

Economic crises: history, causes, and consequences

Course syllabus

PD Dr. Tobias Henschen
Winter Semester 2018/2019

Times and rooms:

Mondays 18:15-19:45h, AU 01042
Wednesdays 18:15-19:45h, AU 01042

The first session will be on October 15.

Contact: tobias.henschen@ucf.uni-freiburg.de

Office hours: Tuesdays 13-14h, AU 01071

Course website: ILIAS (password: Bernanke)



Overview and goals

The financial crisis of 2007-2009 and the ensuing European debt crisis have been the last in an unedifying series of economic crises that can be traced back to early modern times or even beyond. Most of these crises come with a high social cost of recessions, stock market crashes, currency devaluations, sovereign defaults, or dissolving political landscapes. The more immediate causes of these crises include sudden losses of confidence in investing; inflated prices of companies, stocks and real estate; irrational exuberance (of people who e.g. buy houses they cannot afford); lax financial regulation; unethical banking practices; sharp and sudden decreases in interbank lending; lousy rating agency performances etc. Among the less immediate causes we possibly find causes inherent to a capitalist system of production.

This course will focus on the issue of economic crises from an interdisciplinary perspective. It will prepare the ground by surveying the history of economic crises across the world for the past two centuries and place particular emphasis on the Great Depression, the so-called Great Recession, and the Eurozone crisis of 2010-2013. It will then consider some of the consequences that political scientists sometimes argue arise from economic crises: e.g. the destabilization of party systems and the rise of populist parties. It will finally and most importantly deal with the economic literature on the causes of economic crises and the policy measures of mitigating them: with largely non-technical work by mainstream economists, Austrian and Marxist economists, complexity economists and business ethicists.

Learning goals:

- acquire some economic literacy, i.e. a basic understanding of some economic concepts and principles;
- develop the vocabulary and analytical skills to understand, evaluate and debate academic texts on the history, causes, political consequences, and theory of economic crises;
- move toward a reflective individual position on questions pertaining to the history, causes, or political consequences of particular economic crises or economic crises in general.

Requirements

To complete the **pass/fail** requirements (*Studienleistung*) in this course you need to attend class and actively participate in the discussion, which is key component of this course. You may miss up to three sessions without explanation and without being sanctioned, excluding the session in which you are scheduled to present. In the case of sickness, further sessions may be missed if you demonstrate progress and engagement with the course material and are demonstrably not falling behind. Absences need to be announced prior to the session. Compensatory work for missed sessions may be requested.

The **examination** (*Prüfungsleistung*) in the course consists of 25 very brief response papers, 1 presentation, 1 very short essay and 1 short essay.

Response papers (20% of the grade): Response papers represent very brief one-sentence responses to teasing questions that are meant to test your reading of the literature that will be discussed in each session. The teasing questions will be distributed at the beginning of each session and can be dealt with in less than two minutes. The response papers are also meant to record your regular attendance, which means that you have to work on at least 22 of them. You may, however, fail up to 7, and in case you passed at least 15, your overall achievement will be graded by 1.0.

Presentation (20% of the final grade): The primary purpose of the presentation is to introduce a piece of academic literature for discussion. It should (1) capture the main thesis (or theses) of the text and reconstruct its main argument(s), (2) point to passages that seem difficult to understand (don't sweep these passages under the rug, assuming e.g. that you are the only one failing to understand them), (3) evaluate the text as much as possible, i.e. critically assess the validity of its argument(s) and the truth of its main thesis (or theses), and (4) formulate questions that seem to remain open or appear most suitable for discussion among the course participants. When giving your presentation, you should use a handout or slides (but not both). Handouts and slides should be well-structured, readable, and easy to understand. When using slides, you need to distribute hard copies of them before class. Your presentation shouldn't take longer than 20 to 25 minutes. But as the participants are allowed to ask questions, it might take up to 45 minutes. In order to enhance an atmosphere of intellectual equality, the student giving the presentation will remain seated in the front during the whole session. In each session, there will be exactly one slot for a presentation. Check the description of the general and specific topics below to find out which topic interests you most and which slot is, accordingly, most suitable for you. You might also want to consult the literature that will be discussed in each session before making your choice. In order to get a slot for your presentation, you need to register through ILIAS in the wiki called "list of presentations". Note that slots are assigned on a first come, first served basis. Don't be disappointed if someone else takes the slot that you are most interested in. All participants are expected to be able to present any of the specific topics of the course. Also note that you might no longer be able to get a slot if you register too late, i.e. if you haven't registered and all remaining slots are taken. If you register too late, you will have to do the re-sit (see below). You won't be allowed to do a co-presentation with someone else.

Very short essay (20% of the final grade): The very short essay is an essay of 1500 to 2000 words that responds to an assignment that asks you to consider a thesis or argument contained in any of the texts that we will be studying. Given this thesis or argument, the assignment will ask you, more precisely, to argue for or against it, to explain it, to offer an objection to it, to defend it against an objection, to discuss its possible consequences, to determine whether another thesis can be held consistently with it and so forth. When responding to such an assignment, your essay should begin by (1) stating your precise thesis (get to the point quickly and without digression, a florid preface or reference to a grand historical narrative is not required), (2) defining technical or ambiguous terms that are relevant to

your thesis or argument, and (3) briefly explaining how you will argue for your thesis. In case the assignment asks you to evaluate someone else's argument, you should also (4) briefly explain that argument. The main body of your essay is supposed to (5) make an argument to support your thesis. Make the strongest possible argument instead of offering several weak arguments. Do not skip any steps, and do not rest your arguments on premises that the reader might find doubtful. If you use claims that the reader might find doubtful, you must try to give convincing reasons for accepting them. Say precisely what you mean and elaborate only if necessary. Make sure that your argument is valid, and that you make adequate use of logical indicators ("either ... or", "consequently", "therefore", "all", "not all", "some", "because" and so on). The main body of your essay should also (6) anticipate and answer possible objections to your argument or thesis. Refrain from making up unconvincing objections that you can reply to easily. Instead, always raise and answer the strongest objections that you can think of. Your very short essay will need to be submitted by 12/7/2018, 23:59h, through ILIAS. Late submissions will **not** be accepted. The assignments for your very short essay will be announced through ILIAS on 11/28/2018.

Short essay (40% of the final grade): The short essay is an essay of 2000 to 3000 words that like the very short essay responds to an assignment by observing points (1) to (6), and that, in addition, (7) concludes by briefly explaining what you think your argument has established. Your short essay will need to be submitted by 2/15/2019, 23:59h, through ILIAS. Late submissions will **not** be accepted. The assignments for your very short essay will be announced through ILIAS on 1/30/2019.

The re-sit in this course will be a long essay of 5.000 words on a topic assigned by the instructor, due on 4/5/2019 at 23:59h (strict deadline). The topic will be assigned on 3/22/2019 through ILIAS.

Important formalia

The completion of the Studienleistung (SL, in this course - attendance) is the prerequisite for the admission to the Prüfungsleistung (PL).

The UCF policy on plagiarism and cheating applies to the presentations and analytical papers. Failing to indicate sources and correctly reference all ideas and quotes from other authors or your work in other assignments will result in failing the course component and possibly the course as a whole. Cases of suspected plagiarism will be reported to the Examination Board.

Cell phones and social media must not be used in class.

SCHEDULE

General topic	Date	Specific topic	Mandatory readings (available for download through ILIAS)
Introduction	Mon 10/15	Information, instructions, policies, schedule	
History	Wed 10/17	The Great Depression I	Friedman & Schwartz (1963: 299-315)
	Mon 10/22	The Great Depression II	Friedman & Schwartz (1963: 315-332)
	Wed 10/24	The Great Recession I	Bernanke (2013: 41-56)
	Mon 10/29	The Great Recession II	Bernanke (2013: 64-88)
	Wed 10/31	The Euro Crisis I	Eichengreen (2015: chap. 24)
	Mon 11/5	The Euro Crisis II	Eichengreen (2015: chap. 25)
	Wed 11/7	The Euro Crisis III	Eichengreen (2015: chap. 26)
Political consequences	Mon 11/12	Collapse of Weimar	James (1986)
	Wed 11/14	Electoral consequences of the Euro Crisis	Hernández & Kriesi (2016)
Causes I	Mon 11/19	Crisis anatomy	Aliber & Kindleberger (2015: chap. 2)
	Wed 11/21	Speculative mania	Aliber & Kindleberger (2015: chap. 3)
	Mon 11/26	Credit expansion	Aliber & Kindleberger (2015: chap. 4)
	Wed 11/28	International contagion	Aliber & Kindleberger (2015: chap. 8)
Essay 1	Mon 12/3	<i>No session</i>	
	Wed 12/5	<i>No session</i>	
	Fri 12/7	<i>First essay due</i>	
Causes II	Mon 12/10	Erosion of ethics I	Schoen (2017: 805-819)
	Wed 12/12	Erosion of ethics II	Schoen (2017: 820-830)
	Mon 12/17	Incomplete risk sharing of a common shock I	Schelkle (2017: 158-174 = chap. 6: 1-22)
	Wed 12/19	Incomplete risk sharing of a common shock II	Schelkle (2017: 174-189 = chap. 6: 22-39)
Policies	Mon 1/7	Hands off or hands on?	Aliber & Kindleberger (2015: chap. 11)
	Wed 1/9	Domestic lender of last resort	Aliber & Kindleberger (2015: chap. 12)
	Mon 1/14	International lender of last resort	Aliber & Kindleberger (2015: 279-86, 293-306, 308-12)
	Wed 1/16	Risk reduction	Schelkle (2017: chap. 7)
	Mon 1/21	Political economy of monetary solidarity	Schelkle (2017: 303-313, 322-330 = chap. 10: 1-16, 28-38)
Theory	Wed 1/23	Capitalism and its decomposition	Schumpeter (1943/1994: 61-62, 81-86, 156-163)
	Mon 1/28	Crisis of democratic capitalism	Streeck (2011)
	Wed 1/30	Economic crisis = crisis for economic theory	Kirman (2010: 1-23, 28-9, 31-2)
Essay 2	Mon 2/4	<i>No session</i>	
	Wed 2/6	<i>No session</i>	
	Fri 2/15	<i>Second essay due</i>	

General topics

We are going to deal with the academic literature on economic crises in the order indicated in the schedule: we will first study the history of economic crises, then consider some of their political consequences, then look at their causes, then analyze the policy measures that might be applied to mitigate or even prevent them, and finally consider some theoretical ideas about economic crises. We accordingly start with descriptive detail and raise the level of abstraction as we move on in the semester. We start with descriptive accounts of the Great Depression, the Great Recession, and the Euro Crisis. We will then take a step back and look at the causes of economic crises in general. This generalizing perspective requires that we take into account as many economic crises as possible: economic crises, as they occurred in the 17th to 19th century, and not only the Great Depression, the Great Recession, and the Euro Crisis.

We will then take a further step back and analyze the policy measures that can be applied to mitigate or even prevent economic crises. The analysis of these measures builds on a consideration of the causes of economic crises in general because a consideration of these causes is precisely what tells us what to do in order to prevent or mitigate economic crises in the future.

We will reach the most abstract level of analysis when theorizing on economic crises. The theories that we are going to look at do not only ask why economic crises occur. They identify questions at a deeper level: questions that arguably need to be posed *before* asking why economic crises occur (or what their immediate causes are). These deeper questions include the question, what an economic system is, what an economic system needs to look like in order for economic crises to be able to occur, what economic systems have to do with the political system in which they are embedded and so on.

Specific topics

Our first specific topic will be the Great Depression, and our central text on the Great Depression will be chapter 7 of *A Monetary History of the United States* by Milton Friedman and Anna Schwartz. Milton Friedman is a famous economist and Nobel Prize laureate who founded the school of economic thought known as “monetarism”. Our second specific topic will be Ben Bernanke’s account of the Great Recession. Bernanke was an economics professor at Princeton before becoming chairman of the US Federal Reserve Bank in 2006. We are going to read an excerpt from a series of lectures in which Bernanke explains the workings of the Great Recessions to students.

Next in line is the Euro Crisis which we are going to study by reading three chapters from Barry Eichengreen’s book *Hall of Mirrors*. Eichengreen is an economist and political scientist at the University of California at Berkeley. We will then turn to the collapse of the Weimar republic that historian Harold James traces back, in particular, to the Great Depression. The empirical study by

Enrique Hernández and Hanspeter Kriesi investigates the electoral consequences of the latest financial and economic crisis in Europe. They report that the financial and economic crisis has destabilized Western European party systems.

Our next specific topic (or series of specific topics) relates the causes of economic crises in general. Here, we will turn to one of the most important works on the history of economic crises: *Manias, Panics, and Crashes* by Charles Kindleberger, an MIT economic historian. Kindleberger identifies, in particular, three causes that economic crises have in common: irrationality (or mania) among stockbrokers, an over-expansion of credit, and international contagion.

Kindleberger's book covers four centuries of economic crises. But he didn't live to witness the crisis of 2007-2009 or the Euro Crisis (he died in 2003). We will therefore draw on work by Edward Schoen and Waltraud Schelkle to analyze some of the causes of the crisis of 2007-2009 and the Euro crisis. Schoen argues that the crisis of 2007-2009 had a lot to do with an "erosion of ethics" among employees of banks. And Schelkle defends the thesis that there was a common shock to the countries of the Euro area (viz. the financial crisis), and that the Euro Crisis could occur because the countries in the Euro area didn't share the risk of that common shock completely. Edward Schoen is a business ethicist at Rowan University in New Jersey, USA, Waltraud Schelkle a political scientist holding a position at the London School of Economics.

Our next specific topic (or series of specific topics) relates to the policy measures that (we hope) can be employed to mitigate economic crises or even to prevent future ones. Here our primary authority is again *Manias, Panics, and Crashes* by Kindleberger. Kindleberger investigates, in particular, two policy measures that haven been employed successfully in the past: domestic and international lending of last resort. Kindleberger also analyzed the more general question of whether or not policy measures that are meant to mitigate or prevent economic crises actually do more harm than good.

The Euro Crisis is, again, perhaps special in many respects. We will therefore devote two sessions to the policy measures that have been employed during the Euro Crisis and that Waltraud Schelkle argues should be employed to prevent a second Euro Crisis. Her argument is essentially that the policy measures that have been employed during the Euro Crisis only reduce risk, and that policy measures are needed that help to establish a "political economy of solidarity": a political economy in which Euro zone countries share (and not reduce) risk.

Our final specific topic (or series of specific topics) relates to theories of economic crises. We will study a classical account of economic crises by Joseph Schumpeter and two more recent accounts by Wolfgang Streeck and Alan Kirman. All three accounts deal with the entanglement of economic crises and capitalism in one way or the other. Schumpeter is a famous economist belonging to the so-called Austrian school of economic thought. Wolfgang Streeck is the former director of the Max Planck Institute for the Study of Societies in Cologne. And Alan Kirman is one of the few representatives of a new economic discipline, commonly referred to as "complexity economists".

A note on ideologies and Euro/US centrism

We don't (any maybe cannot) know whether science (including economics, history, or political science) can be scientifically objective, or whether ideologies, value judgments, or group interests influence the core of scientific activity (inference and justification) as a matter of necessity. Since we don't know about this, we should make sure that our list of readings is "ideologically balanced": that authors who we (or some of us) suspect endorse particular ideologies are read in conjunction with authors who we (or some of us) suspect endorse distinct (and perhaps opposing) ideologies. Our list of readings is ideologically balanced in that sense.

The economic crises that we are going to study originated in Europe and the USA and spread from there to other parts of the world where the ensuing economic decline was proportionally less severe than in Europe and the USA. We are going to study these crises not because of Euro or US centrism but because they have been the most severe during the past hundred years, and because their study represents an excellent opportunity for the non-initiate to pick up some basic economic principles and concepts, while engaging with one of the most interesting, important, and perplexing social, political, and economic phenomena of our time.

References (all titles are available for download through ILIAS; you are required to bring hard copies into class)

Bernanke, B. (2013). *The Federal Reserve and the Financial Crisis*. Princeton, NJ: PUP.

Eichengreen, B. (2014). *Hall or Mirrors: the Great Depression, the great recession, and the uses and misuses of history*. Oxford: OUP.

Friedman, M. and A. Schwartz (1963). *A Monetary History of the United States, 1867 – 1960*. Princeton, NJ: PUP.

Hernandéz, E. and H. Kriesi (2016). "The electoral consequences of the financial and economic crisis in Europe", *European Journal of Political Research* 55(2), pp. 203-224.

James, H. (1986). "Economic Reasons for the collapse of Weimar", in I. Kershaw (ed.), *Weimar: why did German democracy fail?* New York: St. Martin's Press, pp. 30-57.

Kindleberger, C. P. and R. Z. Aliber (2015). *Manias, Panics, and Crashes. A History of Financial Crises*. New York: Palgrave Macmillan, seventh edition.

Kirman, A. (2010). "The Economic Crisis is a Crisis for Economic Theory." *CESifo Economic Studies* 56(4): 498-535.

Schelkle, W. (2017). *The political economy of monetary solidarity. Understanding the euro experiment*. Cambridge: CUP.

Schoen, E. J. (2017). "The 2008-2009 Financial Crisis: An Erosion of Ethics. A Case Study", *Journal of Business Ethics* 146, pp. 805-830.

Schumpeter, J. A (1943/1994). *Capitalism, Socialism, and Democracy*. Routledge: London, fifth edition.

Streeck, W. (2011). "The Crisis of Democratic Capitalism", *New Left Review* II (71), pp. 5-29.