schwartz, 1963); and logical actions by depositors who withdrew money as fast as they could from genuinely insolvent banks (Calomiris, 1993; White, 1984; Wicker, 1980).

There are any number of foreign and domestic case studies in bank failures, runs and panics that can be used in classroom discussions, some of them quite detailed. A good example is Wicker’s (1980) treatment of Caldwell and Company, a large southern bank whose failure precipitated a regional south eastern bank crisis in the US in 1930. This resource could be used as the basis of a teacher-led case
study session for graduate or advanced undergraduate classes. Table 2 reproduces a consolidated balance sheet for the Caldwell bank on the eve of the Great Crash, and a year before the bank’s failure. A summary scan of this sheet shows a clear mismatch between liquid short-term assets and short-term liabilities. There are also key questions to be asked about the nature of the bank’s securities and particularly its investments in controlled companies, which constitute two-fifths of its total assets. It turns out that most of these assets were essentially fraudulent. This exhibit is but one bit of “colour” and a specific example that can be used to teach all manner of financial topics, not just confined to banking.

Table 2: Consolidated Balance Sheet Caldwell Enterprises, June 30, 1929

<table>
<thead>
<tr>
<th>Assets</th>
<th>Millions of dollars</th>
<th>Liabilities</th>
<th>Millions of dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>1</td>
<td>Notes Payable</td>
<td>8</td>
</tr>
<tr>
<td>Receivables</td>
<td>2</td>
<td>Deposits</td>
<td>10</td>
</tr>
<tr>
<td>Securities</td>
<td>15</td>
<td>Due to Controlled Companies</td>
<td>7</td>
</tr>
<tr>
<td>Investment in Controlled Companies</td>
<td>14</td>
<td>Other liabilities</td>
<td>3</td>
</tr>
<tr>
<td>Other assets</td>
<td>3</td>
<td>Current liabilities</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Payable (Not Current)</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Net worth</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td></td>
<td>35</td>
</tr>
</tbody>
</table>

(Source: Wicker, 1980, p. 575)

Clearly the financial crisis of the 1930s makes for good and riveting story telling. But it is also topical, especially now, with the onset of the financial crisis in the US and the emerging sovereign debt crisis in Europe. And to those using PowerPoint or other graphical displays in teaching, there are some good pictures as well. Figure 1 provides one example that I have used in my own classes.

The discussion thus far should make clear the role that context plays in understanding financial crises and the way in which Depression-era cases can put the spotlight on that context. This can be approached in a cause-and-effect way. For example, the causes of the crisis can be
linked (again, focusing on the US in this case) to the agricultural depression of the 1920s, which weakened rural and farm region banks particularly; the rise of mass consumption of consumer durables and the exhaustion of that consumption near the end of the 1920s; the nature of bank and securities regulation, especially the lack of separation between investment and commercial banking, the prohibition against branch banking (which arguably made for smaller, weaker, unit banks), and the lack of uniform oversight of securities issuance and trading; the Gold Standard; and even the continuing effects of World War I, which thoroughly disrupted trade relationships, and almost overnight turned the US from the net debtor to a large net creditor worldwide (Garraty, 1986; Romer, 1990; 1992; 1993).

![Figure 1: A Run on a Bank](http://xroads.virginia.edu/~1930s/PRINT/newdeal/crisis.html)

As for effects, this discussion includes both context and process. As already mentioned, the effects of the Great Depression are far ranging and persistent. I use the Great Depression as a way of describing both the history of and reasons for the structure of current banking regulations in the United States that are direct lineal descendants of that crisis. Many current issues, especially financial deregulation, and the weakening of the “Chinese Wall” between investment and commercial banking that the Glass-Steagall Act erected and which has
been subsequently eroded, can be usefully discussed and examined in light of the Great Depression. The same could be said of central bank policy, something that has obviously been greatly altered by this historical watershed.

4. ISSUES ASSOCIATED WITH THE 1930s GOLD STANDARD

International foreign exchange is at best an obscure topic for many students, particularly undergraduates. The nature of exchange rate dynamics and their effects on movements of goods, services and capital, is often a trying thing to study for all but the technically-minded, and difficult to illustrate with any excitement. Also, there is a real tendency to abstract away from very real and concrete institutions that make foreign exchange possible.

It might seem that the Great Depression is a definite anachronism, given that much of the world started the period in a system of fixed exchange rates in which the monetary base was backed by gold. However, it was the failure of that particular system which set the stage for the Bretton-Woods system which dominated until the early 1970s, and which still dictates some of our trade policies, particularly the postwar “consensus” on free movements of goods across national borders.

Like banking collapses, the Gold Standard is a cross-cutting issue, something which is therefore “extensive” as a teaching tool. The way in which the Gold Standard “transmitted” deflation and monetary shocks across different nations is alone a good case study of interdependency and complexity in economic phenomena. Eichengreen – one of the major scholars in this area – and Sachs identify four ways in which currency depreciation in the 1930s affected gross output (or, to put the matter in terms of economic theory, how “financial” shocks managed to have “real” effects):

1. through its determination of the world interest rate;
2. through its effects on real wages;
3. through its effects on profits (and hence gross investment); and
4. through its effects on international competitiveness (Eichengreen & Sachs, 1985).

In this construct alone, one can see a number of major economic and financial topics that can be explored. In many ways, the Gold Standard is an even more “intensive” topic than financial crisis. Here it is very clear that institutions do matter. For the Gold Standard, far
from having been the neutral *deus ex machina* that ‘gold bugs’ assert, was in fact an incomplete and very complex web of laws, organizations, customs and arrangements, all of which can be grist for a rich pedagogical mill.

One definition of the Gold Standard of the 1930s is that the system had five distinct elements to it. First it allowed for the free flow of gold between countries, and between countries and individuals; second, it called for the maintenance of fixed exchange rates between currencies, convertible into gold; third – and this is a critical element in many analyses of the failure of the Gold Standard – an international coordinating organization, like the current IMF, was absent, and in particular there was no transnational “lender of last resort (LOLR)” which could bail individual countries out in the event of insurmountable trouble; fourth, there was an implicit asymmetry between capital account deficit countries which had to export gold whereas capital surplus countries could either export or import gold, even when importation might not be in the international interest; and, fifth, the adjustment for deficit countries had to be in domestic price deflation and (typically) domestic output declines, rather than currency depreciation (Temin, 1993).

A whole raft of issues, ranging from arcane to sublime, comes out of this basic, and essentially accepted, definition. Of course, basic international trade and finance theory is embedded throughout it (particularly in the fifth point, in which students of the history of economic thought will recognize Hume’s price-specie-flow mechanism theory of international trade; see Temin, 1993). The LOLR is a basic tenet of both current domestic and international monetary policy practice and theory. The mechanics and ideas of exchange rate determination are obviously part and parcel here. And there is that juicy controversy over whether Federal Reserve policy missteps in the 1930s were due to incompetence or to the imperatives of a rigid international exchange regime.

The institutionally minded will find solace in the workings of this case since institutional issues are so important. For example, devaluation was not just a matter of changing numbers in a central ledger. Central banks could, and did, do any number of things to make their currency depreciate after devaluing it. For example, the simplest method was to write up the book value of foreign gold reserves to reflect the now higher price of gold in terms of the newly devalued
domestic currency. But many countries did not do this. Many countries kept the book value of their gold reserves at par but then reaped domestic currency profits from devaluation since they then sold their ‘lower-priced’ gold (in terms of pre-devaluation domestic currency) at a higher price after devaluation. These profits could be put to various uses, such as purchasing government securities or transferring profits directly to fiscal authorities (actions which would increase domestic money supply), giving them to newly established exchange stabilization funds, or to buy down government debt (which had no reflationary effect) (Eichengreen & Sachs, 1985).

There is, of course, an important relationship between international exchange rates and domestic banking stability as well. For on the Gold Standard, as constituted during the Depression, the supply and value of gold had a direct relationship to overall domestic money supply. Equation (1), adapted from Bernanke (1995, p.5), shows the relationships:  

\[ M1 = \left( \frac{M1}{BASE} \right) \times \left( \frac{BASE}{RES} \right) \times \left( \frac{RES}{GOLD} \right) \times PGOLD \times QGOLD \]  

(1)  

where: \( M1 \) represents notes and coin in circulation plus commercial bank deposits; \( BASE \) represents the monetary base made up of notes and coin in circulation plus the reserves of commercial banks; \( RES \) represents international reserves of the central bank made up of foreign assets plus gold reserves both valued in domestic currency; \( GOLD \) represents gold reserves of the central bank valued in domestic currency and equal to \( PGOLD \times QGOLD \); \( PGOLD \) represents the price of gold in domestic currency; and \( QGOLD \) represents the physical quantity of gold reserves measured in something like metric tons.

First and foremost, while worldwide gold supplies were growing during the 1930s, they were growing at a rate of around 2% annually, while money supply needed to be growing by around 3% to sustain ‘normal’ economic expansion. So \( QGOLD \) in Equation (1) was constrained more than baseline monetary growth required it to be. This is one failing of the Gold Standard: it was tethered to the rather arbitrary growth in worldwide gold supplies.

Equation (1), however, shows that more than the quantity of gold is involved in determining total money supply. Overly restrictive monetary policy by the US Federal Reserve kept the monetary base,  

\[ Y = C+I+G+M \]  

and \( PV=MT \) are an especially good way of exploring the complex occurrences and dynamics of the Great Depression.
and hence the ‘money multiplier’ \((M1/BASE)\) too low, exacerbating the deflationary pressures caused by the international currency crisis. Additionally, there was a seemingly perverse dynamic where countries that were last to leave the gold standard had more gold outflows than countries that had left earlier. Bernanke (1995) explains this by saying that people had greater confidence in the currency stability of countries which had “bitten the bullet” earlier, than in countries, like the United States, that held on longer and which were increasingly seen as maintaining something that was fundamentally untenable.

The link between the Gold Standard and banking crises is fairly well established. Countries that stayed on the Gold Standard were more likely, \(ceteris paribus\), to have banking panics than countries that went off it (Choudri & Kochin, 1980). The identity above makes it clear how this could happen – the presence of gold reduced liquidity, and put domestic monetary authorities between the proverbial rock and a hard place, where domestic conditions might clearly call for reflation, while preservation of the Gold Standard called for deflationary policies to ‘defend gold.’ Countries that went off the Gold Standard also generally recovered from the Depression much more quickly than countries that did not. Once countries went off gold, they generally had markedly improved economic performance. A lessening of fiscal panic certainly helped, as did the removal of the dead weight that gold preservation seemed to put upon countries choosing to labour under it.

Pedagogically, the unfolding of gold’s collapse has all the elements of a good potboiler (with the following narrative drawn mostly from Eichengreen & Sachs, 1985, pp.928-929). First Argentina and Uruguay suspended gold payments in December of 1929. Hungary, Paraguay and Brazil were unable to maintain their currencies at par. In 1930 Chile, Venezuela, Peru, Australia, and New Zealand fell below the gold export point. Then the watershed: the Pound Sterling detached from gold in September 1931. Germany had already imposed exchange controls in July of that year, foreshadowing the action. By the end of October 1931, all of the British Dominions, save South Africa, the rest of the British Empire, and a number of Scandinavian, European, African and Latin American nations had followed suit. Six months after that Japan, Greece, Siam and Peru were off of gold as well.
Then the US left gold in 1933. That process has its own dramatic details, typical of the cagey Roosevelt who tended to blow one way, then another, and made sudden gestures. One of these was Roosevelt’s sudden pulling out of a worldwide economic conference held that year (Stein, 1969). The story hardly ends there, but has gone far enough for our purposes.

The big lessons learned from the collapse and perverse incentives of late-stage gold-ism, found their way into the system of international exchange erected at the Bretton-Woods conference in 1946. The elements of this agreement included a managed exchange rate for currencies, subject to agreed upon parameters; free capital movements, subject to government intervention if need be; the construction of an international LOLR to deal with unanticipated and nationally unmanageable crises; and an absolutely unfettered trade in the current account (Cooper, 1992, p.2125). Bretton-Woods is no longer operative, but these four elements, modified, shape foreign exchange and foreign trade today.

5. CONCLUSIONS AND CAVEATS
A major conclusion of the reflections offered above is that history should be an integral part of teaching current topics and theories in economics, finance and business. The Great Depression is an historical epoch that is well suited for such a mode of historical teaching because of its breadth, depth and continuing relevance to today’s institutions, problems and prospects. The Great Depression meets the criteria of extensiveness (covering a wide range of issues and elements), intensiveness (going down to the core of most of these issues and elements, with many rich choices available to the teacher about what level of detail to go into), drama (almost self-explanatory, in that this is a dramatic story than can captivate students), context (with many clear, if controversial, linkages between particular events and the general fabric of the prior age) and process (with clear lineages between events of those times and developments later on). This is not to say that the Great Depression should be left to carry the whole teaching load or that it is right for every student or every course. The following caveats, perhaps obvious, should be noted.

First, except for historically minded or very advanced students, links between the past and present do need to be made clear and current-day examples and cases also need to be addressed. While the stories of the Depression are compelling, many students have a ‘who
cares’ attitude towards the past, doubting its utility and perhaps drifting off when it is discussed in detail. This syndrome can generally be overcome, but it must not be ignored and has to be addressed.

Second, past is not necessarily prologue. There can be a tendency among lovers of history (like myself) to over-interpret it, and to lapse into a sort of historical determinism. There is much to learn from the past, but past events are, by definition, as unique as current events. Even if a second Great Depression occurs, it will not be exactly like, nor exactly determined by the same causes and effects as, the first Great Depression. Instructors need to keep this in mind, lest they get carried away.

Third, most students probably need a brief introduction to historiography and appropriate uses of history. This need not be done as a separate module, but can be scattered throughout the course material. History is potent, but also difficult to use wisely, and students should be at least rudimentarily trained in its use. Some instructors probably need such instruction too.

Finally, there is much to be said for supplementing the Great Depression with other historical examples outside of the period. These need not just be analogous experiences, such as latter-day banking crises, but also counterfactual experiences as well.

But bearing these caveats in mind, there is much to be gained by making increased use of the Great Depression in the teaching of a wide range of courses in economics, finance and business.

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