

Lessons? From America's first Great Depression

Canadian Alasdair Roberts, professor of law and public policy at Suffolk University (Boston), will present his book "America's first Great Depression" to GSC staff on 8 July. Written interview.

The American federation survived the crisis that hurt its economy and people in 1837. Is there a lesson to be learnt by the EU?

There are strong similarities between the American crisis of 1836-1848 and the Eurozone crisis. Both cases involve a new federation with limited central authority. The American case resulted in default by many of its "peripheral states," which had borrowed too easily before the crash. The crisis of 1836-1848 be-

gan as a financial crisis but quickly transformed into a political, cultural and diplomatic crisis as well. This transformation made the management of politics within the union extraordinarily difficult. It took time and adroitness to work through the economic, political and cultural tensions.

Could such a crisis occur again in the US?

The nineteenth-century economy was loosely regulated and suffered from recurrent booms and slumps. One of the conceits of our age was that we had found a way to liberalise the economy without returning to this boom-and-slump pattern. This has been proved wrong. Still, the United States is unlikely to suffer another crisis like that of 1836-1848. The central fiscal and monetary policy institutions are much stronger. So is the social security net. And state governments cannot borrow excessively because of constitutional limitations that were adopted as a result of the crisis of 1836-1848.

During that depression, the US experienced problems with the UK, its primary foreign creditor. Will it be China next?

The crisis of 1836-1848 turned into a diplomatic crisis because state governments defaulted on loans that came mainly from the UK, which was also the United States' main rival for new territory and access to markets. There is a similar tension between the United States and China today. Their economies are intertwined, but they are also rivals. Until recently, it was fashionable to say that this sort of economic interdependence encouraged peace. But the 1836-1848 crisis suggests that interdependence can also aggravate conflict. This is particularly true if economic problems become entangled with questions of national honour and status, as they did in the 1840s. The difference today is that the creditor (China) is also the rising power, whereas it was the superpower (the United Kingdom) that was the main creditor in the 1840s.



© John Gillooly

Alasdair Roberts is professor of law and public policy

Caroline SCHICKEL
DG A1
Internal
Communication

