

# ***Teaching the Causes of Great Depression to College Students: Evidence from History, Economics, and Economic History Textbooks***

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## **ABSTRACT**

We survey the treatment of the Depression in college-level textbooks for courses in US history and economics. History textbooks emphasis on inequality, the stock market crash, and underconsumption as the primary causes does not reflect the consensus of economic historians. Introductory economics textbooks use the Great Depression as an example to illustrate macroeconomic concepts in ways aligned with the research consensus, which emphasizes declining aggregate demand and issues related to monetary policy and the financial system. History textbooks could be improved by focusing more on bank failures, the actions of the Federal Reserve, monetary deflation, and declines in autonomous spending.

## **Introduction**

The Great Depression is the arguably most important macroeconomic event of the 20<sup>th</sup> century. It is also a defining event in terms of economic policy: following the Great Depression, the federal government took a much more active role in regulating the economy, and not just during economic downturns.

The Depression is usually covered in two college-level courses: introductory economics (usually macroeconomics) and US history survey classes. But the Depression is treated very differently in these two courses. According to the most recently available data, both courses rank among the top ten college courses taken in the United States, with around 40 percent of undergraduate students taking them at some point.<sup>2</sup>

For many students, perception of the Great Depression's causes inform their views on business cycle events in the present. If the Depression is understood to illustrate a failure of free-market capitalism, this belief may shape a student's views about the proper role of government in general economic policy decisions in addition to business cycle events. The market-failure view is common in college-level history textbooks. If instead the Great Depression is understood as a failure of government institutions to properly address a normal business cycle, the policy implications are much different. The government-failure interpretation of the Depression is much more common among economic historians.

The effect of the Depression on economic policy beliefs is readily acknowledged by prominent scholars in each field. Eric Foner, in his best-selling college history textbook, concludes his description of the Great Depression by asserting that it had "discredited" the version of freedom that was summed up at the time by economist and law professor Walton H. Hamilton:

Liberty of contract has been made the be-all and end-all of personal freedom; ... the domain of business has been defended against control from without in the name of freedom. (Foner 2014, p. 804)

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<sup>2</sup> Adelman (2004, pp. 63-64) has data for 1972, 1982, and 1992 high school graduation cohorts. For US history surveys, the percent of students in each year was 42.6, 36.9, and 43.8 percent. For introductory economics, the same figures are 45.3, 59.0, and 40.9 percent. Siegfried (2000, p. 203) only has data on introductory economics for 1998, but reports a similar figure of 39.5 percent.

Influential educator and education theorist George S. Counts' famous speeches during the Depression argued that the old order, based on competition and capitalism, was no longer viable. Instead, a new order based on cooperation and socialism was inevitable (Violas 1971, p. 26).

Writing decades after the Depression, economists Milton and Rose Friedman held a similar view: In the realm of ideas, the depression persuaded the public that capitalism was an unstable system destined to suffer ever more serious crises. ... The change in the public's perception of the proper role of private enterprise ... and of the government ... provide a major catalyst for the rapid growth of government... to this day. (Friedman and Friedman 1980, p. 70)

Roark et al. (2016, p. 615) describe this view of the Great Depression much more succinctly in their college-level history textbook, calling the Depression a "massive failure of capitalism."

An alternative narrative acknowledging errors in government policy yields an entirely different set of prescriptive outcomes. If, instead, the Great Depression is viewed as a failure of governmental institutions, it becomes less of a morality tale regarding whether free markets are good or bad, and how much regulation they need. Rather, the most pertinent questions involve identifying missteps taken by policymakers both before and during the Depression, as well as directing deeper scrutiny to the institutional arrangements of government that permitted such errors to occur.

The teaching of the Great Depression in the US educational system is thus crucially important for an accurate understanding of the economy and public policy today and in the future. More specifically, the cause or causes of the initial downturn in the Great Depression is especially important for understanding either the instability of private markets, or the inability of government agencies to make and implement appropriate economic policy decisions. Young students may carry in their heads any lessons from this historical episode and apply it to questions of the balance between governments and markets in the world today.

What, then, are students learning about the causes of the Great Depression in classroom textbooks?

Cargill and Mayer (1998, pp. 441-442) surveyed high school history textbooks for causes of the Great Depression, and compared those causes to ones that economists and economic historians identify as important. They found "a large gap between what students are taught through these books and what researchers think about the Great Depression." Cargill and Mayer also indicate that the discussion in high school history textbooks "differs at important points from the prevailing views of present day researchers and presents a misleading view of this period."

The Cargill and Mayer findings were in line with previous research on the topic (Miller and Rose 1983), despite the fact that economists have been trying to present a more balanced view of the causes of the Depression for decades, often targeted at high school teachers. For example, in a 1980 curriculum guide published by the Joint Council on Economic Education, a full page is dedicated to a handout discussing the monetarist explanation of the Great Depression and the role of the Federal Reserve. While noting the existence of some disagreement among economists, it also stated (in a quotation from Savage 1977) that "most economists would agree that the Federal Reserve System should have acted more rapidly and more aggressively to stop or shorten the decline" (O'Neill 1980, p. 100).

High school education may only represent the tip of the proverbial iceberg for its role in perpetuating historical interpretations of the Depression that fall outside of the economic mainstream. In theory, the typical college history textbook is intended for a higher-level readership, and may accordingly be expected to reflect a broader understanding of scholarly consensus among economic historians. Several signs, however, suggest a continuation of the same pattern that Cargill and Meyer observed at the high school level.

We therefore update the Cargill and Mayer paper by applying a similar analysis to college-level U.S. history textbooks. Since their article is more than 20 years old, we incorporate subsequent scholarly contributions from economic historians on the causes of the Depression into our analysis (though not much has changed which would alter that consensus). Doing so gives us a good idea of what US college students are learning about the causes of the Great Depression in their history courses, and whether that aligns with the research of economic historians.

In large part our findings confirm and extend Cargill and Mayer's assessment from over two decades ago. College-level history textbooks contain many of the same errors of both omission and commission about the causes of the Great Depression that were found at the high school level. Such errors are even more troubling at the college level, where textbook selection is further removed from the political influences of the public school system and where instruction is usually provided by academics who claim scholarly expertise in the subjects they teach. Since students are already familiar with the basics of the Depression from their high

school courses, college textbooks should be going into greater detail to convey a deeper understanding of the relevant scholarly literature. And the deeper understanding should be based on the best current research by economists who specialize in studying the events in question.

### **Defining Consensus**

“You're right, we did it. We're very sorry. But thanks to you, we won't do it again.” -Ben Bernanke,  
November 8, 2002 (Bernanke 2002)

The quotation comes from a speech by Ben Bernanke, at the time a member of the Board of Governors of the Federal Reserve. The “you” is Milton Friedman and Anna Schwartz. The “we” is the modern Federal Reserve. The “it” is turning a normal recession into the Great Depression. At the time of the speech, Bernanke was giving a summary of the current state of economic research on the causes of the Great Depression. Bernanke himself was an important contributor to the line of research following Friedman and Schwartz. But it was also a foretelling of the future in some sense. When Bernanke was the Chairman of the Federal Reserve during the 2007-2008 Financial Crisis, he closely followed the advice of Friedman and Schwartz and other monetary economists and economic historians: above all, don't let the money supply contract sharply during a recession.

Bernanke was expressing a professional consensus among economists about the Great Depression. But is this consensus Bernanke and others agree with being represented in college-level US history textbooks? How can we know what the consensus is?

### ***Survey Data of Economic Historians***

One method of investigating a consensus is survey data. Whaples (1995) conducted a survey of a random sample of members of the Economic History Association (EHA). Importantly, the EHA has members that are in history departments as well as economics departments, ensuring that we are not only getting the views of economists. It may be that a survey of all academic historians would give different views than historians who are members of the EHA, but we are not aware of any such broader survey. Furthermore, the EHA's membership confines the survey's results to scholars in both department types who specialize in economic history and presumably possess expert competency in that area.

Whaples asked both economists and historians to respond to 40 propositions about US history, and six of those are directly about the Great Depression. Summaries of the propositions, along with the responses, are shown in Figure 1.

The full propositions from Whaples (1995) are as follows:

34: Monetary forces were the primary cause of the Great Depression.

35: The demand for money was falling more rapidly than the supply of money during 1930 and the first three-quarters of 1931.

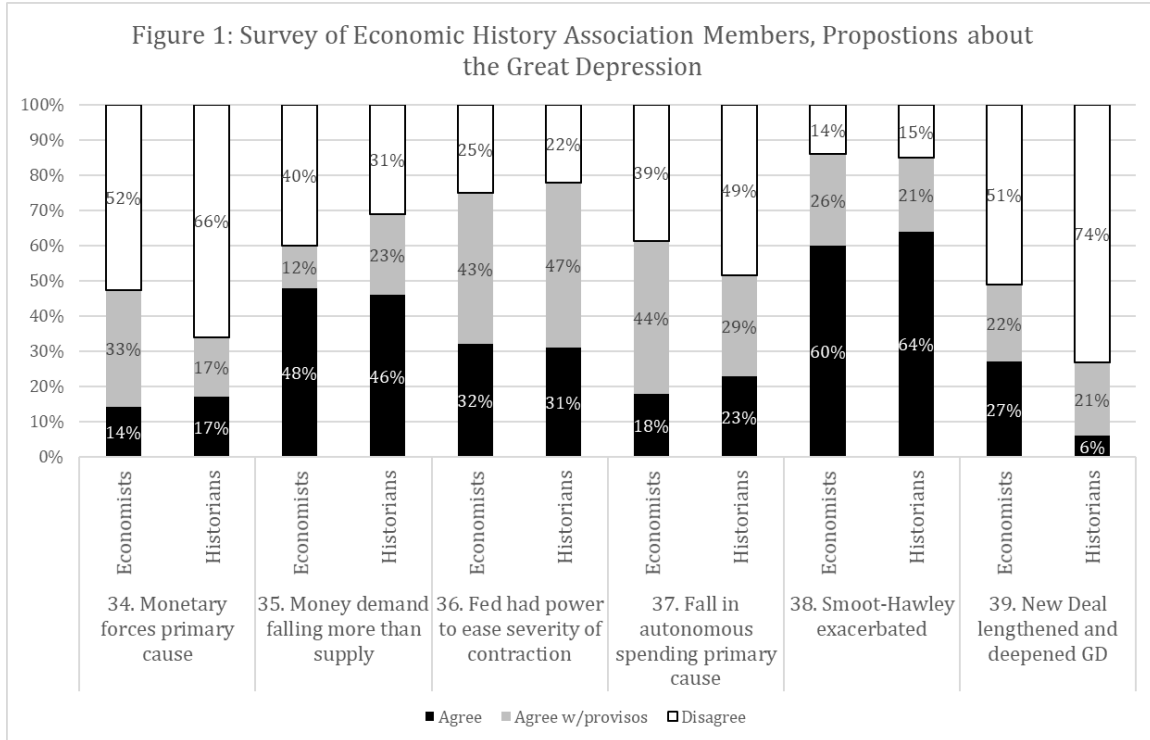
36: Throughout the contractionary period of the Great Depression, the Federal Reserve had ample powers to cut short the process of monetary deflation and banking collapse. Proper action would have eased the severity of the contraction and very likely have brought it to an end at a much earlier date.

37: A fall in autonomous spending, particularly investment, is the primary explanation for the onset of the Great Depression.

38: The passage of the Smoot-Hawley Tariff exacerbated the Great Depression.

39: Taken as a whole, government policies of the New Deal served to lengthen and deepen the Great Depression.

Proposition 39 is primarily about the length and depth of the Great Depression, rather than the initial onset or “causes,” but the other five bear directly on what caused the Great Depression. Whaples allowed respondents three choices: agree, agree with provisos, or disagree. For purposes of determining whether there is a consensus, we add the “agree” and “agree with provisos” responses together (we also note the “provisos” group in the Table).



Source: Whaples (1995). The numbering of propositions is from original source.

From these propositions, several observations can be made:

- The clearest consensus position, in terms of responses in one direction and agreement across economists and historians, is that the Smoot-Hawley Tariff of 1930 exacerbated the Great Depression.
- Another consensus position is that the Federal Reserve had the power to prevent some of the worst aspects of the initial downturn, the monetary deflation and bank failures. Both economists and historians agree with this by about a 3:1 margin.
- The biggest disagreement among economists and historians is whether the New Deal lengthened and deepened the Depression. Economists are almost exactly split, but historians reject it by a 3:1 margin.
- Another disagreement is whether monetary forces were the primary cause. Again, economists are split evenly, but historians reject it by about a 2:1 margin. Slightly more economists agree that a fall in aggregate demand (proposition 37) was an important cause, but there is still not clear agreement.
- On most other issues, economists and historians are close in agreeing with each other, but there is no clear consensus on the proposition (a roughly equal split within disciplines).

Several of these propositions come directly from statements made by monetarists Friedman and Schwartz (1965) in propositions 34 and 36, and Keynesian explanations from Temin (1976) in propositions 35 and 37. Clearly both monetarist and Keynesian explanations have some support, but no one side is the overwhelming consensus. Given these responses, we might expect a basic consensus narrative of the Great Depression to go something like this: “Two primary aspects of the initial downturn were monetary deflation and bank failures, and the Federal Reserve could have prevented both of these by expanding the supply of money. Other economists favor a Keynesian explanation, where a fall in aggregate demand and autonomous spending were the more important cause, even though many would still agree that monetary policy was poorly executed. While economic historians continue to debate which of these factors warrants greater emphasis, both were likely important. The Great Depression was further exacerbated by the Smoot-Hawley Tariff.”

### *Survey and Literature Review Articles*

As will be clear later in this paper, history textbooks also emphasize several factors that were not mentioned in the Whaples (1995) survey: the stock market crash, income inequality, and overproduction/underconsumption. The “overproduction” or “underconsumption” explanations need some

explanation. Briefly, the overproduction/underconsumption argument holds that economic production outpaced what most consumers could purchase given their low pay, triggering a contractionary event in the form of the Depression. The underconsumption theory is also distinct from Keynesian theories, even though they both focus on spending and consumption.

The combination of overproduction/underconsumption and income inequality is clearly stated in a college-level history textbook by Shi and Tindall (2016, p. 903, italics in the original):

The once roaring economy fell victim to *overproduction* and *underconsumption*. During the twenties, manufacturing production increased 43 percent, but the purchasing power of consumers did not grow nearly as fast. In essence, the economy was producing more and more products that consumers could not afford to buy ... Too many business owners had taken large profits while denying wage increases to employees.

What do economic historians think about these causes? Two survey articles can be used to summarize the views of economists on these issues. Parker (2008) is an entry in the EH.Net Encyclopedia, a project of the EHA edited by Whaples (the same Whaples who conducted the survey discussed above). Temin (2000) is the entry in the *Cambridge Economic History of the United States* on the Great Depression. Temin (2000, p. 301) begins his survey with a clear distinction: older scholarship saw the Depression as evidence of “a great instability in the economy,” while more recent work concentrates on shocks to the economy as a cause of the downturn.

Parker (2008) states firmly that:

Without any doubt, the economics profession would come to a firm consensus around the idea that the economic events of the Great Depression cannot be properly understood without a solid linkage to both the behavior of the supply of money together with Federal Reserve actions on the one hand and the flawed structure of the interwar gold standard on the other.

Monetary policy, both the Federal Reserve and the Gold Standard, take a prominent place in the consensus Parker describes. Parker goes on to state that even to the extent that the stock market crash was important, the crash itself was caused by monetary policy. Hamilton (1987) and Cecchetti (1998) show that the Federal Reserve engaged in contractionary monetary policy in 1928 and 1929, with the explicit goal of ending speculative stock market activity. Parker neatly summarizes it this way: “While popular history treats the crash and the Depression as one and the same event, economists know that they were not.” Furthermore, Eichengreen (1996) argues that the Gold Standard actually caused instability and further worsened the crisis, and that the sooner a nation left the Gold Standard, the milder its economic suffering.

Temin agrees with Parker on this importance of monetary policy. The decline in industrial production in 1929 “was caused by contractionary monetary policy” and resulted from the Fed attempting “to arrest what the Fed considered a speculative boom in stock prices” (Temin 2000, p. 304). In an entry on the Great Depression for the *Oxford Encyclopedia of Economic History*, Temin also extensively discusses the importance of the gold standard for transmitting the Depression worldwide and limiting the monetary policy response of affected countries (Temin 2003).

Temin goes on to argue that five other shocks were important: the stock market crash, the Smoot-Hawley tariff, bank failures, worldwide commodity price declines, and the effect of consumer credit on consumption. But Temin is quick to add that “Time has not been kind to the school of thought that blames the Depression on the stock-market crash” (Temin 2000, p. 304).

The stock market crash did have some effect on the downturn, even though economic historians place a much higher priority on Federal Reserve activity. Romer (1990) argues that the October 1929 stock market crash increased consumer uncertainty, leading to decreased spending which contributed to the economic decline. Similarly, Mishkin (1978) shows that a decline in household balance sheets could have caused a decrease in consumption and therefore aggregate demand. Temin (2000) agrees that the stock market crash indeed had some negative effects in propagating the Depression, even if it was much less important than popular belief holds (Temin 2000, p. 305).

Temin also addresses the claim that underconsumption or overproduction caused the downturn. While Temin acknowledges that income inequality peaked at the start of the Depression, he shows that the math just does not work for this as a major cause. While real GDP fell by 30 percent from 1929-1933 and consumption fell by 10 percent in 1930 alone, “the decline in consumption caused by a shift of income was

only 0.5 percent of national income” using reasonable assumptions about the propensity to consume (Temin 2000, p. 303). Not nothing, but not nearly enough to make the Great Depression great.

Parker (2008) does not address inequality or underconsumption/overproduction. Indeed, Cargill and Mayer (1998, p. 450) note that Temin’s discussion of this issue is rare because “Such theories were popular in the 1930s, but are no longer taken seriously or even discussed by economists.” Though as we will see, and Cargill and Mayer found in high school textbooks, these related issues are discussed as causes in almost every history textbook.

Finally, the recently released *An Economist’s Guide to an Economic History*, a 2018 volume edited by Blum and Colvin, contains a chapter on “Financial Crises and Bubbles” by Quinn (2018). Quinn uses the Great Depression as one of the main examples of historical financial crises. Quinn summarizes the Friedman and Schwartz monetarist position, as well as critiques of it by Temin and others. Quinn does also briefly discuss the stock market crash, highlighting Romer’s (1990) argument that it increased uncertainty. After giving all sides their due, Quinn concludes “there is no established consensus on whether the Depression was triggered by the Federal Reserve, the Wall Street Crash, or something else entirely” (Quinn 2018, p. 97).

### ***Economic History Textbooks***

Another method for examining if there is a consensus on the causes of the Great Depression is to examine college-level textbooks written specifically about economic history, rather than general history textbooks. Three such textbooks are Attack and Passell (1994), Hughes and Cain (2003), and Siegler (2017), as well as an older textbook by Lebergott (1984).

These textbooks are largely in agreement with both Temin (2000) and Parker (2008). On the issue of inequality and underconsumption/overproduction, these textbooks affirm Cargill and Mayer’s claim that economists rarely recognize these explanations as causes of the Great Depression. The closest mention is in Hughes and Cain (2003, p. 456). They summarize Galbraith (1979) as listing five major sources of the crash, one of these being unequal distribution of income. Hughes and Cain add immediately afterwards: “But these factors need not have produced a crash in 1929 or at any other time” (2003, p. 456). As they further note, the US had gone through a dozen financial panics before 1929, but none had produced anything like the Great Depression.

These textbooks all discuss the stock market crash, but they leave the reader with the impression that it was neither the initial cause for the downturn, nor the main factor in the decline.

Hughes and Cain do not include a discussion of the stock market in their section “Explanations of the Great Depression” (pp. 486-496). Instead, the stock market is discussed in the prior chapter. Hughes and Cain also preface the “Explanations” with this strong statement: “Whichever view one adopts, the federal government and its agencies played a crucial and usually negative role” (p. 487). They discuss both the monetarist and Keynesian explanations of the Depression, with their key distinction being that “Keynesians agree that the Federal Reserve exacerbated the depression, but they don’t believe that it had much to do with the start of the depression” (p. 494).<sup>3</sup>

Like Hughes and Cain, Attack and Passell (1994) discuss the stock market crash *before* their section on “Explaining the Depression.” As in Parker (2008), they emphasize that a major reason for the stock market crash was monetary policy itself, with the Fed restricting the money supply beginning in 1928 (pp. 588-589). Attack and Passell begin their “Explanations” section by noting that “There is remarkably little unanimity among economists” (p. 592) about the causes of the Depression (though note that their text was published the year before the Whaples survey of economic historians in 1995). They go on to discuss in detail both the Keynesian (Aggregate Demand-Based Expectations) and Monetarist explanations (including short discussions of both Galbraith and the Austrian view in the Monetarist section). They do not discuss inequality or related issues as causes of the Depression.

Siegler (2017) briefly discusses the stock market crash, noting several common themes from the other textbooks and survey articles. First was the Fed’s role in deliberately slowing down stock market speculation (p. 376). Siegler does acknowledge several ways that the stock market crash could have affected the real economy, including Romer’s (1990) explanation of consumer uncertainty. But Siegler concludes by bluntly stating that the “stock market crash, however, is not as important as the bank failures and deflation that soon

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<sup>3</sup> Earlier editions of Hughes and Cain (such as the 6<sup>th</sup> edition in 2003) also discuss the Austrian theory of the Depression (from Hayek, Robbins, and Rothbard), but in the latest edition the Austrian view is placed in a footnote where they state that it “has long been out of fashion” (p. 497).

followed” (p. 377). Instead of discussing particular theories of the Depression, Siegler discusses these contributing factors: bank failures, the money supply, the gold standard, and deflation. These are reemphasized in the “Lessons” section in Siegler: 1. good central bank policy is important for short-run stability; 2. fixed-exchange rate systems limit monetary expansion (inhibiting countercyclical monetary policy); and, 3. deflation can have catastrophic consequences. Monetary policy and related real factors are prominent in this explanation, and once again there is no discussion of income inequality.

Regarding the bank failures and bank runs, these can also be attributed to a policy failure, rather than a failure of the free market. For instance, many states had unit banking laws that prohibited competition among banks and experienced large numbers of bank failures (Grossman 1994; Wicker 1996; Witcher and Horton 2013). In contrast, Canada had an extensive branching system in place and experienced zero bank failures during the Great Depression (Friedman and Schwartz 1963, p. 352).

An older economic history textbook by Lebergott (1984) is also worth considering. Lebergott does spend time discussing the stock market crash in detail, but then quotes both Paul Samuelson and Milton Friedman to say that it could have been a “garden-variety” recession (Friedman’s phrase) if not for other events (pp. 444-446). Lebergott identifies monetary policy and banking failures (pp. 446-448) and declines in aggregate spending by both consumers and investors (pp. 450-452) as the primary reasons that the recession and stock market crash turned into the Great Depression. While Lebergott’s textbook is older and now out-of-print, it presents a clear early version of stating this consensus of the causes, while recognizing that monetary policy and aggregate expenditure problems both were important.

### ***Introductory Macroeconomics Textbooks***

Principles of Macroeconomics is one of the most widely taught economics courses for college undergraduates, with around 40 percent taking an introductory economics course (often covering macroeconomics). As with history textbooks, introductory macroeconomics textbooks are a way that the discipline attempts to communicate areas of consensus and disagreement in the profession to students.

Our survey of introductory macroeconomics and principles textbooks is not intended to be comprehensive, but to show examples of how economics textbooks use the Great Depression to illustrate various aspects of macroeconomic theory. Giedeman and Lowen (2008, p. 52) undertake a more comprehensive review of macroeconomics textbooks’ use of economic history, and they report that “the Great Depression is the most commonly referenced historical event in macroeconomics textbooks.”

Since economics textbooks don’t proceed in chronological order, there is not always one chapter that contains a discussion of the Depression, as is usually the case in history textbooks. Rather, textbook authors bring it up when it is relevant to a particular topic they are discussing.

Mankiw (2021) is one of the most widely used introductory textbooks in the United States. He uses the Great Depression to discuss bank runs and aggregate demand. In the chapter on the monetary system, Mankiw (2021, p. 605) uses the bank runs in the Great Depression to show how banks are an important part of the money creation and contraction process, and that it is not solely a function of the Federal Reserve. As bank runs and failures spread across the country, households withdrew savings from still solvent banks out of fear that they too would become failed banks. When households withdraw savings, the money creation process is reversed, contracting the money supply. Mankiw then connects both bank runs and the contraction of the money supply as a cause of economic collapse and high unemployment.

In the chapter on short-run economic fluctuations, Mankiw also uses the Great Depression to illustrate the concept of aggregate demand. Mankiw (2021, p. 708) even references the debate over the causes of the Depression: “Economic historians continue to debate the causes of the Great Depression, but most explanations center on a large decline in aggregate demand.” Mankiw then briefly summarizes the debate over the causes of the decline in aggregate demand: monetary explanations versus consumption explanations (with the stock market decline being a factor in reducing household wealth and thus consumption).

Finally, Mankiw brings up the Great Depression several times in a chapter on current debates over macroeconomic policy. In doing so Mankiw is acknowledging a fact that most economists implicitly and sometimes explicitly agree with: in order to have better macroeconomic policy today, we must understand economic history correctly. Mankiw shows how the Great Depression can be used to better understand a current policy debate about macroeconomic stabilization policy (p. 771), and spending increases versus tax cuts to stimulate the economy (pp. 772-773).

Cowen and Tabarrok (2018) take a similar approach to Mankiw in the topics they cover. First they discuss Great Depression bank failures in their chapter on savings, investment, and the financial system (p. 200). They say that the ripple effects from bank failures include declines in household spending and a curtailment of credit for businesses (which further led to small business failures). They also cite Friedman and Schwartz (1963) who blame the bank failures on the Federal Reserve, as well as Bernanke (1983) on the credit squeeze.

Cowen and Tabarrok also devote several pages (pp. 670-673) to the Great Depression and aggregate demand. They cite the pessimism from the stock market crash as contributing to the decline in aggregate demand through a wealth effect felt by households (they also note that the stock market crash was caused in part by tight monetary policy). But they go beyond the general pessimism and lack of confidence in the bank system to more directly blame the Federal Reserve for allowing the money supply to contract even further, calling it “*the largest negative shock to aggregate demand in American history*” (p. 670, italics in original).

Here is how Cowen and Tabarrok sum up what they call “the chain of causal events”: monetary contraction reduced aggregate demand, causing bank failures, and causing a decline in the productivity of the financial sector, a real (rather than nominal) shock to the economy (p. 672). The large decline in international trade from the Smoot-Hawley Tariff and retaliations by other countries is also mentioned as a factor lowering both aggregate demand and productivity (p. 672). In their chapter on macroeconomic policy, the Great Depression is the primary example they use of when fiscal policy could have been effectively used to offset a decline in aggregate demand (p. 780).

The undergraduate principles of economics textbook by Gwartney et al. (2018, pp. 635-644) devotes a full chapter to the Great Depression as a case study in macroeconomic policy. They begin by examining the stock market crash as an explanation, but conclude from subsequent stock market patterns that “this view is an exaggeration” (p. 636) that attempts to pinpoint the downturn on a single event.

Instead, they attribute the Depression’s cause and severity to a confluence of four major factors: (1) monetary contraction due to Federal Reserve mismanagement, (2) the Smoot-Hawley tariff and subsequent collapse of global trade, (3) contractionary fiscal effects of the Revenue Act of 1932, which raised taxes in an attempt to pay down the federal budget deficit, and (4) price controls adopted under the New Deal, which they credit for unintentionally impeding the recovery.

Other popular textbooks use the Great Depression in many of the same ways as Mankiw (2021), Cowen and Tabarrok (2018), and Gwartney et al. (2018). McConnell et al. (2015) discuss aggregate demand and Keynes’ new theory (p. 257), the monetarist view of macroeconomic instability (pp. 426-427), and tariffs (pp. 250, 460) in the context of the Great Depression. On tariffs, they note that “Economic historians generally agree that the Smoot-Hawley Tariff Act was a contributing cause of the Great Depression” (p. 354). McConnell et al. (2015) also use the Great Depression and the stock market crash as an example of the post hoc fallacy: “Many people blame the Great Depression of the 1930s on the stock market crash of 1929. But the crash did not cause the Great Depression. The same severe weaknesses in the economy that cause the crash caused the Great Depression” (p. 19).

Frank et al. (2019), with notable co-author Ben Bernanke, also discuss bank panics and monetary contraction (pp. 259-260) and the decline in aggregate expenditures (pp. 313-14), using the Great Depression as an example. Frank and co-authors also explicitly reject the view that Wall Street speculation caused the Great Depression, instead blaming it on poor economic policymaking (p. 88). Much later in the book (after building up all the tools of macroeconomics) they spell out exactly what those mistakes were: allowing bank failures, monetary contraction, fixed exchange rates (through the gold standard), and increasing tariffs (pp. 482-483).

Table 1 summarizes how several different economics textbooks use the Great Depression to illustrate concepts. Not all of these are necessarily listed as “causes” of the Depression, though many are. Once again, we do not present this list of textbooks as exhaustive, but rather showing the general ways that economics textbooks use the Depression as a teaching tool, and to later show how the approach of economics textbooks is very different from college history textbooks. The economics textbooks we chose partially reflect our attempt to include authors with differing ideological views or methodological approaches.<sup>4</sup>

The macroeconomics textbooks discussed so far in this section have a lot of overlap in the topics they discuss, but one general area is also notable for its absence: income inequality and the related underconsumption theory of the Great Depression, topics that we will see in the next section are heavily emphasized in history textbooks. One relatively new introductory textbook where we might expect to find

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<sup>4</sup> We also appreciate suggestions from a referee on several textbooks to include.



inequality discussed is the new CORE economics textbook. CORE is a collaborative textbook with almost two dozen co-authors in the most recent edition (CORE 2017). The textbook is an attempt to redesign the way that undergraduate economics is taught. Its preface makes clear that the book should have a focus on inequality, since students frequently say it is “the most pressing problem that economists should address,” showing a “word cloud” where inequality clearly stands out. And they take this approach seriously in the textbook: the title of the very first section (1.1) of the book is “income inequality” and inequality is also one of the six “themes and capstone units” of the book.

**Table 1: Use of the Great Depression in College-Level Introductory Economics Textbooks**

	Income Inequality	Debt, Credit, Bankruptcies	Stock Market Crash	Federal Reserve Policies	Bank Failures	Monetary Contraction	Gold Standard	Aggregate Demand contraction (Keynesian explanation)	Protectionism/ Smoot-Hawley
<b>Bade and Parkin</b>				X	X	X		X	
<b>Baumol et al.</b>								X	
<b>CORE Team</b>	X		X	X		X		X	
<b>Cowen and Tabarrok</b>		X		X	X	X		X	
<b>Frank et al.</b>				X	X	X	X	X	X
<b>Gwartney et al.</b>				X		X		X	X
<b>Mankiw</b>			X	X	X	X		X	X
<b>McConnell et al.</b>				X		X		X	X
<b>Samuelson and Nordhaus</b>		X	X		X			X	X
<b>Stevenson and Wolfers</b>					X			X	

Note: Some categories listed in Table 2 are not included here because no economics textbook mentioned them. The categories are: underconsumption, overproduction, and lack of federal regulations.

Importantly though, the authors of the various units in the book do not list inequality as a cause of the Great Depression. In Unit 14 of the book (Algan et al. 2017), they use the Great Depression as a way to discuss aggregate demand, much like the more conventional introductory textbooks. Unit 14 lists three factors as contributing to the decline in aggregate demand: uncertainty (from the stock market crash), increased savings, and bank failures and the collapse of credit.

The CORE textbook also devotes a capstone chapter, Unit 17 (Carlin et al. 2017), to “The Great Depression, Golden Age, and Global Financial Crisis.” While rising income inequality is discussed as a fact of the 1920s in the introduction to the unit (section 17.1), inequality is not mentioned when they get to the causes of the Great Depression (section 17.2). Instead, they list three causes that very much align with the other textbooks we have discussed: increased savings and declining consumption, bank failures, and monetary deflation. Important descriptions of the causes of the Depression could easily have come from any

other textbook, such as “once the downturn began in 1929, this policy stance [contractionary monetary policy] reinforced, rather than offset, the decline of aggregate demand.”

While the CORE textbook is unique in placing discussions of inequality at the front of the textbook and in making it central to the book’s focus, most introductory textbooks cover inequality as well. For example, both Mankiw (2021) and Samuelson and Nordhaus (2010) devote full chapters to inequality and related topics, though these come towards the end of the textbook. What separates the discussion of inequality in CORE and other economics textbooks from the history textbooks is whether it is treated as a *cause* of the Depression. Economics textbooks do not. History textbooks largely do treat inequality as a cause, especially when combined with the concepts of underconsumption and overproduction, as we will see in the next section.

### The Great Depression in College History Textbooks

As stated earlier, given the responses from the Whaples survey, we might expect that history textbooks describe the Great Depression as follows: Two primary aspects of the initial downturn were monetary deflation and bank failures, and the Federal Reserve could have prevented both of these by expanding the supply of money. Declines in aggregate demand and expenditures are also an important cause, though economic historians disagree whether monetarist or Keynesian theories better explain this decline. But the consensus suggests that monetary policy was poorly performed, even if some economic historians don’t think it is the primary cause. The Great Depression was further exacerbated by the Smoot-Hawley Tariff.

For our analysis, we compare nine major college-level textbooks that were written for U.S. history survey courses. We identified these textbooks based on the frequency of their occurrence on college course syllabi as recorded in the Open Syllabus Project database (<https://opensyllabus.org/>), a collection of over 6 million syllabi, including 179,000 from the field of history. After a careful reading of the nine textbooks, we find that standard narratives of the Great Depression from U.S. history survey classes are not even remotely close to the consensus interpretations found within the economics discipline, and specifically among the economic history subfield. Indeed, these textbooks hardly mention the Federal Reserve, bank failures, or monetary deflation. Instead, they emphasize underconsumption theory, rising income inequality, the accumulation of debt (both foreign and domestic), the stock market crash, and overproduction as the most important causes of the Great Depression. Each textbook offers an array of reasons for the economic downturn, but these five causes dominate their pages. Table 2 summarizes the causes and explanations for the severity of the Great Depression in the history textbooks we surveyed.

By far, the most frequently listed causes for the Great Depression in U.S. history textbooks are the related causes of underconsumption and income inequality. The underconsumption explanation has its roots in contemporaries of the 1920s and 1930s who witnessed large inventories of goods in warehouses sitting unused. The argument was that the economic benefits of the 1920s had been enjoyed by very few Americans. As a result, the market for consumer goods was saturated by 1929 because wages had not increased for most consumers. As the Depression continued, increases in unemployment led to a further decrease in demand for these goods as more and more Americans found themselves without work and as such without a paycheck. In short, the economy was out of balance. It benefited only the wealthy and well connected. The average American was forgotten. Much of this narrative is incorrect based on the findings of the economics literature. For instance, Smiley (2004) has demonstrated that real wages increased during the 1920s.

Norton et al. (2019, p. 627) offers a standard description of the underconsumptionist explanation in *A People and a Nation*:

When demand leveled off, factory owners had to cut production and pare workforces. Retailers had amassed large inventories that were going unsold and, in turn, they started ordering less from manufacturers. Farm prices continued to sag, leaving farmers with less income to purchase machinery and goods. As wages and employment fell, families could not afford the things they needed and wanted. Thus, by 1929, a sizable population of underconsumers was causing serious repercussions.

Underconsumption theory is often combined with both the overproduction thesis and the income inequality explanation. This makes sense, as underconsumption implies overproduction and also implies that consumers lacked the money to purchase goods. Divine et al. (2013, p. 615) combines all three in *America: Past and Present*, explaining that “the consumer goods revolution” during the 1920s “contained the seeds

of its own demise.” Simply put, “the productive capacity of automobile and appliance industries grew faster than the effective demand.”

**Table 2: Explanations for the Cause or Severity of the Great Depression in College-Level Introductory History Textbooks**

	Under-consumption	Income Inequality	Over-production	Debt, Credit, Bankruptcies	Lack of Federal Regulations	Stock Market Crash	Federal Reserve Policies	Bank Failures	Monetary Contraction
<b>Berkin et al.</b>	X	X		X			X		X
<b>Brinkley</b>	X	X				X			
<b>Divine et al.</b>	X	X	X			X			
<b>Faragher et al.</b>	X	X	X			X			
<b>Foner</b>	X	X		X		X			
<b>Henretta et al.</b>	X			X		X			
<b>Norton et al.</b>	X	X		X	X	X			
<b>Roark et al.</b>	X	X		X					
<b>Shi and Tindall</b>	X	X	X				X	X	

Note: Some categories listed in Table 1 are not included here because no history textbook mentioned them. The categories are: the gold standard, aggregate demand, and protectionism.

Divine et al. (2013, p. 615) further explains that “each year after 1924, the rate of increase in the sales of cars and refrigerators and ranges slowed, a natural consequence as more and more people already owned durable goods.” They contend that corporate leaders should have responded “by raising wages or lowering prices, both effective ways to stimulate purchasing power and sustain the consumer goods revolution.” Or perhaps government, Divine et al. contends, should have “forced a halt in installment buying and slowed bank loans.” Likewise, Norton et al. ties the underconsumptionist explanation to income inequality. Norton et al. (2013, p. 627) argues that “underconsumption also resulted from widening divisions in income distribution. As the rich grew richer, middle and lower-income Americans made modest gains at best.”

The combination of underconsumption, overproduction, and income inequality have become the predominant explanation for the onset of the Great Depression in history textbooks. It should not be surprising that historians have latched on to these explanations to explain the Great Depression. After all, historians put a heavy emphasis on primary sources, and contemporaries of the 1920s and 1930s claimed underconsumption a major cause of the depression. Indeed, some of Roosevelt’s New Deal programs were designed to address the imbalance between production and consumption. Likewise, for historians who may or may not understand the intricacies of monetary policy, the underconsumption, overproduction, and income inequality explanation offers them a familiar and seemingly less imposing explanation. Unfortunately, for all the conveniences it offers historians, this interpretation is rejected by economists and economic historians alike.

Another common explanation for the Great Depression is the large amount of both domestic and international debt that accumulated during the 1920s. It is likely that the large amount of credit issued during the decade, along with the massive reparations being paid by the Weimar Republic, played a role in the economic downturn. Historians rightly label debt as a contributing factor in causing the Great Depression.

The debt explanation is often tied to the stock market crash as an explanation. There is reason for this connection. After all, stocks purchased with credit did contribute to the large increases in the value of the stock market during the decade. According to Henretta et al. (2018, p. 707) in *America’s History*, by 1927, the U.S. economy was “sinking in debt,” farmers were in a cycle of indebtedness, Americans bought stock on margins, and “consumer lending had become the tenth largest business in the country.” Henretta et al. (2018) goes further to claim that the 1920s U.S. economy was largely built on speculation and that the reason

for its prosperity also sowed the seeds of its destruction. They argue that “the risky speculation and easy credit of the 1920s undermined the foundations of the economy. After the 1929 crash, these factors, along with a range of interconnected global conditions discussed in chapter 22, plunged the United States into the Great Depression” (p. 710).

The idea that the stock market was central to the advent of the Great Depression was magnified by the publication of John Kenneth Galbraith’s (1955) *The Great Crash*. Galbraith details how rampant speculation led to the stock market crash in October 1929. Although Galbraith mentioned other contributing factors for the Great Depression, and warned against a monocausal explanation, the stock market crash captured the imaginations of historians and became central to their explanation of the Great Depression. Most of today’s college history textbooks avoid a monocausal explanation and instead combine the stock market crash with increasing debt, income inequality, underconsumption, and overproduction to offer an explanation for the economic downturn. Interestingly, Galbraith rejects both the underconsumption and overproduction theories. Near the end of *The Great Crash*, he asserts (p. 173):

Finally, the high production of the twenties did not, as some have suggested, outrun the wants of the people. During these years people were indeed being supplied with an increasing volume of goods. But there is no evidence that their desire for automobiles, clothing, travel, recreation, or even food was sated. On the contrary, all subsequent evidence showed (given the income to spend) a capacity for a large further increase in consumption. A depression was not needed so that people’s wants could catch up with their capacity to produce.

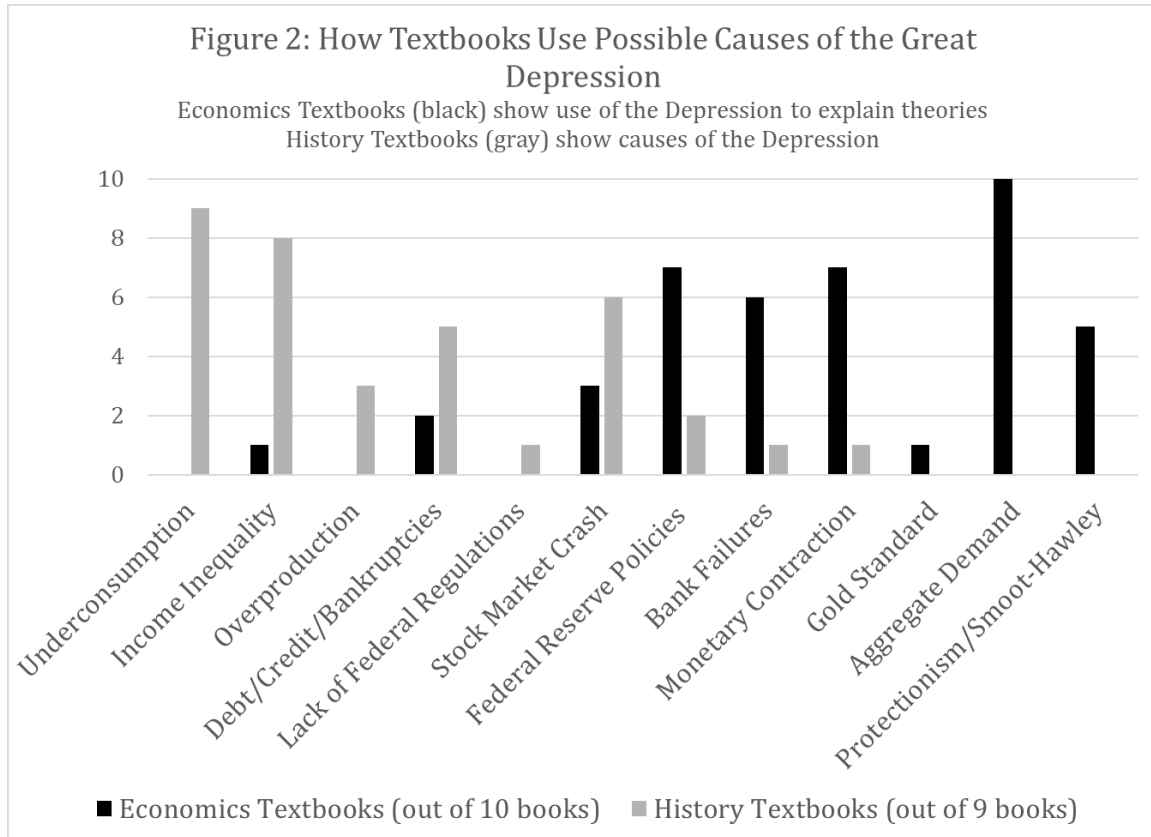
Perhaps even more telling than what the textbooks include is what they do not discuss. Only Shi and Tindall (2016) and Berkin et al. (2015) discuss the Federal Reserve’s policies as a cause of the Great Depression. Likewise, only Berkin et al. (2015) provides a detailed discussion of bank failures as a major cause of the Great Depression. This is a striking omission given that 75 percent of economists and 78 percent of economic historians agreed or agreed with provisos in Whaples’ 1995 survey that “throughout the contractionary period of the Great Depression, the Federal Reserve had ample powers to cut short the process of monetary deflation and banking collapse. Proper action would have eased the severity of the contraction and very likely would have brought it to an end at a much earlier date.” Almost half of economists surveyed by Whaples (47 percent) agreed or agreed with provisos that “monetary forces were the primary cause of the Great Depression,” although only 37 percent of historians agreed. That is a considerable percentage, yet the monetary explanation is almost entirely missing from college level history textbooks. Although only 34 percent of economic historians agreed or agreed with provisos that monetary forces were the primary cause, their perspective is not present in one-third of the textbooks we surveyed (Whaples 1995).

Figure 2 summarizes the mentioned causes in both the economics and history textbooks. The differences in coverage of topics causing the Great Depression are stark. Economists never discuss underconsumption (and generally reject this theory, as noted above), but it is universally covered by history textbooks. Likewise, income inequality is discussed as a potential cause in eight out of nine history textbooks, but only one economics textbook. The CORE textbook is the one economics textbook to discuss income inequality, but even here it is not specifically mentioned as a “cause,” but rather as a stylized fact of the 1920s. All of the economics textbooks discuss the Keynesian contraction of aggregate demand, but not a single history textbook does so. Monetary contraction, the Federal Reserve, or bank failures are discussed in six or seven of the ten economics textbooks, but one or two of the history textbooks. There is debate among economic historians over whether the monetary factors or the spending factors were more important, but a student reading the history textbooks would get no sense of this debate. Finally, a majority of history textbooks also suggest that the stock market crash was a major cause, while the minority of economics textbooks which use the stock market as an example do so in a narrow way: through the uncertainty it created as well as the wealth effect causing less spending.

## **Conclusion**

After a thorough review of the economic, economic history, and history literature, it is clear that history textbooks do not currently reflect the views of economists and economic historians on what caused the Great Depression. Whereas economists and economic historians primarily emphasize the decline in aggregate demand and the role of the Federal Reserve (in both bringing about the Great Depression and failing to avert

the worst parts of it), college level history textbooks emphasize inequality, the stock market crash, and underconsumption as the primary causes of the downturn.



Many college students are still required to take the American history survey and are likely to be assigned one of the nine history textbooks that we have examined. The Great Depression was the dominant macroeconomic event of the 20<sup>th</sup> century, and it has captured a unique place in the American psyche. Furthermore, Americans’ understanding of the causes of the Great Depression influence what economic policies they are willing to support in the present. Therefore, the way that the Great Depression is taught in both college history and economics courses is of the utmost importance. The wide gulf between history textbooks’ explanation and that of economists and economic historians raises some troubling questions about the integration of knowledge between these fields.

While historians should discuss that contemporary observers in the 1920s and 1930s believed underconsumption to be the major cause of the economic downturn, they also have a responsibility to distinguish between the incorrect interpretations of the time and what economists believe to be the cause of the Great Depression today. Both can be done effectively. Historians need to incorporate the economic consensus that the Federal Reserve played a major role in creating the monetary contraction that led to massive bank failures and was the primary cause of the Great Depression. Such a change would be welcome at all levels of education, but especially at the college level. In a college-level course, it is not the students’ first time learning about the Great Depression, and many of them have or will take an introductory economics course to give them a better understanding of tools necessary to understand the Federal Reserve and other relevant macroeconomic topics.

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