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"The lessons of history" were widely invoked in 2008/09 as analysts and policymakers sought to make sense of the global financial crisis. Specifically, analogies with the early stages of the Great Depression of the 1930s were widely drawn. Building on work in cognitive science and literature on foreign policy making, this article seeks to account for the influence of this particular historical analogy and asks how it shaped both perceptions and the economic policy response. It asks how historical scholarship might be better organized to inform the process of economic policymaking. It concludes with some reflections on how research in economic history will be reshaped by the crisis.

This has been a good crisis for economic history. It will not surprise most members of this audience to learn that there was a sharp spike in references in the press to the term "Great Depression" following the failure of Lehman Brothers in September of 2008.[1] More interesting is that there was also a surge in references to "economic history," first in February of 2008, with growing awareness that this could be the worst recession since you know when, and again in October, coincident with fears that the financial system was on the verge of collapse. Journalists, market participants, and policymakers all turned to history for guidance on how to react to this skein of otherwise unfathomable events.

It is widely observed that the "lessons of history" were influential in shaping the policy response. There were obvious parallels with the early stages of the Great Depression: an unusually sharp drop in asset prices, an unusually sharp drop in output, and then the failure of prominent financial institutions, all followed by generalized financial

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[1] The number of references comes from Google Trends, which tabulates the number of articles included in Google News where the term in question appears. There is also a spike, to unprecedented levels (unprecedented since the beginning of 2004, when the series appears), in the volume of search traffic referencing the term, again according to Google Trends.

distress. There was the fact that this crisis, like that of the 1930s, was not just a U.S. economic and financial crisis but a global economic and financial crisis. The decline in global industrial production from the spring of 2008 closely tracked the decline that followed the peak in the summer of 1929. References to the Great Depression became widespread. References to articles referring to the Great Depression became widespread.[2]

The analogy legitimated certain responses to the collapse of economic and financial activity while delegitimizing others. It supported the notion that the Fed should respond aggressively to prevent the collapse of a few investment funds from precipitating a cascade of financial failures. This reflected the widespread currency of Milton Friedman and Anna J. Schwartz's interpretation of the Great Depression—that what had made the Depression great was the inadequate response of the Federal Reserve.[3] Recall Ben Bernanke's remarks at the conference on the occasion of Friedman's 90th birthday. "You're right, Milton. We did it. We're very sorry. But thanks to you, we won't do it again."[4]

The analogy with the Great Depression informed the policy response to the crisis more generally. The Federal Deposit Insurance Corporation increased deposit insurance coverage to $250,000 per depositor exactly one day after press references to the Great Depression peaked. The action was presumably informed by the view of the banking panics of the Great Depression as runs by uninsured depositors, and the historical interpretation, widely shared, that those panics had played a key role in the contraction of the money supply and the impairment of the payments system.[5] The analogy with the Great Depression similarly lent legitimacy to the argument that the Congress and Administration should respond with fiscal stimulus. This reflected the "lesson" of history that the depth and duration of the Depression were attributable in no small part to the fact that fiscal stimulus was not used to counter the collapse of private demand.[6]

[2] This is something with which I had firsthand experience. To make the point that the crisis was global—and that the collapse in industrial production was even more dramatic outside the United States—Kevin O'Rourke and I published a short commentary at *VoxEU*, Eichengreen and O'Rourke, "Tale of Two Depressions," showing the parallel evolution of global industrial production following its June 1929 and April 2008 peaks. Where the most-read piece at *VoxEU* had previously received 8,000 page views, this one received upwards of 500,000.

[3] See Friedman and Schwartz, *Monetary History*.

[4] Bernanke, "Remarks by Governor Ben S. Bernanke."

[5] On the importance of the panics, see inter alia Wicker, *Banking Panics*.

[6] There is, however, the additional question—whose answer, I would submit, is not obvious —of why this conclusion, derived from Cary Brown's influential 1956 work on fiscal policy in the 1930s, was more controversial and evidently lacked the same legitimacy as the conclusions drawn for monetary and bank regulatory policies. See Brown, "Fiscal Policy." One factor may

The analogy with the Great Depression also delegitimized the temptation to respond with protectionist measures designed to bottle up the remaining demand. This reflected the lesson, widely taught to undergraduates and invoked by policymakers, that the Smoot-Hawley Tariff aggravated the crisis of the 1930s. In fact, this "lesson" of history is not supported by modern research, which concludes that Smoot-Hawley played at most a minor role in the propagation of the Depression.[7] Indeed, it has been suggested that Smoot-Hawley, inclusive even of foreign retaliation, had a modestly positive impact by putting upward pressure on prices in what was a sharply deflationary environment, thereby moderating the destabilizing impact of debt deflation.[8] That said, using tariffs to support prices and production was second-best then. There were more direct and less distortionary ways of achieving the same end. Repeating the action would have been second-best again. So this was an instance of bad history in the service of good policy.[9]

In addition to shaping the policy response, the analogy with the Great Depression shaped the reaction of the markets. It was not just policymakers but also market participants who viewed current events through the lens of history. The "Four Bad Bears" graph, showing the parallel movement of equity prices in the United States following the 1929 and 2007 crashes, circulated widely and surely shaped perceptions—or fears—of how market conditions were likely to evolve.[10]

have been subsequent scholarship questioning some of Brown's conclusions. There was theoretical and empirical work in the Ricardian tradition suggesting that the accumulation of public debt in the 1930s could have neutralized the otherwise expansionary effect of fiscal policy, which reaches rather mixed conclusions; on the U.K. case, see Turner, "Wealth Effects." Of course, there was also subsequent scholarship questioning Friedman and Schwartz's conclusions about the early stages of the Depression (Temin, *Did Monetary Forces?*; Hamilton, "Was the Deflation?;" Cecchetti, "Prices During Great Depression;" and Nelson, "Was the Deflation?"). It is not clear why one body of scholarship should lend more legitimacy to an activist policy response than the other. Maybe the answer lies less in economic scholarship than in ideology and politics (see below).

[7] Can a thousand petition-signing economists be wrong? Evidently.

[8] See Eichengreen, "Political Economy," and Irwin, *Peddling Protectionism*. In "Political Economy," I show that whether or not Smoot-Hawley cum retaliation was modestly expansionary or contractionary depended on whether or not the United States and world economies were in a liquidity trap in which money demand hardly responded to interest rate changes. In the liquidity-trap-like circumstances of the early 1930s, the answer is modestly expansionary. The argument anticipated Paul Krugman's argument about how a tariff on imports from China would be helpful in modern-day liquidity-trap-like circumstances.

[9] In other words, the ritual invocation of beggar-thy-neighbor policy in the 1930s had the desirable effect of encouraging policymakers to shun beggar-thy-neighbor initiatives and of spurring them to coordinate their responses.

[10] Called "Four Bad Bears" because it included also two other bear markets. The graph is due to the financial advisor Doug Short, at http://dshort.com/articles/2010/bear-turns-to-bull.html.

In turn, this played a role in how market conditions did, in practice, evolve.

Some argue that the comparison with the Great Depression was exaggerated, leading to an exaggerated response by financial market participants and policymakers. Bringing us to the question of why the analogy was so widely invoked and influential.

An attempt to answer this question starts with the observation, from cognitive science, that analogical reasoning is central to human cognition.[11] While resort to relational patterns is similarly evident in the cognitive behavior of other primate species like the chimpanzee, explicit relational matching is extremely difficult for chimpanzees that lack special training in symbol use. It is impossible, so far as we know, for monkeys.[12]

Among very young members of the human species, in contrast, the use of analogy appears to develop spontaneously.[13] Analogies are found in the written record as far back as there is evidence of well-developed written language, in the Babylonian epic *Gilgamesh*, for example.

Analogical reasoning is not the only form of human reasoning, to be sure. There is deductive reasoning based on arriving at an understanding of events on the basis of a set of principles or a general theory—in the present context, on the basis of economic theory. In the 2008/09 crisis economic policymakers could have worked top-down, from first principles, deducing how to respond. With little stretch of imagination, one can envision them in the New Executive Office Building and the corridors of the Fed sketching on their yellow pads IS-LM diagrams or their DSGE alternatives as a guide to action.

Then there is inductive reasoning, which builds up a diagnosis of the crisis and a guide to action from close scrutiny of the facts. This was how Alan Greenspan, famously a connoisseur of data on freight car loadings, is said to have formed his understanding of the state of the economy and its financial markets.[14] I can identify. Like many people, I spent an inordinate amount of time in 2008 and 2009 scanning the press and Internet in a desperate effort to make sense of a news flow full of economic and financial events the like of which I had never seen, and attempting to assemble them into a coherent whole.

[11] It is not entirely surprising that cognitive scientists reach this conclusion, since their field is based in part on the analogy between human information processing and the processing performed by a digital computer, leading to the analogical insight that cognition can be modeled as a form of computation.

[12] Ogden, Thompson, and Premack, "Can an Ape," describe the first symbol-trained chimpanzee to display relational matching.

[13] See Goswami, "Analogical Reasoning."

[14] An example that, with benefit of hindsight, is not entirely reassuring.

As economic historians well know, these approaches to human reasoning are not really alternatives. In practice they are used in conjunction. The question is under what circumstances individuals on their own and as members of groups rely most heavily on analogical reasoning. The literatures on cognitive science and organizational learning suggest two situations. First, when there is limited time to reach a decision and those reaching it have limited information-processing capacity. In 2008/09, not having time to acquire and process all relevant information about the causes and dynamics of the crisis, policymakers and others had to take logical and empirical shortcuts when reasoning their way to decisions. The analogy with the Great Depression was a powerful intellectual shortcut. It provided a ready diagnosis and an implied set of do's and don'ts.

Second, the literature suggests that individuals are likely to rely on analogy when they disagree on the principles needed for deductive reasoning. Saltwater and freshwater economists relied on different bodies of theory when attempting to make sense of the events unfolding around them in 2008/09. The models of the economy they sketched on their yellow pads had little in common. Their theories pointed to different diagnoses (or in some cases no diagnosis) and recommended different policy responses (or in some cases no response). Given pressure for action, this encouraged less reliance on deductive reasoning and more use of analogical reasoning than in other circumstances. In the absence of a theoretical consensus, the analogy with the Great Depression moved policymakers toward a shared understanding of the problem. It offered a guide to action.

This suggests that while policymakers may regularly employ analogical reasoning, they will lean on it most heavily in crises. Crises are when the pressure to act is greatest but also when there is least time for theorizing and data gathering. President Kennedy and his advisors, when reasoning through how to respond to Soviet provocation in the Cuban Missile Crisis, leaned heavily on the analogy with Pearl Harbor.[15] President Ford and his advisors, in thinking about how to respond to the swine flu outbreak in 1976, reasoned by way of analogy with the 1918 influenza.[16] President Obama and his advisors, when seeking to comprehend the consequences of the Gulf Oil spill in 2010 and frame a response, invoked the analogy of the Exxon Valdez.

Some have suggested that this reliance on analogical reasoning in crises leads policymakers to systemically exaggerate the gravity of

[15] As well as other analogies—see below.
[16] To which it bore an antigenic resemblance.

events. When drawing analogies, they focus on "searing" or "molding" events of "transcendent importance" in the words of Philip Zelikow.[17] In seeking to understand why President Truman, having previously dismissed South Korea as "militarily worthless," went to war over it in 1950, Richard Neustadt and Ernest May cite Truman's tendency to reason in terms of *the* transcendent analogy for Truman's generation, namely the "fateful events of the nineteen-thirties, when aggression unopposed bred more aggression and eventually war."[18]

This brings us back to the possibility that the comparison between the events of 2008/09 and the Great Depression was exaggerated, leading policymakers to overreact. And this in turn points us to the further question of how the analogizer chooses the base case mapped onto the target case. Although the Great Depression was clearly the dominant base case in discussions of the 2008/9 crisis, there were other possible analogies. There was the 1873 crisis, driven by an investment boom and bust like that of the period leading up to 2007, which led to the failure of brokerage houses, in parallel with the problems in 2008 of the investment banks. There was the 1907 crisis, in response to which J.P. Morgan organized a lifeboat operation that resembled in important respects the 2008 rescue of Bear Stearns by none other than J.P. Morgan & Co. Moreover, in 1907 depositor runs centered not on the banks but on the trust companies, whose situation was not unlike that of the modern shadow banking system.[19]

Yet the 1930s, and not 1907 or 1873, was the dominant analogy. Cognitive scientists in the "structure-mapping" tradition would explain this on the grounds that structural parallels between the Great Depression and the recent episode were in fact more extensive.[20] In this view, it is the extent of structural similarities between the base and target cases that results in the former being chosen. Nineteenth-century cycles had in common with the recent episode that they were investment-boom-and-bust driven. The 1907 crisis had in common a similar financial rescue. But the Great Depression had in common with 2008/09 a host of further features. The Great Depression, even more than earlier financial crises, was global in scope. It saw the collapse of housing prices. It

[17] See Zelikow, "Thinking About Political History."

[18] Cited in Neustadt and May, *Thinking in Time*, p. 36.

[19] These points about 1873 and 1907 and the argument that these earlier crises had more in common than the 1929–1932 crisis with the events of 2008/09 are also made by Tallman and Wicker, "Banking and Financial Crises." These authors do not then go on, however, and ask why the 1929–1932 analogy was more widely chosen. By chance, 2007 was the centennial of this earlier crisis, and two financial historians had fortuitously capitalized on the anniversary to publish a new history of the panic (Bruner and Carr, *Panic of 1907*).

[20] See Gentner, "Structure-Mapping," for example.

saw the collapse of international trade. More generally, the interwar economy more closely resembled today's in terms of economic structure and policymaking institutions.

But there are alternative explanations. Other cognitive scientists, focusing on the first stage of analytical thinking, which involves retrieving the relevant analogs stored in long-term memory, point to the "accessibility" of the base case when explaining why it is chosen. Whether an analogy is invoked depends, put simply, on the ease with which it is recalled.[21] This is basically Daniel Kahneman and Amos Tversky's "availability" heuristic in another guise.[22] The Great Depression had going for it that it was more recent than pre-World War I financial crises. A few older members of the commentariat had experienced it firsthand, which cannot be said of previous financial crises.[23] The Great Depression is more widely taught and therefore more familiar to policymakers, investors, and the general public.[24] It was the analogy to which they turned not because it was the most appropriate guide to policy and action but simply because it was the most accessible.

In part, this accessibility reflects the same fact just mentioned—that the Great Depression was the most recent full-blown financial crisis. But its accessibility also derives from the fact that its far-reaching economic and social consequences lent it prominence in the individual and collective consciousness. The institutional and policy legacy of the 1907 crisis was not inconsequential—most obviously, it provided impetus for the creation of the Federal Reserve System—but the economic and social consequences of the Great Depression were greater still. The Depression was the kind of "searing" or "molding" event that Zelikow has in mind when explaining why certain analogies resonate with policymakers. Not without reason, three of our colleagues have called it "the defining moment."[25] Again, this points to the possibility that the same cognitive mechanisms that led to the focus on the Great Depression may have caused those relying on analogical reasoning to overestimate the gravity of events unfolding around them.

[21] See, for example, Markman and Moreau, "Analogy and Analogical Comparison," p. 375–76.

[22] See Tversky and Kahneman, "Availability."

[23] Higgins, "Knowledge Activation," emphasizes that elements related to an individual's personal experience are likely to figure prominently in analogical as in other reasoning. Khong, *Analogies at War*, specializes this to the importance of the timing of an individual's "political coming of age."

[24] Members of the Economic History Association can blame themselves, in other words, for the disproportionate reliance of policymakers, investors, and the public on this analogy.

[25] See Bordo, Goldin, and White, *Defining Moment*.

Still another explanation in the literature of cognitive science is that analysts select the base case on the basis of its "goal relevance."[26] Keith Holyoak argues that the analogy chosen and the inferences drawn on its basis are those that fit with the reasoner's goals in problem solving; he refers to this as "pragmatics."[27] In 2008/09 the key goals of policymakers were to stabilize the financial system and to prevent unemployment from rising more than necessary. The sins of omission and commission that had caused the financial system to collapse and unemployment to rise to high levels in the 1930s were thus the attributes of the base case on which policymakers focused.

But this emphasis on pragmatics points to the possibility that cognitive scientists and others—not excluding yours truly—may be exaggerating the importance of analogical reasoning. Decision makers may simply be cherry-picking historical analogies as a way of justifying decisions taken on other grounds.[28] Foreign policy specialists are alert to this possibility.[29] Ernest May's 1973 classic *"Lessons" of the Past: The Use and Misuse of History in American Foreign Policy* focuses on the role of historical analogy in foreign policy decisions.[30] May argued that foreign policymakers are powerfully influenced by their "beliefs about what history teaches or portends." He illustrated the point with examples of how historical analogy influenced American policymaking during World War II, in the opening phase of the Cold War, in the Korean intervention, and in the decision to go to war in Vietnam. May's work spawned a large subsequent literature, the capstone of which was Yuen Foong Khong's *Analogies at War*.[31] Khong looked more closely at the Vietnam decision, drew explicitly on research in cognitive science and psychology, and tabulated the number of times analogies were used by key decision makers in both public speeches and private documents.

[26] If individuals projected everything known about the base case onto the target episode, analogy would be useless to reasoning.

[27] Spellman and Holyoak, "Pragmatics in Analogical Mapping," report experimental evidence of the importance of this selection mechanism.

[28] Indeed, I implicitly acknowledged this possibility in the introduction to this address, where I referred to the analogy with the Great Depression as "legitimating" a certain set of policy responses.

[29] Perhaps they are alert to it because it is in the foreign policy literature where analogical reasoning has received the most attention.

[30] May, it should be noted, started his professional career as an historian for the Joint Chiefs of Staff during the Korean War.

[31] See Khong, *Analogies at War*. Another notable contribution was May's follow-up in Neustadt and May, *Thinking in Time*.

This led to a popular literature invoking their themes.[32] It led also to a backlash against the analogical-reasoning view and to efforts to test its relevance. Thus, Andrew Taylor and John Rourke examined the association of the Munich and Vietnam analogies with the voting behavior of members of Congress in the Persian Gulf crisis of 1991.[33] They found that whether or not these analogies were invoked by a member in floor debate added nothing to the extent to which voting behavior could be explained by standard variables like ideology and partisanship. From this they inferred that analogies were mostly used by members of Congress as post hoc justifications for policy choices taken on ideological and partisan grounds. I am not ready to dismiss the importance of analogical reasoning on this basis, there being some obvious problems with Taylor and Rourke's empirical strategy. But their work suggests a direction for those who wish to be serious about testing for the influence of historical analogy.

May further suggested that policymakers use analogy badly. They tend to seize on the first analogy that springs to mind, like the consumer who impulsively grabs the first box of breakfast cereal at eye level on the supermarket shelf. They do not search more widely; they rely on the availability heuristic, in other words. They are oblivious to small-sample problems. Cognitive scientists have noted that individuals relying on analogical reasoning tend to retrieve only a small number of analogs.[34] Under pressure of time, they pay inadequate attention to the correspondence between the base and target case. Feeling pressure to decide, they do not adequately analyze the historical case, test its fitness, or ask in what ways it might mislead. One worries that some future scholar of our recent crisis will argue that our economic policymakers, when drawing lessons from history, displayed some of these same behaviors.

In principle, it is possible for policymakers to use history more judiciously. They can seek multiple historical analogies to the problem at hand and attempt to discern whether they all seemingly have the same implications for policy. When different historical analogies have different implications, they can analyze the characteristics of the multiple cases responsible for those different implications, and determine which characteristics are also shared by the target case.

They can then use the resulting portfolio of historical analogies to develop a "consideration set," a set of options that the decision maker then evaluates. Those who work in business schools will recognize that

[32] A recent example of which is Goldstein, *Lessons in Disaster*.
[33] Taylor and Rourke, "Historical Analogies."
[34] Burstein, "Incremental Learning," is explicitly concerned with this tendency.

this term comes from marketing, where researchers seek to determine, inter alia, what brands of breakfast cereal a supermarket shopper is prepared to consider, how that set of brands is formed, and how it might be manipulated.[35] The role of historical analogy in policy, from this point of view, is not to dictate action but to shape the consideration set—that is to say, to define the options.

As an example of how this is possible, May cites the Cuban Missile Crisis. In thinking of what policy to adopt, President Kennedy thought not only of Pearl Harbor but also of the 1956 Suez Crisis, the 1948/49 Berlin Blockade, the German invasion of Czechoslovakia prior to World War II, and the escalation of military tensions that followed the assassination of Archduke Ferdinand in Sarajevo. As May shows, Kennedy consciously sought multiple analogies, weighed their applicability, and contrasted their policy implications. The president was thereby able to move beyond the most readily available analogy and identify characteristics of several historical cases that applied to the crisis at hand. This led to the development of a consideration set that included not just air strike but also naval blockade and negotiation.

Kennedy seems to have been aware of the bias toward "searing" or "molding" events. He was a student of history, having written a popular history that won the Pulitzer Prize. It did not hurt that among his advisors were academics who had taught history as well as social science courses with an historical dimension. Here it is tempting to echo the observation, not original to me, that we were enormously lucky in 2008/09 that several key policymakers were serious students of business cycles and financial crises.[36]

Of course, one cannot rely on the good luck of having historically literate policymakers. In analyzing the decision to escalate U.S. involvement in Vietnam, for example, Khong suggests that President Johnson and his advisors used analogical reasoning less judiciously than had Kennedy and his circle.[37]

That one cannot always count on individuals points to the importance of developing institutionalized mechanisms so that policymakers, when

[35] See, for example, Roberts and Lattin, "Development and Testing." Note that the term is also used by cognitive scientists.

[36] Bernanke's own reflections on the role of history in economic policy emphasizes that "history is never a perfect guide." Bernanke, "Economic Policy," emphasizes differences between historical antecedents and the recent episode, suggesting that novel aspects required "blue sky thinking and the development of new instruments." Romer's reflections on the same subject emphasize not only the guidance that historical experience provides for policy but also the role of history as a mechanism for managing expectations. See Romer, "Lessons from the Great Depression" and "Back from the Brink."

[37] In particular, historical evidence from earlier episodes such as French experience in Vietnam in the early 1950s was invoked selectively at best.

reasoning by analogy, know where to turn to access the historical record.[38] In the United States, institutional memory is probably best developed in the State Department, Abraham Lincoln having established the Office of the Historian in 1861. That office's principal product, *Foreign Relations of the United States*, will be familiar to this audience.[39] The Office of the Historian also prepares "policy supportive" studies and memos for State Department principals and agencies.[40] More broadly, the institutionalization of historical memory in the foreign policy context is of long standing. In preparation for the Paris Peace Conference of 1919, for example, the British government commissioned studies of previous peace conferences. Militaries in the United States, United Kingdom, and elsewhere have regularly commissioned histories of major wars.

Examples from the world of economic policymaking are fewer. One familiar to me is the official historian of the International Monetary Fund. In the early 1960s, the impending 20th anniversary of the Fund prompted management to commission an official history as a way of explaining to the outside world how the IMF had evolved. Prior to that, the relatively secretive nature of the Fund's activities had fed public suspicion, a problem which rendered the proposal for an official history compelling. The result proved to be useful internally, evidently to the surprise of those responsible for the commission.[41] This led to four additional histories of subsequent periods.[42] While the Fund has never established a permanent office of the historian, it has regularly filled the position, and the job description is now explicit about the historian's institutional memory function. In a number of recent instances, such as the adoption of new guidelines for conditionality, decisions regarding surveillance and the creation of new lending facilities, the published histories provided valuable source material on what had been tried, what had worked, and what hadn't. Indeed the historian was actively involved in the decision-making process.

[38] I am not proposing that there should be a Council of Historical Advisers analogous to the Council of Economic Advisors. In the context of foreign policy, May, *'Lessons' of the Past*, also raises and rejects this possibility. But a number of examples suggest that having policymaking institutions invest more heavily in institutional memory can enhance outcomes.

[39] So, no doubt, will be the controversy over the series' neglect of certain of the U.S. government's covert actions.

[40] The statement is on its website. The office has not gone uncriticized; see Kimball, Whiteside, and Spector, "Report to the Secretary of State."

[41] See DeVries and Horsefield, *International Monetary Fund*; and Horsefield, *International Monetary Fund…Chronicle* and *International Monetary Fund…Documents.*

[42] In addition, there was a volume commissioned of an independent historian, James, *International Monetary Cooperation,* to commemorate the 50th anniversary of the institution.

Another less happy tale is from the Historical Section of the British Treasury. In 1957 Sir Norman Brook, permanent secretary of the treasury and influential mandarin, instituted a "funding initiative" to encourage British government agencies to make more systematic use of history. Brook had been involved in the meetings of the Cabinet and its Egypt Committee during the Suez Crisis, which was a financial as well as a geopolitical crisis, and in that context had found invaluable the War Book, a running reference work encapsulating British experience in the transition from peace to war.[43] Brook and his assistants felt the absence of a civil history to inform their decision making on peacetime matters. Brook noted that the absence of a civil history made it hard to determine "promptly and authoritatively" what had been done in the past to solve peacetime problems. This led him to encourage departments to commission historical memoranda concerned with civil problems. In 1957 Brook authorized the first of a series of treasury historical memoranda covering peacetime and urged Whitehall to follow the lead of his department.

But while the Treasury moved forward, other departments did little in response to the initiative.[44] And although substantial studies were produced within the Treasury, they were not well received. There was the sense that policy-relevant history took too long to write and that the results were too difficult to digest.[45] The principal civil servant tasked with writing historical analyses, James Ogilvy-Webb, produced as his first project a three-volume 100,000 word history of wages policy. Richard Clark, the head of Home and Overseas Planning Staff, then instructed Ogilvy-Webb to prepare a shorter history, which eventually emerged as a Treasury Historical Memorandum.[46] Other divisions of the Treasury enlisted historians to produce memoranda on topics ranging from aircraft purchasing to nationalized industries.

[43] See Kyle, "Mandarins' Mandarin."

[44] As described by Beck, *Using History*.

[45] There were both inside and outside lags. In the case of the Foreign Office, the study of historical precedents for the 1956 Suez Crisis was only commissioned in 1959 and completed in 1962.

[46] There was considerable further delay. The problem that historical research is time consuming—there is often considerable lead time—and economic historians seeking to respond to policy issues often do so after the fact is evident in the recent crisis as well. My work on fiscal policy in the 1930s would have been more influential if I had had it in the top drawer—had it been available before the fact. To cite another example, since 2007 there have been a number of important analyses of earlier historical experience with housing booms and busts. Had these existed before 2007, they might have helped policymakers place the current housing market in context and better diagnose the extent of imbalances—and act on that diagnosis.

There appears to have been some criticism by the historians of these short-form memoranda as insufficiently nuanced. Senior civil servants, for their part, were largely dismissive of the final product; a few overworked officials were positively hostile. There is little indication that the memoranda had much impact on policymaking. In-house historians, the conclusion was drawn, were not especially useful, and in 1976 the Historical Section was closed down.

The alternative is to draw on outside expertise. In March 1990 at Chequers, Margaret Thatcher famously met with six historians in an effort to better understand the implications of German reunification, although the proceedings, by some accounts, were less than constructive.[47] In Europe, there exist networks of economic historians, with public funding, whose express purpose is to inform the policy process.[48] The problem of relying on independent scholars is, of course, that they will not have the same access to the confidential documents as the IMF's Official Historian or the State Department's Historian.[49]

So far, I have skated over the distinction between analogy and historical analogy. In describing the role of analogical reasoning in the U.S. decision to commit to ground war in Asia in the 1960s, the cognitive scientists Arthur Markham and Page Moreau cite the influence not of the historical analogy with Germany's invasion of Czechoslovakia but the ahistorical analogy with a row of dominos.[50] The latter, alluding not to a specific historical event but to the comparison with the child's game of lining up a row of dominos, was influential in framing the political debate over U.S. policy in Asia. It suggested that even if South Korea or Vietnam was politically insignificant in and of itself, a Communist takeover could not be ignored because it would lead to other Communist takeovers, much as tipping over one domino can cause the entire row to come tumbling down. That mental image, in turn, was not inconsequential for how policymakers in fact chose to respond.

[47] The absence of constructiveness is described in the memorandum of the meeting taken by Thatcher's foreign policy advisor, Sir Charles Powell, and subsequently leaked to the press.

[48] This is the Centre for Economic Policy Research's Economic History Initiative, whose manifesto reads, in part: "There is a need for a more 'presentist' economic history in Europe which uses history to speak to contemporary debates about globalization, the international financial architecture, deflation, and other pressing policy issues. As European integration progresses, the demand for a coherent account of European economic history rather than a series of disjointed national histories becomes more urgent; as does the need for more systematic comparative research."

[49] This applies equally to the base case and the target case; one wonders how helpful economic historians, even those exceedingly well versed in the history of financial crises, could have been to policymakers in September 2008 had they not also been privy to confidential information about the condition of Lehman Bros.

[50] Markman and Moreau, "Analogy and Analogical Comparison."

Some will say that the comparison with falling dominos was less an analogy (a relational mapping) than a metaphor (a figure of speech suggesting a parallel between two otherwise very different objects).[51] One might say the same of "a crisis of Great Depression-like severity." When used in this fashion in 2008/09, "Great Depression" had more symbolic than historical content. It symbolized a grave economic situation that presumably required urgent action on the part of policymakers, but it did not come lumbered with historical detail. While highlighting the need for action, it did not point to or away from particular steps. As Keith Shimko explains, metaphors tend to have less a direct, immediate, and identifiable influence on policy than analogies because the correspondence between the two objects drawn is less detailed.[52] The domino metaphor implied the need to do something, but what exactly was not clear. The historical analogy with Munich and the Nazis' invasion of Czechoslovakia, in contrast, pointed U.S. foreign policymakers in the 1950s and 1960s toward specific steps.

Viewed in this way, the notion of a "Great Depression" was invoked in 2008/09 both as metaphor and analogy. As a metaphor, it helped to mobilize public support for extraordinary action of some, unspecified type. As an historical analogy, it pointed to specific steps and away from others.

Where for political scientists the danger with historical analogy is that policymakers will use it injudiciously—they will fail to consider multiple analogies, weigh their correspondence with the current situation, and emphasize not just similarities but also differences—economic historians will recognize an additional issue: the existence of multiple interpretations of the same events. If history is the distilled, authoritative encapsulation of society's memory of its past, then the history of the Great Depression, like all history, is still being written. Existing accounts, in other words, are less than fully distilled and authoritative.

And insofar as this was the case, the historical analogy to the Great Depression offered less guidance to policy. Did we need a new New Deal? Well, that depended on whether you sided with historians who argue that the New Deal helped to end the Depression or only prolonged it. Did we need a jolt to the exchange rate to vanquish deflationary expectations? The answer depended on whether your view was that Roosevelt's decision to take the United States off the gold standard in 1933 was a critical step that transformed expectations and ended

[51] This is the argument in Shimko, "Metaphors and Foreign Policy." He cites Vosniadou and Ortony, *Similarity and Analogical Reasoning*, who distinguish between within-domain (or literal) analogies and between-domain (or metaphorical) analogies.

[52] Shimko, "Metaphors and Foreign Policy."

deflation or whether you thought it was a sideshow. For those attempting to move from metaphor to analogy, this was a reminder that the distilled, authoritative encapsulation of the period remains a work in progress.

This brings me to a final question. How will the 2008/09 crisis influence historical scholarship? This is the other dimension of historical analogy. Not only does the base case shape perceptions of the target case, but the mechanism operates also in reverse.[53] It is likely that there will now be less Whig history of the Great Depression. The mainstream narrative is that the experience of the Depression led to a series of institutional and policy innovations making it less likely that something similar would happen again. American economic historians refer in this connection to federal deposit insurance, unemployment insurance, Social Security, the Securities and Exchange Commission, the concentration of monetary-policymaking authority at the Federal Reserve Board, and automatic fiscal stabilizers. Historians of other countries have similar lists. Although the stabilizing impact of particular entries on these lists has been disputed, the thrust of the dominant narrative is clear.

We now have had a graphic reminder that we have less than fully succeeded in corralling threats to economic and financial instability. While policy responses may avoid the repetition of past threats, they are no guarantee against future threats. Markets tend to adapt to stabilizing policy innovations in ways that render those innovations less stabilizing. As memories of the earlier crisis fade, policymakers themselves become more likely to consort with market participants in this effort. I suspect that we will now see more attention to these longer-term adaptations to the legacy of the Great Depression and less to the short-term policy response.

The recent crisis also reminds us that the policy response is as much a matter of ideology and politics as it is a matter of economics. In 2010/11 the debate over a second stimulus seemed to be governed less by evidence on the size of the multiplier than by the analyst's ideology and by political backlash against earlier government interventions in the economy. Accounts explaining the failure of the authorities to intervene more effectively in the 1930s mainly as a matter of bad economics are now likely to be revised. Elsewhere, Peter Temin and I have emphasized the role of ideology.[54] Economic historians starting

[53] Like Margaret MacMillan, I have had colleagues tell me how lucky I am to be teaching history, since this relieves me of having to revise my lectures in light of events. We always knew better; now maybe they do too. See MacMillan, *Dangerous Games*.

[54] See Eichgreen and Temin, "Gold Standard."

with Leonard Arrington and Gavin Wright and extending to John Wallis, Price Fishback, and Shawn Kantor have done important work on the political economy of the policy response.[55] We will surely see more such work in the wake of the recent crisis, especially for countries other than the United States where there are fewer similar studies.

The profession having been reminded that crises have long-term effects, we will also see more studies of how the Depression affected household behavior: attitudes toward saving, spending, and risk taking, for example.[56] We will see more studies of how it affected educational attainment and labor-market outcomes over the life cycle.[57]

Finally, the widespread use of the Great Depression analogy in the recent crisis having reminded us that historical narratives are contested, we will see more explicit attention to the question of how such narratives are formed.

[55] See Arrington, "Western Agriculture;" Wright, "Political Economy;" Wallis, "Political Economy;" Fishback, Kantor, and Wallis, "Can the New Deal?" and the references cited therein.

[56] See Malmendier and Nagel, "Depression Babies."

[57] As in Yamashita, "Effects of the Great Depression," Kisswani, "Did the Great Depression?" and Elder, *Children of the Great Depression*.

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