

Real Origins of the Great Depression

Monopoly Power, Unions and the Interwar Business Cycle

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HU Berlin

HU Berlin and CEPR

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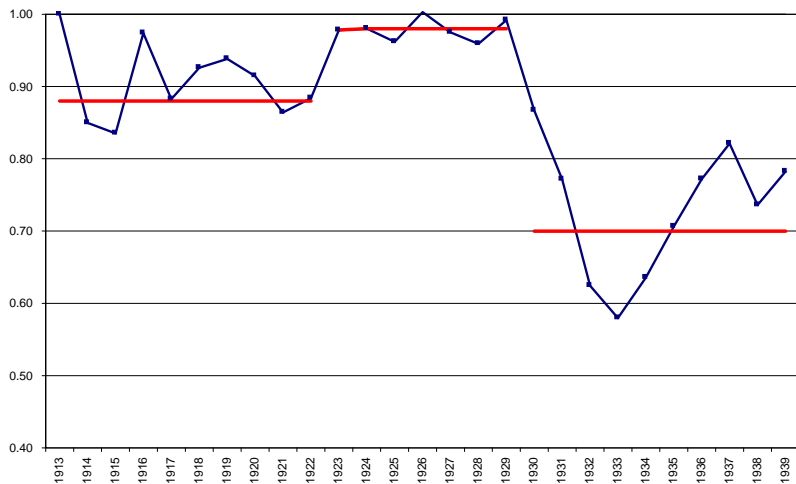
The Interwar Business Cycle

Standard & Poors Index 1913-1936



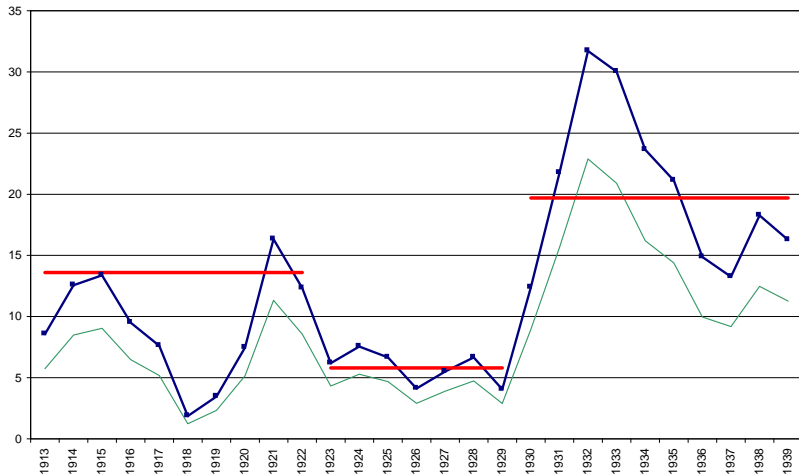
The Interwar Business Cycle

Real Private Non-Farm GNP as % of Trend 1913-1939



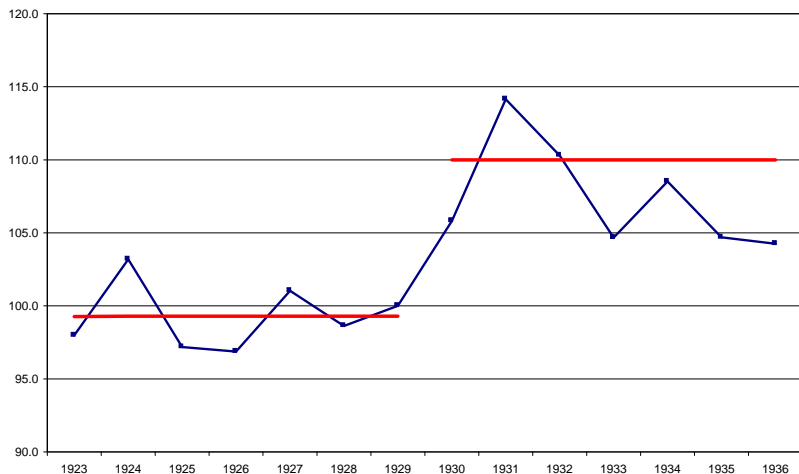
The Interwar Business Cycle

Non-Farm Unemployment 1913-1939



The Interwar Business Cycle

Real Manufacturing Wages as % of Trend 1923-36



Three Labor Law Regimes

- 1 1914 -1921: Clayton Act

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- 3 1929 onward: Welfare Capitalism

FEARS NEW CURBS ON LABOR WRITS

Counsel Tells Manufacturers
Congress Is Planning New
"Assaults" on Judiciary.

BACKS INJUNCTION POWER

J. A. Emery Also Assails Limiting
of Flexible Tariff Provision at
National Meeting Here.

The National Association of Manu-
facturers, in convention at the Hotel

LABOR'S "MAGNA CARTA" DRAFTED FOR CONGRESS

Anti-Injunction Bill of the A. F. of L. Is Designed to Assure Workers the Right to Strike and to Picket, and the Same Liberty as Farmers to Combine

By LOUIS STARK.

NINE days ago in Toronto the forty-ninth annual convention of the American Federation of Labor opened a new chapter in the struggle for "labor's Magna Carta." On that day, and with but one dissenting vote, the convention adopted a proposal for relief from the use of the injunction that, in the opinion of those who drew it up, is the "furthest north" that such measures have gone.

With the passage of the report of the resolutions committee, labor threw down the gauntlet to its opponents in the form of a bill that will be introduced at the next session of Congress. This bill, the result of intensive study for the last year, is based upon experiences with many ill-fated anti-injunction measures during a third of a century.

Designed to free labor from the shackles of company unionism, the "yellow dog" contract and the court decisions limiting the right to organize, to strike and to picket, the proposed measure was drawn in consultation with legal counsel by the American Federation of Labor and

and (or) interested in a labor dispute; carrying on the routine business of a union or a strike, such as payment of strike or unemployment benefits, assisting in the defense of strikers, giving publicity to the facts of a dispute, holding a meeting in the interest of a dispute, or causing any of the foregoing acts without fraud or physical violence.

The bill would also invalidate the court's jurisdiction upon the ground that persons engaged in a labor dispute are not engaged in "any unlawful combination or conspiracy." Provision is also made for issuance of temporary or permanent injunctions only after the hearing of testimony of witnesses in open court

is charged with contempt for violation of a restraining order in a case arising out of a labor dispute, the proposed measure would assure the accused a speedy and public trial by a jury of the State and district where the alleged contempt is committed, but this does not apply to a contempt committed in the presence of the court or so near to it as to interfere with the administration of justice.

In concluding the presentation of its report the executive council, headed by President William Green, stated: "Our purpose should and must be that Congress clearly and in unmistakable language and legislation shall manifest its regard for and interest in the rights of labor to organize, to federate and by collective action to protect and to promote labor's community of interest and by that method and procedure usher in a better, fairer and more wholesome industrial order and industrial relationship."

John Frey, one of the three members of the committee appointed a year ago to frame the bill, informed the convention that more than

WILLIAM GREEN



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- Complete asset markets, risk-neutral agents

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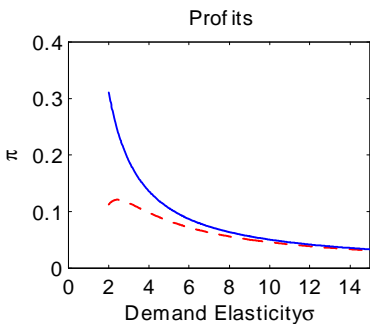
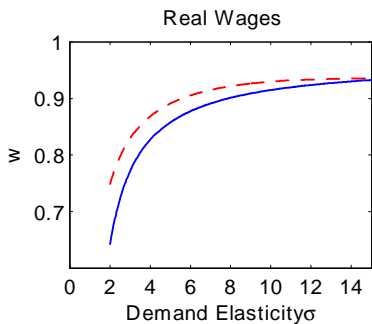
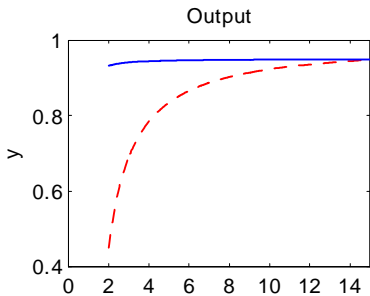
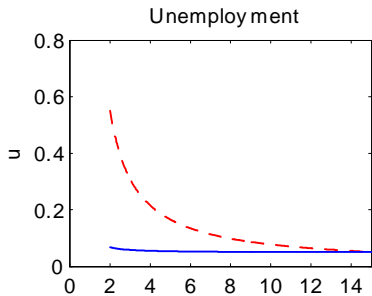
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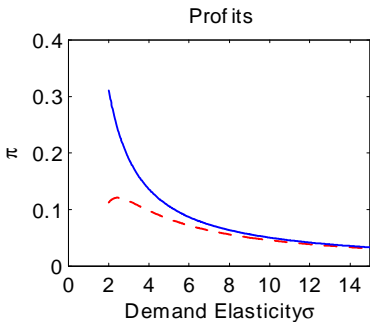
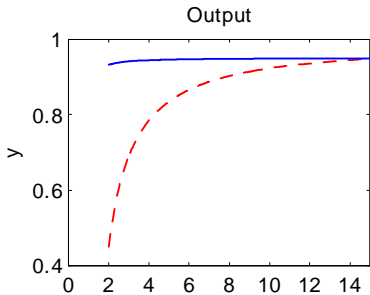
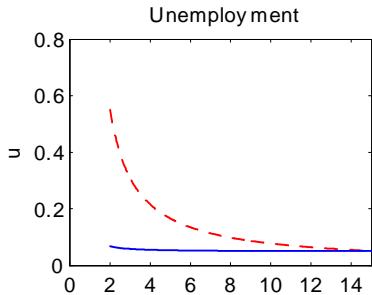
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- Ebell and Haefke (Europe vs US in 90s)

Quantitative Results

Parameter	Value	Target
A	1.0	normalization
β	0.99	4% annual r
η	0.50	empirical estimates
μ	0.50	Hosios condition
b/w	0.30	post-war $b/w \geq 0.40$
χ	0.118	BLS data
κ	0.19	perf. comp. $u = 5.0\%$

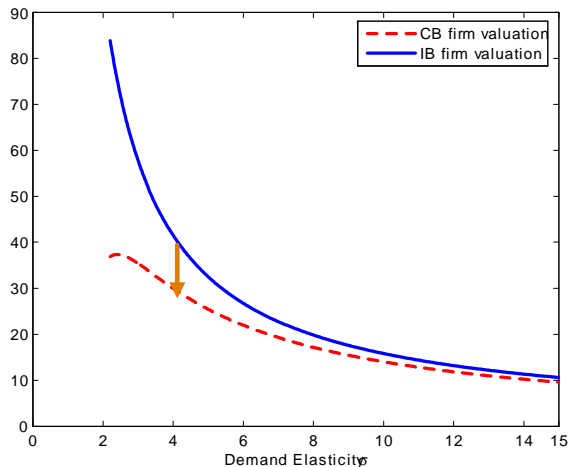


- 1 Choose demand elasticity σ to match asset price movements.

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- 2 What are the implied macro movements?

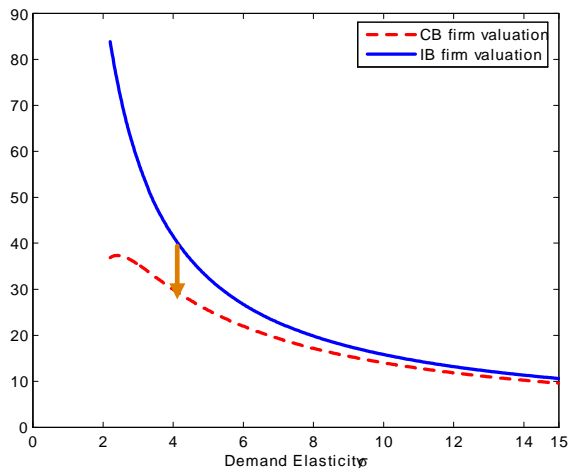
Clayton Act 1914-21

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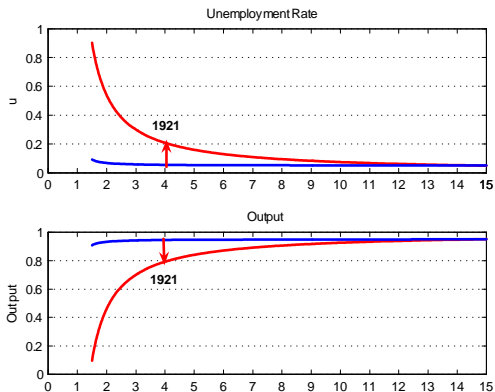
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 - $\sigma_{1921} = 4.0$, corresponds to markup of 16.7%



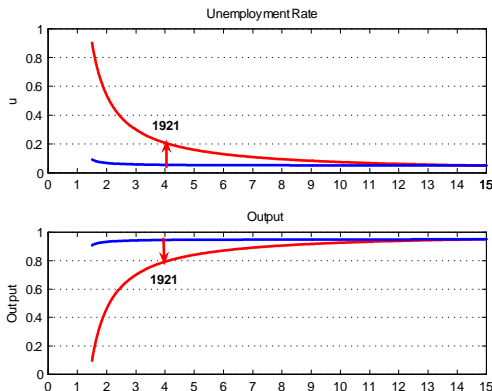
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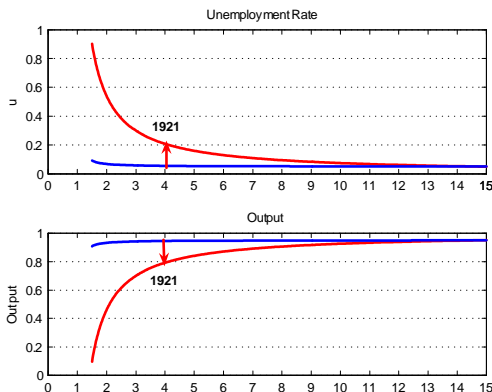
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[Data: peaks at 16.3 % in 1921]

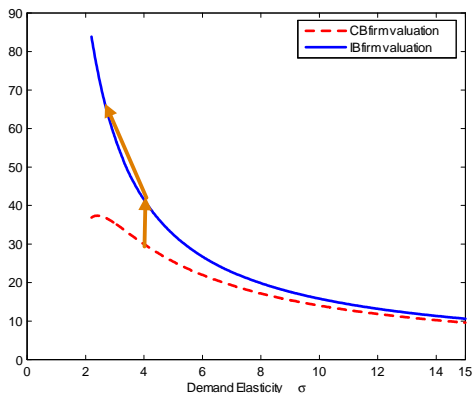


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[Data: peaks at 16.3 % in 1921]
- Output decreases by 17.0 %
[Data: 14% drop by 1921]

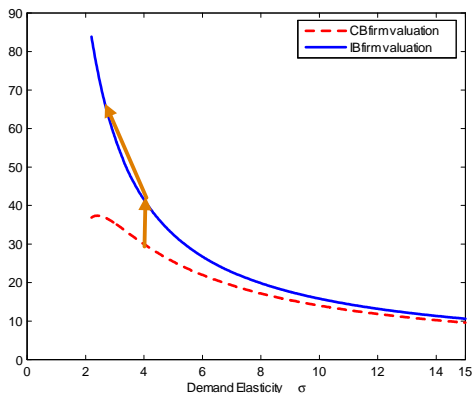


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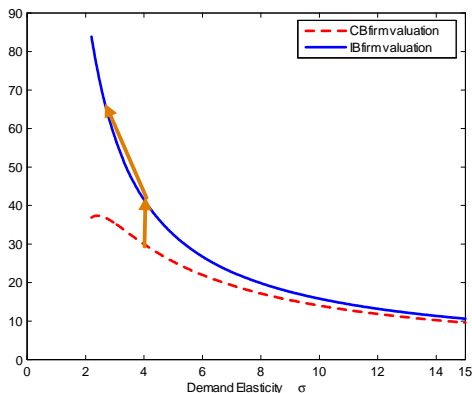
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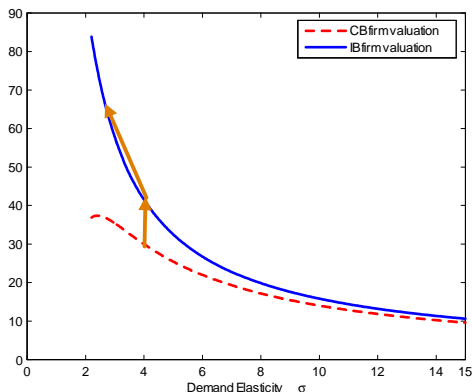
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- $\sigma_{1929} = 2.4$, corresponds to markup of 35.7%



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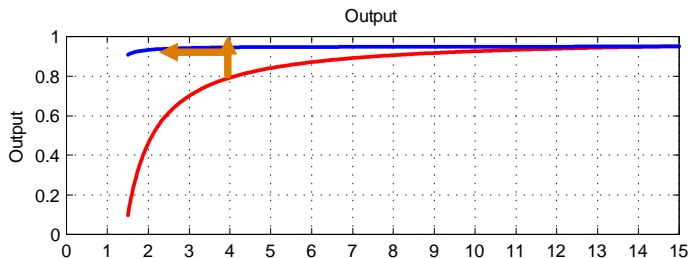
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 - Real wages decline
[Data: labor's share of income declines by about 6 percentage points]

Laissez Faire 1922-29



Implications for the Great Depression

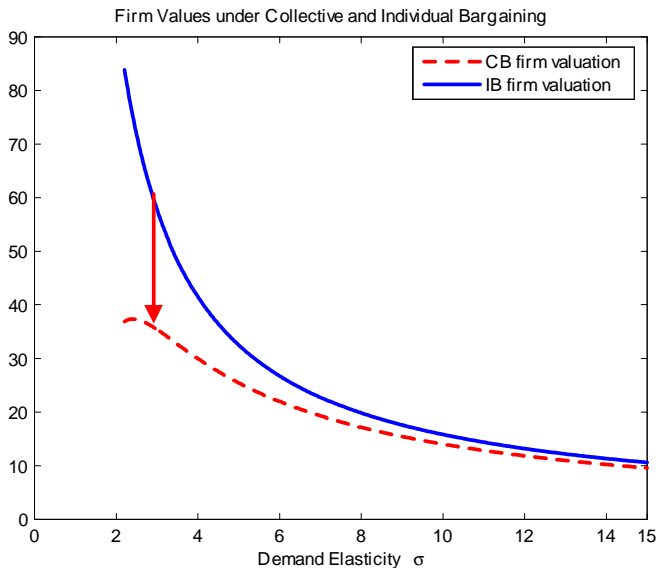
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[Data:HP-trend asset prices decline by about 33%]

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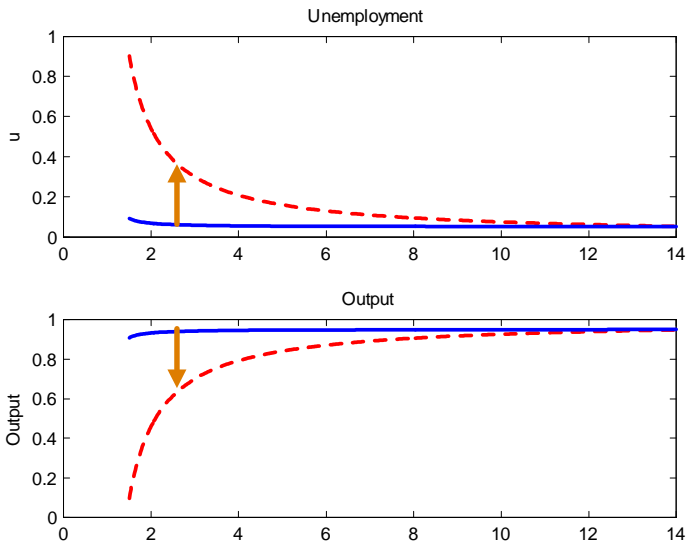
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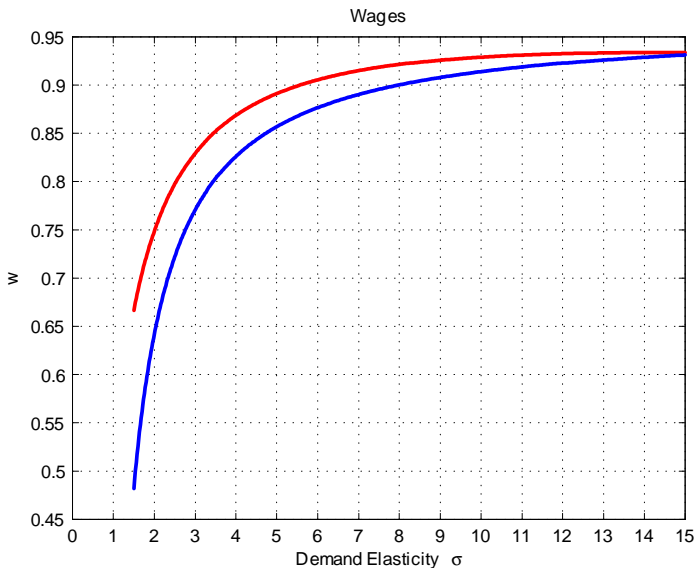
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[Data: rises to 21.7% in 1931, 31.7% in 1932]
 - Real wages rise by 9.6%
[Data: in manufacturing rise by 9-14% between 1929 and 1931]

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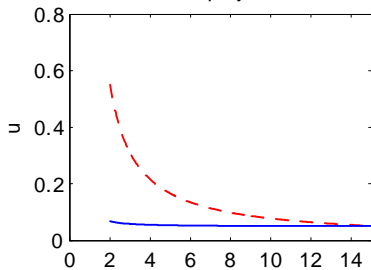
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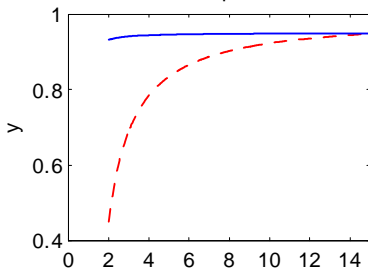
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 - If stay with IB: no recession, slight expansionary effect

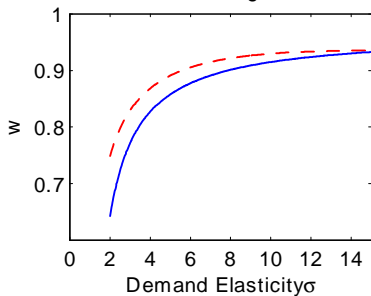
Unemployment



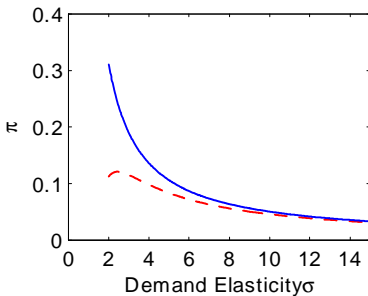
Output



Real Wages



Profits



- 1 Model does well at capturing dynamics of output, unemployment, wages and asset prices in:
 - Two major downturns
 - Roaring 20s expansion
- 2 "Business Cycle" due to shifts in steady states between collective and individual bargaining.
- 3 Document role of pro-union court decisions and legislative efforts in 1929 and 1930.

① Monetary Policy?

- How should monetary policy have reacted?
- Did monetary policy exacerbate the Great Depression?

② Other episodes?

- Great Depressions in France, Germany, UK
- Spain, Pacto de la Moncloa
- Crony capitalism and repressive regimes

③ Postwar prosperity?

- Taft-Hartley 1947
- Truman