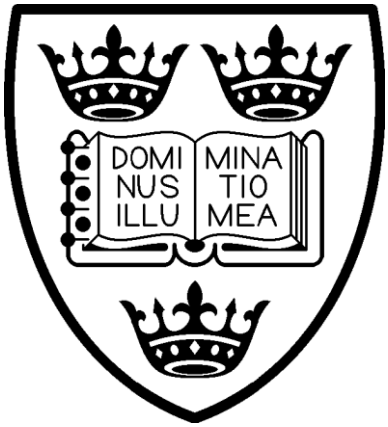


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# Anticipating financial crisis in the 1960s and 1980s: using the past to plan for the 'Apocalypse'

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# Anticipating financial crisis in the 1960s and 1980s: using the past to plan for the 'Apocalypse'[1]

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Abstract:

The 2008 crisis was a boon to the discipline of economic history and created an appetite for 'lessons from the past' by academics as well as policy-makers as they sought to respond to the failure of economic theory to anticipate the crisis. But beyond this intense example, can we make conclusions about the pathway to impact for historical treatments? Is there something especially inspiring or impactful about the 1930s? Does the widespread awareness that there was an interwar great depression and that it was terrible and that it may have contributed to the Second World War mean that it has particular resonance when it is invoked by policy-makers? How has the past been used in anticipation of (rather than reaction to) financial crises? Examining two episodes, this chapter demonstrates the use of the past as a parable for current and future policy and as a rehearsal for a future crisis.

Keywords: devaluation, debt crisis, Bretton Woods, central bank cooperation, Great Depression

## Introduction

At times of crisis, or when change is on the horizon, policy-makers and the public often invoke past episodes and experience to explain their responses. Thus, when the global financial crisis struck in 2008, the Great Depression of the 1930s was widely discussed both in public discourse and behind the scenes as policy-makers strove to develop emergency responses. The solution in that case was linked directly

[1] Research funded by the European Commission and Arts and Humanities Research Council through HERA JRP Uses of the Past, Uses of the Past in International Economic Relations (UPIER). I'm grateful for helpful comments from Y. Cassis and M.D. Bordo.

to Friedman and Schwartz's seminal *Monetary History of the United States* (1963) which blamed the 1930s US depression on the failure of the Federal Reserve to pursue an expansionary monetary policy. In 2008, central banks embarked on dramatic monetary expansion, led by the US Federal Reserve. This use of history was helped by the presence of scholars of the Great Depression in leading policy positions; Christina Romer as head of Obama's Council of Economic Advisers, Ben Bernanke, Chair of the Federal Reserve. The memoirs of Bernanke, US Treasury Secretaries Geithner and Paulson and UK Chancellor of the Exchequer Darling all make explicit how they were influenced by histories of the Great Depression.[2]

On the other hand, not all the mistakes from the 1930s policy response to international crises were used. For example, Eichengreen argued that after the 2008 global financial crisis, the lessons from the 1937-38 recession in the US about the peril of ending expansionary fiscal policy too soon were neglected.[3] Although recent analysis has shown that the direct economic effects of Roosevelt's New Deal are somewhat uneven, Cohen has suggested that lessons of national unity and empathy surrounding the New Deal are as important as the details of the specific schemes.[4] In any case, we need to keep this disappointment in perspective; within 10 years of the start of the interwar crash, Europe was at war. In the 1930s, rearmament and war ultimately cemented many of the gains in employment, production and innovation albeit at a terrible human cost. This suggests that lessons from the 1930s may be oblique rather than a blueprint.

[2] B. Bernanke, *The courage to act: a memoir of a crisis and its aftermath*, 2015, W.W. Norton and Co., A. Darling (2011) *Back from the Brink: 1000 days at Number 11*. Atlantic Books, NY. Ch. 8., T Geithner, B. Bernanke and H. Paulson *Firefighting; the financial crisis and its lessons*, 2019, Profile Books.

[3] B. Eichengreen, *Hall of Mirrors: The Great Depression, the Great Recession and the Uses—and Misuses—of History,* 2015, Oxford University Press.

[4] P. Fishback, 'How successful was the New Deal? The microeconomic impact of New Deal spending and lending policies', *Journal of Economic Literature*, 55(4), 2017, pp. 1435-1485. L. Cohen, 'Lessons of the Great Depression', *The Atlantic*, 17 May 2020.

The 2008 crisis was a boon to the discipline of economic history and created an appetite for 'lessons from the past' by academics as well as policy-makers as they sought to respond to the failure of economic theory to anticipate the crisis.[5] But beyond this intense example, can we make conclusions about the pathway to impact for historical treatments? Is there something especially inspiring or impactful about the 1930s? Does the widespread awareness that there was an interwar great depression and that it was terrible and that it may have contributed to the Second World War mean that it has particular resonance when it is invoked by policy-makers? How has the past been used in anticipation of (rather than reaction to) financial crises?

In his 2003 presidential address to the American Economic Association, Nobel-prizewinner Robert Lucas famously stated that macroeconomics had solved the problem of depressions (Lucas 2003). Less quoted is the earlier part of the speech, that

> 'Macroeconomics was born as a distinct field in the 1940s, as a part of the intellectual response to the Great Depression. The term then referred to the body of knowledge and expertise that we hoped would prevent the recurrence of that economic disaster. My thesis in this lecture is that macroeconomics in this original sense has succeeded: its central problem of depression prevention has been solved, for all practical purposes, and has in fact been solved for many decades'.[6]

His broader premise was that macroeconomics itself was inspired by the 1930s depression. Given the dominance of economics and economists in policy-making by the 2000s, the conclusion that the discipline had succeeded seemed reasonable; there had been no global depression on such a scale since

[5] N. Crafts and P. Fearon, 'Lessons from the 1930s great depression', *Oxford Review of Economic Policy*, 26(3), 2010. pp. 285-317. K. O'Rourke, 'Why economics needs economic history', VoxEU 24 July 2013. https://voxeu.org/article/why-economics-needs-economic-history.

[6] Robert E. Lucas Jr., 'Macroeconomic Priorities', *American Economic Review*, 93(1), 2003, pp. 1-14.

the 1930s. This complacency was later interpreted as folly, but Lucas' address speaks to the centrality of the great depression to the evolution of the discipline of economics, although the neglect of financial crises in later macroeconomic modelling suggest it had forgotten some of these foundations.[7]

This paper addresses two examples of using the great depression in policy-making outside times of crisis in two contrasting historical and institutional contexts. In mid-1965, the embattled Chair of the Federal Reserve Board, William McChesney Martin, made a parable of the 1930s to sharpen his call to protect the dollar exchange rate against the expansionary tendencies of the President and his administration. His speech was incendiary, provoking the largest drop in the stock market since President Kennedy's assassination. Nevertheless, six months later he won a public battle with President Johnson by increasing the discount rate (from 4 to 4.5%) to counteract Johnson's inflationary fiscal policy.[8] The second episode is the Bank of England's use of the 1931 European financial crisis as it prepared for a potential international bank crisis from sovereign debt default in the early 1980s. In the first case, the past was used as parable and in the second it was used to draw more practical lessons. In neither case was the effort completely successful.

**Invoking the 1929 Crash**

At the start of June 1965, Bill Martin, as the Chair of the Federal Reserve, delivered a speech to confront contemporary suggestions that the gold value of the dollar should be increased (effectively, a devaluation of the dollar). The speech, entitled 'Does Monetary Policy Repeat Itself?' was delivered at the Commencement Day Luncheon of the Alumni Federation of Columbia University in New York City in which he invoked the past as a parable to reflect on current economic conditions.[9] In 2010, Crafts and

[7] J. Stiglitz, 'Where modern macroeconomics went wrong', *Oxford Review of Economic Policy*, 34(1), 2018, pp. 70-106.
[8] H. Fessenden, '1965: the year the Fed and LBJ clashed', *Economic Focus*, Federal Reserve of Richmond, 2016. pp 4-7.
[9] W.M. Martin 'Does Monetary Policy Repeat Itself?', Address at Commencement Day Luncheon of the Alumni Federation of Columbia University, 1 June 1965.

Fearon remarked that 'By the late twentieth century, the memory of international financial seizure in the US and Europe, mass unemployment, and severe deflation had receded'.[10] But this was not the case in the 1960s. Martin himself had a ringside seat during the 1930s depression as a member of the NYSE, joining the Board of Governors of the exchange in 1935 and becoming its president in 1937, just at the time of the onset of the second US recession. His father was President of the Federal Reserve Bank of St. Louis from January 1929 to 1941, so Martin Jr. was keenly aware of the experience of the inter-war great depression. By the 1960s, the depression also formed part of a collective memory mediated through contemporary accounts and later histories. The financial crisis of the 1930s continues to resonate in the public imagination in popular novels and in photographic images left behind of rural poverty and urban unemployment, bread-lines and the dust bowl. [11]

In addition to the severity of the experience of the 1930s in the US, the contemporary context of Martin's speech is also important. In the early 1960s, there was considerable speculation about the permanence of the gold value of the US dollar, which had been set at Bretton Woods at $35 per oz. As US payments deficits became more persistent in the 1960s, there were predictions that the dollar would be devalued against gold. This speculation increased when, on 4 February 1965, French President de Gaulle announced his rejection of the role of the dollar in the international monetary system and called for a return to a pure gold standard. A week later, French Economy Minister Giscard d'Estaing gave a 90-minute lecture on the topic and announced that France would henceforth be settling international payments in gold. The French were particularly critical of persistent US balance of payments deficits

[10] Crafts and Fearon 'Lessons', p. 286.

[11] The US Farm Security Administration published photos of rural poverty to promote Roosevelt's support programme. M. Agee and W. Evans, *Let Us Now Praise Famous Men: Three Tenant Families*, Houghton Mifflin, 1941. J. Steinbeck, *The Grapes of Wrath*, Viking Press, 1939. G. Orwell, *The Road to Wigan Pier*, Left Book Club 1937. Agee and Evans' book sold just over 1000 copies in its first print run but was re-issued in 1960 with the number of Evans' photos increased from 31 to 62 and gained a wider readership.

reflecting large capital outflows.[12] Less than a week after de Gaulle's statement, on 10 February 1965 President Johnson introduced a range of new measures to shore up the balance of payments including a voluntary call to action by US banks and businesses to reduce investment flows overseas (Voluntary Foreign Credit Restraint Program) and extending the Interest Equalisation Tax on foreign investment. On 12 February, the popular *Time Magazine* reported the Franco-American conflict in historic terms:

> Perhaps never before had a chief of state launched such an open assault on the monetary power of a friendly nation. Nor had anyone of such stature made so sweeping a criticism of the international monetary system since its founding in 1944. There was Charles de Gaulle last week proclaiming that the primacy of the dollar in international dealings was finished, calling for an eventual return to the gold standard —which the world's nations scrapped 50 years ago — and practically inviting other countries to follow France's lead and cash in their dollars for gold.[13]

Despite Johnson's efforts, gold drained steadily out of the US reserves – in January and February $480 million of gold flowed out: France alone bought $250 million worth (FOMC 2 March 1965). High US growth rates and the persistent payments deficit invited reference to the roaring '20s on the brink of the Great Depression and suggestions that the gold value of the dollar should be reduced. It also created tension between higher interest rates to constrain capital outflows and inflation and to protect the dollar price of gold as against Johnson's war on unemployment through his expansionary New Society agenda.

In 1965 Martin and the Fed were under attack from many members of Congress who sought to promote growth and full employment and resented the Fed's tendency to work against this through tighter monetary policy. In 1964, Martin testified before the Congressional Joint Economic Committee

[12] M.G. de Vries (1976) *The International Monetary Fund 1966-71: the system under stress*, Vol. 1, IMF, Washington D.C. pp. 61-62.
[13] 'Money: de Gaulle v. the Dollar', *Time Magazine*, 12 February 1965.

that when there was a conflict between the President and the Chair of the Fed, 'the Federal Reserve Board has the authority to act independently of the President' and even 'despite the President'.[14] Congress resisted this interpretation. The Joint Economic Committee (JEC) Report published in March 1965 was particularly pointed in its attack on the Federal Reserve: 'A stronger economic pulse is insufficient reason for monetary authorities to rush for the sedatives or apply a tourniquet.'[15] To support domestic growth, they preferred direct controls on capital outflows to using interest rates to correct the persistent payments deficit. They also blamed premature rises in interest rates in mid-1957 and early 1960 for causing recessions and were adamant that the Fed should learn this lesson.

The Joint Economic Committee was chaired by Wright Patman, a Texas congressman and Chair of the House Banking and Currency Committee. Patman was first elected from a rural constituency in 1929 and came to Washington just in time for the onset of the depression and it loomed large in his own memory and inflected how he interpreted the present. In the 1965 JEC report, he indulged in specific criticism of the Fed's independence. In his 'supplementary remarks' he claimed 'We have two governments in the District of Columbia. One consists of the Congress and the President-the elected representatives of the people. The other is the Federal Reserve, operating as a self-appointed money trust, far removed from the will of the people'.[16] The term 'money trust' recalled the 1907 financial crisis and investigations in 1912-13 about the concentration of financial power before the Federal Reserve was founded. Patman also recalled Roosevelt's 1935 Banking Act, which he said was inspired by the President's fears that the Fed would block his 'work-relief program to ease the ravages of the depression' by 'offset[ing] the stimulative effects of large-scale Government spending'.[17] For Patman, this struggle between the Fed

[14]JEC (1964) *Hearings before the Joint Economic Committee Congress of the United States*, January. P. 46.
[15] *Report of the Joint Economic Committee on the January 1965 Economic Report of the President*, 1965. 17 March 1965. The JEC included members from the House and from the Senate.
[16] Ibid.
[17] Ibid. p. 39.

and the administration in the aftermath of the depression set the tone for the dominance of the Fed and its tight money bias.

But this was not a full consensus. The JEC minority report[18] took a more hostile view to the President's economic programme while also invoking the 1930s, warning that 'unless the administration gives more constructive and farsighted attention to our foreign economic policies than is evident in the economic report or the special balance-of-payments message, we may be headed for a world economic collapse that will cause economic distress at home greater than anything we have seen since the 1930's' (p. 61). The 1930s could be used on both sides of the debate.

A week before Martin's speech in New York, the balance of opinion in the FOMC (7-4 votes) rested with making no changes to monetary policy, balancing evidence of slowing growth rates alongside some 'creeping up' of wholesale prices.[19] Martin pointed out that keeping the status quo actually reflected a slight tightening on previous targets for the reserves base so that the monetary stance was already 'mildly restrictive' due to the actual amount of required reserves. Martin was equivocal but 'his own thinking probably tended in the direction of the group favoring firming, although no one could be sure about the appropriate timing. He was becoming increasingly worried about both the balance of payments and the possibility of domestic inflation'. On the other hand, 'he was not sure that monetary policy would have any influence on price developments; sometimes he felt discouraged on that score' but 'if there was a clear haemorrhage in US international payments it might be necessary to follow Britain in raising the discount rate to a high level. That might happen'. He was closely linking the discount rate to the balance of payments rather than inflation. It was in the context of this debate and

[18] The minority report included Senators Javits, Miller and Jordan and Representatives Curtis, Widnall and Ellsworth.
[19] FOMC Minute, 25 May 1965.

the echoes of the 1930s in the Congress that Martin drafted his June speech, which Meltzer suggests must have surprised his colleagues in the FOMC.[20]

In the mid-1960s, the Federal Reserve's reputation was struggling against both historic criticism and contemporary political attack. There is no direct evidence that Martin read Friedman and Schwartz's 1963 *Monetary History of the United States 1867-1960*, which blamed the Great Depression on mistakes at the Federal Reserve, but it is hard to imagine he was unaware of their thesis. The book was widely read and the section on the 1930s was published as a separate book in 1965.[21] It was Arthur Burns, Martin's successor as Chair of the Fed and well known to him, who brought Schwartz and Friedman together at the NBER to begin their project (Feldstein 2000).[22] Friedman and Schwartz were critical of the conflict in the 1920s between the Federal Reserve Board and the constituent Federal Reserve Banks that created a policy 'not restrictive enough to halt the bull market yet too restrictive to foster vigorous business expansion' (p. 298). This delayed an increase in the discount rate until August 1929 (from 5% to 6%) which contributed to the stock market crash in October. They also blamed the Fed for doubling required reserves in 1936-37 thereby contributing to the ensuing US recession. As we shall see, Martin's use of the past did not draw directly on Friedman and Schwartz's criticism of the Fed's policy in the 1930s (except for the tightening of monetary policy in 1931) or their revisionist conclusion that the '20s were not actually 'roaring'; showing no persistent inflation and uneven growth.

Martin's speech in New York on Tuesday 1 June 1965 was designed to dampen the talk about devaluation by reflecting on the differences as well as similarities between the 1920s and the 1960s. He

[20] Meltzer, *A History*, p. 448.
[21] M. Friedman and A. Schwartz, *Monetary History of the United States 1867-1960*, Princeton University Press, 1963. SM. Friedman and A. Schwartz, *The Great Contraction*, 1965, Princeton University Press. For reception and lessons see M.D. Bordo and H. Rogoff, 'Not just the Great Contraction: Friedman and Schwartz's A Monetary History of the United States 1867-1960' *American Economic Review*, 103(3), 2013, pp. 61-65.
[22] M. Feldstein, *Anna Schwartz at the NBER*, remarks at a dinner honoring Anna Schwartz's 85th birthday, 2000. https://www.nber.org/feldstein/schwartz.html

began by referring to un-named 'eminent observers' who had 'recently compared the present with the period preceding the breakdown of the interwar economy, and have warned us of the threats of another Great Depression. We should take these warnings seriously enough to inquire into their merits and to try to profit in the future from the lessons of the past'. This is likely to refer de Gaulle's remarks in February and the discussion that followed as well as the visit to the US of de Gaulle's adviser and gold standard campaigner Jacques Rueff. Members of the FOMC were sent the entire de Gaulle speech and summaries of Giscard d'Estaing's lecture as well as excerpts from Rueff's comments quoted from an interview in *The Economist* (FOMC 2 March 1965). The Fed staff's analysis concluded that

> 'It is clear, especially from specific references in the Rueff interview and from the long historical survey which comprised the early part of the Giscard d'Estaing speech, that current French thinking is much influenced not only by post-World War II international payments developments but by events during the 1920's and 1930's' (FOMC 1965a).[23]

Samuel I Katz, who compiled the material for the FOMC, also included parts of a published biography of Benjamin Strong, governor of the Federal Reserve in the 1920s, which referred to the British battle against the Banque de France's preference for gold over foreign exchange. The deterioration then in the Bank of England's gold reserves meant that 'the monetary conditions required to equilibrate Britain's international receipts and payments [tight money] were inconsistent with those necessary to promote prosperity at home'. Katz noted that these excerpts 'are not intended to suggest any close parallel between conditions in 1926-28 and in 1965' although the analogy was clear.[24]

[23] Current Economic and Financial Conditions, Confidential, prepared for FOMC, 24 February 1965. This longer term French strategy extending to the interwar period is confirmed by M.D. Bordo, D. Simard and E.N. White (1994) 'France and the Bretton Woods International Monetary System 1960-1968' in J. Reis ed., *International Monetary Systems in Historical Perspective*, Springer, pp. 153-180.

[24] The memo cited L.V. Chandler (1958) *Benjamin Strong Central Banker*, Brookings Institution.

Rueff was a key critic of US policy and the role of the dollar and a proponent of a return to the gold standard.[25] In the spring of 1965 he was interviewed widely in the US and British press, including the front page of the *New York Times* in March as well as the *Economist* in February.[26] In the *Economist* interview, circulated to the FOMC and later published by Princeton University in June, Rueff reflected on his own memories as financial attache in the French embassy in London in 1930 as the basis for his conviction that sterling's role as a reserve asset was the basis of the currency runs after the collapse of the Credit-Anstalt that 'transformed the depression of 1929 to the great depression of 1931'.[27] He also drew parallels with the late 1920s

> The evolution of the balance sheets of the central banks is exactly the same, exactly parallel in the years '27 and '28 and '29 to what it is now, and it is the collapse of this system in 1931 that was responsible for the depth of the depression. (p. 7)

He praised Roosevelt's devaluation of the dollar; 'when you have had very exceptional situations you may need exceptional policies to clean up the past. Let us take a positive example. It is what President Franklin D. Roosevelt did in raising the price of gold in 1934—and I would like my friends in Washington to keep that in mind' (p. 7). He went on that 'We are moving without any doubt to a result of the same kind as in 1931, because it is so clear that the dollar is approaching the end of its acceptability for payment abroad, and we shall have the same collapse' (p. 9). In mid-April 1965, Rueff called for the

[25] R. Mundell (1973) 'The monetary consequences of Jacques Rueff: review article' *Journal of Business*, 46(3), pp. 384-395.
[26] C.S. Chivvis (2006) 'Charles de Gaulle, Jacques Rueff and French International Monetary Policy under Bretton Woods' *Journal of Contemporary History*, 41(4), pp. 701-720, p. 715-16.
[27] J. Rueff and F. Hirsch (1965) *The role and the rule of gold: an argument*: International Finance Section, Dept. of Economics, Princeton University. p. 8.

dollar price of gold to be doubled.[28] Parallels with the 1930s were clearly in the air at the time of Martin's speech and this derived partly from personal memory as well as using the past as a parable.

In his speech at the start of June 1965, Martin identified 11 'disquieting similarities' between the 1920s and the 1960s, punctuating each with a repetition of 'Then, as now..' in rhetorical flourish.[29] This list (summarized in Table 1) finished with 'most importantly, then as now, many government officials, scholars, and businessmen were convinced that a new economic era had opened, an era in which business fluctuations had become a thing of the past, in which poverty was about to be abolished, and in which perennial economic progress and expansion were assured'. This statement is similar to the start of Friedman and Schwartz's chapter on the 1920s where they drew attention to the way that the period 1921-29 was 'regarded at the time as a "new era," it seemed even more Elysian in retrospect during the major contractions that succeeded it'.[30] Thirty years later, in 1997 Fed Chair Alan Greenspan also warned against excessive optimism about the persistence of stability: 'Markets may have become more efficient, competition is more global, and information technology has doubtless enhanced the stability of business operations. But, regrettably, history is strewn with visions of such "new eras" that, in the end, have proven to be a mirage. In short, history counsels caution.' [31] The reference to a 'new era' also echoes the claims in the 2000s that the business cycle had been permanently moderated, risk diversified away through credit derivatives and boom and bust eliminated by central bank independence.[32]

[28] *New York Times* 16 April 1965. Cited in Address by Frederick L. Deming, Under Secretary of the Treasury for Monetary Affairs at Ohio State University, 29 April 1965. Unlike Martin, Deming did not mention the great depression in his refutation of Rueff's views.
[29] Martin, 'Can Monetary Policy'
[30] Friedman and Schwartz, *Monetary History*, p. 262.
[31]Greenspan (1997) Testimony before the Senate Committee on Banking, Housing, and Urban Affairs, 26 February 1997.
[32] E. Engelen, I. Ertuk, J. Froud, S. Johal, A. Leaver, M. Moran, A. Nilsson, K. Williams *After the great Complacence: Financial Crisis and the Politics of Reform*, Oxford University Press, 2011.

Table 5.1. Martin's Comparison between the 1920s and 1960s (June 1965)

| **'Similarities'** |
|---|
| Sustained period of economic growth: with an inflationary war and postwar boom |
| Prosperity concentrated in developed economies and in industry |
| increase in private consumer, mortgage and instalment debt (but faster in 1960s) |
| Money supply, bank credit continuously growing (but US gold reserves smaller in 1960s) |
| Fed 'accused of lack of flexibility in its monetary policy; of insufficient ease in times of economic weakness and of insufficient firmness in times of economic strength' |
| World trade and finance, convertibility restored for a number of years after end of war |
| High international indebtedness |
| 'payments position of the main reserve center – Britain then and the US now – was uneasy to say the least'<br>US 'recent cumulative payments deficits have far exceeded Britain's deficits of the late twenties' |
| Some countries have large and persistent payments surpluses they use to accumulate reserves |
| 'The most important surplus country, France, had just decided to convert its official holdings of foreign exchange into gold, regardless of the effects of its actions on international liquidity' |
| Doubts about existing exchange rates leading to speculative short-term movement of funds |
| |
| **'Dissimilarities'** |
| More equal distribution of income in 1960s |
| Smaller increase in stock market credit in 1960s |
| Wholesale price stability (although rising consumer prices) in 1960s |
| Defects in structure of commercial and investment banking corrected |
| Monetary and fiscal policies are better understood |
| World less reliant on American capital |
| 'We are no longer suffering from the cancer of reparations and war debts' |
| We have learned the lesson to avoid trade and exchange restrictions and beggar-thy-neighbour policies |
| Aware of responsibility to help LDCs |
| IMF aids better working of international payments system |
| Better international financial communication |
| Resolution not to repeat great depression |

The key points of comparison are presented in Table 1. This list finished with Martin's warning that

> 'finally, the experience of the twenties has strengthened the resolution of all responsible leaders, businessmen and statesmen alike, never again to permit a repetition of the disasters of the Great Depression. But while the spirit is willing, the flesh, in the form of concrete policies,

has remained weak. With the best intentions, some experts seem resolved to ignore the lessons of the past'.

While the causes of the depression were still debated, he continued, there was a general consensus that the devaluation of sterling in 1931 'shook the entire world', leading ultimately to Nazism, the Second World War and communism. A bit later in the speech, however, he acknowledged that the Fed was mistaken in raising interest rates to defend the dollar price of gold in the autumn of 1931. But the main message was that a devaluation of the dollar now would destroy the international economy. Martin drew four lessons: the need to be vigilant against booms like the twenties, second, to make clear assessments and 'have the courage to express dissenting even though unpopular views, and to advocate necessary remedies', thirdly to maintain international cooperation and fourthly to sustain confidence in the dollar. The second clearly alluded to his tensions with Johnson's Great Society programme. He concluded 'if monetary history were to repeat itself, it would be nobody's fault but our own'.

The speech provoked considerable controversy. The *New York Times* claimed 'Martin has exaggerated the parallels between the 1920s and the present and has mistakenly raised the specter of another 1929. His doubts clearly seek to temper Washington's…confident consensus'.[33] Wright Patman called for Martin's resignation. By Friday, the Dow Jones Industrial Average had fallen 2%, a decline blamed on Martin's speech. Thus H.J. Nelson claimed in Barron's weekly financial paper that the 'slump undoubtedly was the product of the speech by Chairman Martin at the Commencement Day luncheon of Columbia University alumni'.[34] He described how 'the lengthy address by Chairman Martin of the FRB, which by the mere reference to the resemblance of the present era to the 'twenties, was enough to produce an immediate shock to those old enough to recall the Great Depression aftermath of that boom

[33] Quoted in Bremner 2008: 203

[34] H.J. Nelson The Trader: Gives his views of the market, *Barron's National Business and Financial Weekly*, 7 June 1965. p. 4. Barron's was published by Dow Jones & Co. in New York since 1921. It is a weekly financial publication related to the daily *Wall Street Journal* published on Mondays, reflecting on the previous week.

period'.[35] The next week, the speech was still in the news as the Dow Jones Index fell 13 points, its largest fall since the assassination of J.F. Kennedy. Nelson again blamed the drop specifically on Martin's speech, finding 'no additional adverse domestic news', although there was some selling from Europe due to fears of escalation of the Vietnam War.[36] Investors had become nervous about a potential rise in interest rates. At the FOMC meeting on 15 June, discussing whether to change the Fed's discount rate, Deane remarked that 'In the current atmosphere of uncertainty, and with the sort of psychology that seemed to be prevailing--as evidenced by the over-reaction to Chairman Martin's recent remarks at Columbia University--it was particularly important that there be no change in policy, overt or otherwise' (FOMC 15 June 1965). It seems the over-reaction to the speech may have led to it backfiring and threatening a repeat of the stock market crash of 1929.

There were also political repercussions. Bremner relates that Treasury Secretary Henry Fowler 'visited Martin personally to confirm LBJ's visceral anger, despite his public silence' and Governor Ackley, chair of the President's Council of Economic Advisers, made a public statement that 'we have not been able to find overheating, even in the booming first quarter. There is no evidence of inflationary pressures'.[37] Meltzer later suggested Martin's comments must have surprised his colleagues in the FOMC, where he had agreed not to change monetary policy only a week earlier.[38] Yet when confronted by the press about whether he regretted the speech, Martin stood by his words.

A week later, on 8 June, the Treasury Secretary Henry H. Fowler appeared before the Senate Finance Committee to support a Bill reducing excise taxes. Senator John J. Williams of Delaware asked him

[35] Ibid.
[36] H.J. Nelson The Trader: Gives his views of the market, *Barron's National Business and Financial Weekly*, 14 June 1965. p. 4.
[37] Bremner *Chairman of the Fed*, p. 203.
[38] Meltzer, *A History*, p. 448.

specifically about Martin's speech and whether Fowler also saw parallels with the economic conditions before the 1929 stock market crash. Fowler responded:

> I have not studied the 1929 period. I have not been a student of the history of that particular period and therefore I have no view on the similarities or the differences. I must say that any opinion I have is to the effect that the dissimilarities between the two situations so far outweigh the similarities that I am not at all fearful of the repetition of the 1929-33 experience. I have so stated in response to questions publicly that I believe we have evolved methods and techniques to avoid further depressions of that sort. I do not think we have evolved techniques and methods and policies that make us recessionproof [sic], foolproof against a slowdown or a turndown. But, so far as any cataclysm, economic cataclysm, of the 1929 variety I see no cause for concern. [39]

Williams pressed whether this was also the view of the administration over the past several months and Fowler answered that he had discussed the matter with Martin and remarked that Martin had also noted the dissimilarities between the 1920s and the 1960s so that 'whether or not we are facing into another 1929, has not been to my knowledge, the subject of any differences of view between those of us who are concerned with this problem'. [40]

While the administration resisted comparisons with the 1920s, the parable proved enduring. The President himself was not immune from invoking memories of the great depression. In February 1968, Johnson wrote to the German Chancellor Kiesinger seeking his cooperation in the management of the US balance of payments and threatening to introduce 'border taxes' on trade, reminding Kiesinger 'You and I are old enough to remember how a lack of economic cooperation among the nations plunged us

[39] Proceedings of the US Senate Finance Committee, 8 June 1965. Excise Taxes, Testimony of Treasury Secretary H.H. Fowler., p. 31. https://www.finance.senate.gov/imo/media/doc/HrgExcise.pdf
[40] Ibid.

into the depression after 1929—with all its tragic consequences.'[41] The tragedy no doubt referenced the Second World War.

Eight years after Martin's speech, the Senate Committee on Finance held hearings on the 'International Financial Crisis' in May and June 1973 as the Bretton Woods pegged exchange rate system collapsed. In his opening statement on 30 May, Senator Byrd referenced Martin's '"disquieting similarities" between the financial chaos of today and that of the turbulent 1930s'.[42] Martin's June 1965 speech was reproduced in full as part of the subcommittee's report and he was asked specifically about it when he appeared before the subcommittee on 1 June 1973. Senator Byrd asked 'Eight years ago, you made a speech suggesting that there were disquieting similarities between the then existing international monetary situation and that of the 1920s and 1930s. Do you feel that there are even greater disquieting similarities today?'. Martin's response offers some wry reflection on how the speech was received but little reassurance: 'Well, in that speech, I also pointed to some encouraging dissimilarities. Most of the disquieting similarities were played up to the exclusion of the encouraging dissimilarities. I think there are disquieting similarities today along the same lines as what I was outlining in that talk, but I think the world has progressed a good deal and grown a good deal since then. But we have not yet come to grips with this problem of debt', by which he meant both consumer debt and excessive government borrowing. Martin acknowledged that inflation since 1965 was at the foundation of the collapse of the pegged exchange rate and the devaluation of the dollar. He had supported the first devaluation in 1971 but believed the second devaluation in 1973 left the dollar undervalued and undermined confidence.

[41] Telegram from the Department of State to the Embassy in Germany, enclosing message from President LB Johnson to Chancellor Kiesinger 5 February 1968. Foreign Relations of the United States, 1964–1968, Vol VIII, International Monetary and Trade Policy.
[42] The International Financial Crisis Hearings, 93rd Vol. 49, Senate Committee on Finance, Subcommittee on International Finance and Resources, 30 May, 1 and 5 June 1973.

The way that the 1920s and 1930s were used in the 1960s to raise the spectre of crisis shows how pervasive both the direct memory and the mythology of the depression were for policy-makers thirty years after the fact. The next example draws us forward another 10 years when personal memory had faded, but the 1931 financial crisis was still viewed as relevant and remained a touch stone or origin story for understanding international banking crises 50 years on. This section also explores how the experiences of the more recent past were used to inform responses to a potential future crisis and the resistance among bankers to using the past as a guide to the present.

**Apocalypse Now and Scenario Planning for a Sovereign Debt Crisis 1977-82**

The 1980s developing economy sovereign debt crisis inspired Guttentag and Herring (in 1986) to develop their concept of disaster myopia to describe the inability to accurately assess the probability of infrequent but large shocks and therefore the tendency to accumulate excessive risk.[43] For financial crises, they argued that disaster myopia increases with the length of time between shocks and with the pace of change of underlying structures in the market. Thus, if the previous crisis was a long time ago and the structure of markets had changed significantly, the past is likely to be considered less useful and likelihood of repeat close to zero. By the time of the 1982 sovereign debt crisis it had been half a century since the last major international financial shock and the IMF was a conditional lender of last resort so the environment was conducive to myopia. But archival sources show that policy-makers did not neglect the past. In the forward planning for a possible sovereign debt crisis, the Bank of England embarked on a project later entitled 'Apocalypse Now' after the 1979 film.[44] It aimed to simulate the effects of a

[43] J.M. Guttentag and R.J. Herring (1986) *Disaster Myopia in International Banking*, Essays in International Finance, 164, Princeton.

[44] S. Alvarez, *Mexican banks and foreign finance: from internationalization to financial crisis 1973-1982*, Springer, 2019, pp. 158-61. E. Altamura, *European Banks and the Rise of International Finance: The post-Bretton Woods era* Routledge, 2016, p. 196. Alvarez and Altamura comment on the June 1980 version.

threatened default by a major sovereign borrower and relied heavily on understandings of previous episodes of bank failure and of sovereign restructuring. The outcome of this exercise was presented to the governors of European and American central banks and was a topic of general discussion at the Bank for International settlements in 1981 and 1982.[45] Thus the record shows that policy-makers did actively consider past episodes of banking crisis in the run-up to the 1980s crisis; they were not forgotten, although they were dismissed by many.

At the front of the first Apocalypse Now file for the Group's consideration was an analysis of the Credit-Anstalt crisis of 1931 to explain the failure to contain the European financial crisis as it unfolded in the Spring and Summer of that year.[46] The paper drew on published historical texts as well as confidential internal correspondence in the 1930s between the Bank of England and the BIS.[47] The cover note stressed that 'it is noteworthy that the Austrian case was one of the first occasions where central bank cooperation, coordinated through the recently founded BIS in Basle, can be said to have played a vital role in support of a currency, even though these efforts were not wholly successful'.[48] The Credit-Anstalt was weakened in 1930-31 by a recent take-over of a weaker bank, the poor conditions of its industrial customers as the global recession took hold and by reliance on short term funding to finance long term loans (much from overseas, which introduced an exchange risk). Like more recent historical treatments of the crisis the analysis focused on central banks and on external and multilateral efforts to prevent the bank's collapse.[49] From May 1931, the BIS pressured the Austrian National Bank(ANB) to shift support for Credit-Anstalt from its own balance sheet to the Government in order not to destabilize

[45] Alvarez Mexican banks, p. 160-61.
[46] 'Creditanstalt Crisis of 1931' prepared by Group 6, 30 December 1977. Bank of England (BoE) Archives 3A143/1. For a recent historical treatment There are 7 Apocalypse Now files of 100-200 pages each.
[47] The paper cited D. Williams, 'The 1931 financial crisis' *Yorkshire Bulletin of Economic and Social Research*, 15(2), 1963, pp. 92-110, contemporary *Economist* articles from May and July 1931, League of Nations, *Commercial Banks 1924-1933*, 1934, Geneva and R. S. Sayers, *The Bank of England 1891-1944*, Vol 2, 1976, Cambridge University Press. The sections relating to the BIS were from the Bank of England archive.
[48] E.M. Drage, cover note for Creditanstalt Crisis of 1931, 30 December 1977. BoE 3A143/1.
[49] N. Marcus, *Austrian reconstruction and the collapse of global finance 1921-1931*, Harvard University Press, 2018.

the Austrian monetary system. The Austrian cabinet agreed to guarantee deposit and current accounts and from mid-June all foreign and domestic creditors, but only if creditors agreed to a standstill agreement to freeze their credits for two years. This prompted a run on the bank, including foreign liabilities (of which over 35% was to the UK). After further BIS pressure, a French advisor and foreign controller for the bank were appointed but the ANB was still having to discount creditor notes. The Bank of England extended a loan of ASch150m to shore up the government's foreign exchange reserves against security of a planned Austrian Treasury bond issue, but the ANB balance sheet continued to fund the bank's operational deficit.

The Bank of England's analysis blamed the Austrian government for the delay in dealing with the illiquidity of the bank, borrowing short from the Bank of England and putting the onus of managing the crisis onto the ANB balance sheet as it discounted foreign creditor claims. The result was to swell the central bank balance sheet, undermine currency stability and drain the foreign exchange reserves. The Creditanstalt was finally re-organised at the end of 1931. In the meantime, the standstill agreement spread panic to other banks in Germany and central and Eastern Europe, ultimately severely affecting the London short-term money market, which 'was an important contribution to the financial crisis of July-September 1931' and ultimately to the devaluation of the pound in September 1931. Although a lesson was not explicitly drawn, the dangers of contagion, and the disastrous consequences of relying exclusively on the host central bank's own balance sheet to bear the burden of external creditors in a bank crisis emerged strongly from this survey, as did the BIS's power to influence government policies by leveraging its support for central banks. These three points became the focus of the Bank of England's campaign to prepare the G10 central banking community for a crisis – cross-border contagion, the need to discuss domestic v. international lender of last resort and the value of the BIS as a forum for cooperation in planning.

The first iteration of the Apocalypse Now exercise was produced in February 1980 by Peter H. Kent for the EDC Committee.[50] The report considered a range of outcomes that might arise from a default by Brazil including official debt relief, interest relief, guarantees for refinancing existing assets, an emergency fund or a new IMF/IBRD emergency facility. In a later draft Kent reflected that previous crises and episodes such as the 1974 Secondary Banking Crisis in London or the April 1980 First Pennsylvania collapse in the USA showed that national authorities would move quickly to support domestic banks but that there had been no 'test case in recent years' to see if they could provide liquidity to head off a funding crisis in the international system. This lack of a recent episode of systemic international banking crisis was frequently cited in later iterations of the paper. Kent noted that the 1974 Herstatt Bank collapse had led to central bank cooperation in the design of the Basel Concordat to determine where responsibility should lie for international banking supervision, but that the process of cross-border supervision was still incomplete. The mechanisms for lender of last resort responsibilities in an international crisis were even further from agreement. Nevertheless, Kent concluded from recent experience that if a country was willing to reschedule its debt, then the impact on the banking system was likely to be minor. Banks had shown their resilience through the freezing of Iranian assets in November 1979 (Chase's credit rating was not affected) and Citicorp's credit-rating was not affected by being the leading lender to Zaire when its debt had to be restructured in 1976. However, Kent concluded that 'experience to date' suggested that if there was an actual default (rather than restructuring) then official assistance on an adequate scale 'would not be forthcoming'. The lesson from these past episodes was that restructuring was clearly to be favoured at almost all costs to avoid an international banking crisis.

[50] P.H. Kent, Apocalypse Now', 8 February 1980. BoE Archives 3A143/1.

J.A.A. Arrowsmith, from the Bank of England, took part in the negotiations that restructured the sovereign debt of Zaire (Democratic Republic of Congo) in 1976 and his memories prompted a less optimistic note setting out 'the lessons to be learned (and some that have already been learned) from that episode'.[51]

- 'that a storm can blow up very rapidly.
- A very large number of banks may be involved.
- Banks find it very difficult to talk to each other (and to us) and the temptation therefore is to go it alone.
- That even if the big banks want an orderly solution their hand can be forced by very small (and unsophisticated) creditors.
- A proposed settlement that is not viable in terms of the debtors' true economic financial position may cause some banks to pull out, taking the rug with them.
- The need to reschedule debts to official creditors at the same time adds further difficulties of various kinds.
- Obtaining good information quickly on amounts of banking debts outstanding and in arrears and on banks involved can be very difficult.
- Questions of parental responsibility and of concepts of the lender of last resort function can complicate the Bank [of England]'s relationship with other central banks.'

[51] JAA Arrowsmith memo for Holland and Loehnis, 'Possible Consequences of a Default: lessons from Zaire', 5 June 1980. BoE Archives, 3A143/2.

These all became issues in the sovereign debt crisis of 1982.[52] Based on these lessons, Arrowsmith emphasized the immediate need to ensure that there were adequate channels of communication between the Bank of England and London banks and with other central banks. He thus recommended 'taking soundings in London and in Basle'. He warned that the Zaire restructuring was *ex post* viewed as a success since default was avoided, but this outcome was by no means certain *ex ante*. The structure of the loans to Zaire meant that small creditors were willing to push Zaire into formal default 'in order to attach assets' and the cross-default clauses in most loans could bring virtually all loans to Zaire into default: 'At each stage there were some banks who showed signs of wanting to pull out and to take unilateral action'. This interpretation of the past should have alerted the planners to the dangers inherent in restructuring as well as default and the problem of coordination among lenders with diverse exposures and interests.

Bankers also displayed some disaster myopia. In conversation with Peter Kent, a representative from Barclays Bank stated firmly that 'each country that came up for rescheduling was a different problem. In agreeing to lend to a country they [Barclays] did not expect to reschedule that debt. This meant that they were unwilling to establish a forum that acknowledged this possibility, and may even make it more likely'. The case of Poland had been resolved quickly because only one borrower was involved and Nicaragua had been 'arranged quickly, as nearly all the banks came from the US'. Moreover, they did not want an independent chair for rescheduling meetings since 'if a banker chaired the meeting they were sure to be of one accord'.[53] For Barclays, the past was not a guide to the future.

The first international outing for the Bank of England's Apocalypse Now paper was on 9 November 1980 at the Eurocurrency Standing Committee of the BIS. It received a mixed response. The Swedish

[52] W. Cline, *International Debt Reexamined*, Institute for International Economics (1995). C. Lipson, 'Bankers' dilemmas: private cooperation in rescheduling sovereign debts, *World Politics*, 38(1), 1985, pp. 200-225.
[53] Note for the Record, Meeting with Clearing Banks on External Finance 13 May 1981. BoE Archives 3A143/5.

Riksbank argued that 'every possible crisis as a consequence of a serious debt service failure is likely to be unique. In spite of that useful preparations could be made in order to reduce the risks for far-reaching negative effects. In our view, these preparations should be concentrated on the 'organizational aspects' rather than on an analysis of how a crisis might develop on the basis of past experience.'[54] The US Fed representative, Henry Wallich, was more optimistic about the prospect for lessons to be learned, but believed that banks had already learned much from previous episodes: after discussions with major banks 'we believe that banks now have considerable experience in dealing with problem countries and have built up expertise in handling debt renegotiations'. He admitted that 'of course all of the cases to date have involved relatively moderate amounts of debt, and we have not yet had experience with a truly major rescheduling. Nevertheless, the experience we have indicates that the banks have developed workable procedures for dealing with problem borrowers'.[55] The Bank of England found this position 'complacent'.

The Japanese were more amenable to using the past to guide their future policy. Masaru Hayami, Executive Director of the Bank of Japan, picked out the Herstatt bank collapse of 1974 and the Iranian crisis of 1979 as guides for Japanese attitudes, although they noted that the Iranian case might not be typical because it was political.[56] In the first case, the liquidity tightening in the Eurocurrency market left Japanese banks facing tiered interest rates in the US dollar market, including premia of 2% over 'the going market rate'. On this occasion, the Bank of Japan had instructed banks to stop borrowing or making fresh loans and to spread out due dates on existing obligations. When US banks declared Iranian loans in default in 1979 Japanese banks were involved through their participation in loan syndicates. After consulting European central banks, the Bank of Japan had advised Japanese banks to follow the

[54] Note from Kurt Eklof to Loehnis, Sveriges Riksbank, 'Comments on the Bank of England's Paper 'Possible consequences of a debt service failure by a major borrowing country', 16 December 1980. BoE 3A143/3.
[55] Henry Wallich to Loehnis, 19 December 1980. BoE 3A143/3. The countries with which banks had experience were Peru, Turkey, Nicaragua, Bolivia, Jamaica and Sudan.
[56] M. Hayami, BoJapan to Loehnis, 24 December 1980. BoE 3A143/3.

European banks and delay declaring a default, and in fact default was never declared on these loans by Japanese banks. This emphasized the importance of close communication among central banks and coordinated forbearance.

When the Eurocurrency Standing Committee next discussed preparing for a sovereign debt crisis at its meeting on 12 February 1981, one of the most delicate subjects was the lender of last resort for international banking. Loehnis noted that the lack of progress on this topic was 'not least because of the memories of the difficulties surrounding earlier debates in this area, particularly post-Herstatt', and because of the risks to confidence of letting it be known that central bankers were even thinking about how commercial banks might be rescued.[57] One outcome of the meeting was that the Swiss and Canadians suggested that a questionnaire should be sent to all member central banks about their domestic responses to a major sovereign debt default – this would collect factual evidence on current legal and administrative structures rather than creating any forward-looking discussion of international cooperation in this area.[58] The discussion in Basel ran into the sand as the crisis loomed, but the Bank of England moved on to a series of follow-up studies dubbed 'Apocalypse How'.

The Bank of England launched its 'Apocalypse How' investigation in early 1982 to determine 'what international and domestic conditions would be needed to generate severe strain on individual US banks resulting in their collapse'.[59] Already, Joan Spero's history, published in 1980, of the failure of the Franklin National Bank in 1974 had attracted attention in the Bank of England.[60] A.G. Maugham of International Division Group II wrote to DW Green with a wide internal circulation that he was convinced by Spero's conclusion that 'the combination of the new interdependence of the world's

[57] Draft reply from Loehnis to Couzens, this phrase was deleted from the final version of the letter as it was deemed 'too specific'. BoE Archives 3A143/5.
[58] DW Green Memo to Loehnis, 4 March 1981. BoE Archives 3A143/5.
[59] 'The spread of a crisis in the Euromarkets (Apocalypse How)', BoE Archives 3A143/7.
[60] J. Spero, *The failure of the Franklin National Bank: challenge to the international banking system*, Columbia University Press, New York, 1980.

banking system and the absence of an order to manage that interdependence make the system susceptible to a crisis of confidence' despite the improvements in supervision internationally. The Bank of England's own exercise concluded that 'the figures suggest, perhaps surprisingly, that a bank failure could take place even if a bank is well capitalized, particularly in a case…in which the bank's business is heavily concentrated in one sector'.[61] The scenarios that might cause a crisis were quite prescient, including a disruption of oil production in Mexico that prevented it servicing its debt, a real estate contraction induced by a thrift (savings and loan) crisis, problems in the US energy sector and, finally, a fall in the oil price. The fall in the oil price was an important contributor to Mexico's problems in the summer of 1982. The Bank of England's view at the start of the year, however, was that if a US bank was in danger from a sovereign debt default, the Fed or FDIC would step in to provide liquidity or broker a merger with another financial institution as had happened with the Franklin National Bank. Another exercise followed, studying the potential collapse of a US money centre bank, but it was deemed that the financial panic would 'be likely to be present only at the domestic source of these problems' rather than spill over into international banking. Based on earlier episodes in the 1970s, the Bank of England continued to trust that, unlike the Credit Anstalt crisis, a sovereign default would be a national affair.

There are clearly elements of disaster myopia in the run-up to the sovereign debt crisis of August 1982, but at the same time the efforts of policy-makers to use the past to prepare for a crisis need to be acknowledged. In this case, the Bank of England returned to the classic contagious bank failure in the 1930s as its starting point. The role of central banks and international cooperation evident in the assessment of this crisis persisted in the Bank's scenario planning. For practical guidance, they turned to more recent restructurings and both policy-makers and bankers drew comfort from their success, despite Arrowsmith's warnings. When examining the particular vulnerability of US banks, the collapse of

[61] Fiona G. Ashworth, 'Apocalypse How', 26 January 1982. BoE Archives 3A143/7.

the Franklin National Bank in 1974, based on Spero's recent book, was an important case that also reassured the Bank of England about the ability of the US authorities to cope with limited international cooperation. By this time, it was clear that ex ante cooperation would not be forthcoming among the G10 central banks because of the risks and expense of declaring an international lender of last resort scheme. From the archival evidence it seems that complacency within the Bank may have increased even as the crisis loomed closer.

**Conclusions**

In both cases, the anticipation of crisis was fulfilled. Three years after Martin's speech, the convertibility of the dollar to gold was suspended and the market price floated away from the fixed rate. This marked the beginning of the end of the Bretton Woods pegged exchange rate system and ultimately countries peeled away into floating regimes, starting with sterling in June 1972. The sovereign debt crisis finally crashed down in August 1982 and the response reflected some of the planning. Borrowing governments were quickly brought to the negotiation table with bridge loans and promises of multilateral funds, bank debt was rolled over and commercial loans kept current to minimize the potential for runs in the international banking system. The model of restructuring set in the 1970s quickly became an unmanageable and expensive international circus as the number of defaulting countries grew, but the forbearance of regulators and the myth that the debts were still 'performing' allowed the banks gradually to recapitalize. The breathing space allowed longer term solutions to be considered from 1985 and a major international banking crisis was avoided.

This paper has described two ways that the 1930s crisis was used before a crisis occurred: as parable and as a source of practical lessons. These different uses reflect the public v. confidential context and the availability of memory, both direct and filtered through popular expression or historical interpretation. What do these two cases suggest about uses of the past and memory?

Unlike in 2008, in the 1965 the memory of the great depression was still a personal experience for senior policy-makers like Johnson, Martin and Patson. But personal memory is not a requirement for the 1930s depression to be used for policy-making – the 2008 crisis has demonstrated that clearly. Nor does the lived experience of the depression necessarily determine a particular policy stance. Martin's successor, Arthur Burns, started his career as an economics lecturer just before the depression in 1927 and was an academic specialist in business cycles. In contrast to Martin, he presided over the end of the pegged exchange rate regime and then the great inflation and unemployment of the 1970s.

In the 1960s, the depression was used as a parable to signal the seriousness of economic events and choices. Martin used the past as a weapon, appealing to the public's collective memory of the great depression in his struggle against French critics and the Johnson administration's expansionary policy. But he did not seem to draw on the contemporary historical treatment of the depression by Friedman and Schwartz. He was partly reacting to opposite lessons drawn from 1931 by Giscard d'Estaing and Rueff. His strategy backfired by causing sharp fall in the stock market, he was heavily criticized for scare-mongering and he was robustly contradicted by the Treasury Secretary and the Chair of the Council of Economic Advisers. Invoking the 1920s was considered incendiary. The FOMC decided in June that it could not tighten monetary policy partly because the markets were so unsettled by Martin's comments, although the discount rate was increased in December. But the speech took on a life of its own, re-emerging eight years later as the pegged exchange rate system collapsed. The parable of the 1930s was powerful even in the absence of a financial crisis.

Bordo and Levy recently advocated the use of the past in scenario planning for the Federal Reserve's response to the COVID crisis, but in the 1970s-1980s the appetite for using the past, even the recent past, was limited.[62] Within the Bank of England, scenario planning started with a historical treatment of

[62] M.D. Bordo and M.D. Levy (2020) 'Incorporating scenario analysis into the Federal Reserve's policy strategy and communications', NBER Working Paper No. 27369, June.

the 1931 banking crisis (based partly on internal archives) to highlight the importance international cooperation and the role of the BIS. But the planning at the BIS quickly came to use the nearer past for which there was lived memory as well as history (Spero). Compared to the Bank of England, other central bankers and bankers were reluctant to draw lessons to prepare for the looming crisis. Partly, this may have reflected a myopic belief that any sovereign default would be contained rather than contagious and partly it arose from faith in the resilience of existing structures and that lessons had already been learned. Despite decades of central bank cooperation since 1931, they were not ready to contemplate a safety net for commercial bank failure. Using models from the 1970s, when an international systemic crisis was averted, rather than the spectre of the 1931 European financial crisis encouraged central bankers' confidence in existing structures. The two examples presented in this paper do not offer a template for how or when the past is used by central bankers, but they should open up discussion to recognize the variety of ways that competing interpretations of past crises have been deployed in public and private to frighten, to reassure and to plan.

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