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AMERICA'S GREAT DEPRESSION: A PREVENTABLE TRAGEDY IN FOUR ACTS

By Lawrence W. Reed

Editor: Amid a recession that some are calling the worst since the 1930s, on the heels of a Democratic presidential victory that recalled 1932 and a Republican congressional comeback echoing 1938, we called on our favorite economic historian to sort out the facts from the myths about that stormy decade. He did not spell out the political parallels between then and now, as there was no need. They speak for themselves.



How bad was the Great Depression? Over the four years from 1929 to 1933, production at the nation's factories, mines, and utilities fell by more than half. People's real disposable incomes dropped 28 percent. Stock prices collapsed to one-tenth of their pre-crash height. The number of unemployed Americans rose from 1.6 million in 1929 to 12.8 million in 1933.

Students today are frequently taught that unfettered free enterprise collapsed of its own weight in 1929, paving the way for a decade-long economic depression full of hardship and misery. President Herbert Hoover is presented as an advocate of "hands-off," or laissez-faire, economic policy, while his successor, Franklin Roosevelt, is the economic savior whose policies brought us recovery.

But this popular account of the Depression belongs in a book of fairy tales and not in a serious discussion of economic history, as a review of the facts demonstrates.

To properly understand the events of the time, it is appropriate to view the Great Depression as not one, but four consecutive depressions rolled into one: the monetary disturbance, the disintegration of the world economy, the New Deal, and the Wagner Act.

The first phase explains why the crash of 1929 happened in the first place; the other three show how government intervention kept the economy in a stupor for over a decade.

Act One: The Flood of Easy Money

The Great Depression was not the country's first depression, though it proved to be the longest. The common thread woven through the several earlier debacles was disastrous manipulation of the money supply by government. For various reasons, government policies were adopted that ballooned the quantity of money and credit. A boom resulted, followed later by a painful day of reckoning.

None of America's depressions prior to 1929, however, lasted more than four years—and most of them were over in two. The Great Depression lasted for a dozen years because the government compounded its monetary errors with a series of harmful interventions.

Most monetary economists have observed the close relationship between money supply and economic activity. When government inflates the money and credit supply, interest rates at first fall. Businesses invest this "easy money" in new production projects and a boom takes place in capital goods. As the boom matures, business costs rise, interest rates readjust upward, and profits are squeezed.

The easy-money effects thus wear off and the monetary authorities, fearing price inflation, slow the growth of—or even contract—the money supply. In either case, the manipulation is enough to knock out the shaky supports from underneath the economic house of cards.

Using a broad measure that includes currency, demand and time deposits, and other ingredients, the late economist Murray Rothbard estimated that the Federal Reserve expanded the money supply by more than 60 percent from mid-1921 to mid-1929. The flood of easy money drove interest rates down, pushed the stock market to dizzy heights, and gave birth to the "Roaring Twenties."

Misgovernment kept the economy depressed.

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By early 1929, the Federal Reserve was taking the punch away from the party. It choked off the money supply, raised interest rates, and for the next three years presided over a money supply that shrank by 30 percent.

The “smart” money—the Bernard Baruchs and Joseph Kennedys who watched things like money supply—saw that the party was ending before most other Americans did. Baruch actually began selling stocks and buying bonds and gold as early as 1928.

When the masses of investors eventually sensed the change in Fed policy, a stampede began. But the stock market crash was only a symptom—not the cause—of the Great Depression: The market rose and fell in near synchronization with what the Fed was doing.

Act Two: Hoover and the Global Slump

If this crash had been like previous ones, the subsequent hard times might have ended in a year or two. Instead, unprecedented political bungling prolonged the misery for 12 long years.

Did Herbert Hoover really subscribe to a “hands off the economy,” free-market philosophy? His opponent in the 1932 election, Franklin Roosevelt, didn’t think so. During the campaign, Roosevelt blasted Hoover for spending and taxing too much, boosting the national debt, choking off trade, and putting millions of people on the dole. He accused the president of “reckless and extravagant” spending, of thinking “that we ought to center control of everything in Washington as rapidly as possible,” and of presiding over “the greatest spending administration in peacetime in all of history.”

Hoover’s horrors: High tariffs, huge subsidies, heavy taxes.

Roosevelt’s running mate, John Nance Garner, charged that Hoover was “leading the country down the path of socialism.” Hoover’s crowning folly was the Smoot-Hawley Tariff of June 1930. The most protectionist legislation in U.S. history, Smoot-Hawley virtually closed the borders to foreign goods and ignited a vicious international trade war. Foreigners soon retaliated with trade barriers of their own. With their ability to sell in the American market severely hampered, they curtailed their purchases of American goods.

American agriculture was particularly hard-hit. Farmers lost nearly a third of their markets and farm prices plummeted. Tens of thousands of farmers went bankrupt, leading to the failure of rural banks in record numbers.

Hoover dramatically increased government spending for subsidy and relief schemes. In the space of one year alone, from 1930 to 1931, the federal government’s share of GNP increased by about one-third.

To compound the folly of high tariffs and huge subsidies, Congress then passed and Hoover signed the Revenue Act of 1932. It doubled the income tax for most Americans;

the top bracket more than doubled, going from 24 percent to 63 percent. Exemptions were lowered; the earned-income credit was abolished; corporate and estate taxes were raised; new gift, gasoline, and auto taxes were imposed; and postal rates were sharply hiked.

Can any serious scholar observe the Hoover administration’s massive economic intervention and, with a straight face, pronounce the inevitably deleterious effects as the fault of free markets?

Act Three: Roosevelt and the New Deal

Franklin Delano Roosevelt won the 1932 presidential election in a landslide, collecting 472 electoral votes to just 59 for the incumbent Hoover. The platform of the Democratic Party whose ticket Roosevelt headed called for a 25-percent reduction in federal spending, a balanced federal budget, a sound gold currency “to be preserved at all hazards,” the removal of government from areas that belonged more appropriately to private enterprise, and an end to the “extravagance” of Hoover’s farm programs.

This is what candidate Roosevelt promised, but it bears no

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– John Andrews, Director



resemblance to what President Roosevelt actually delivered. In the first year of the New Deal, he proposed spending \$10 billion while revenues were only \$3 billion. Between 1933 and 1936, government expenditures rose by more than 83 percent. Federal debt skyrocketed by 73 percent.

Roosevelt secured passage of the Agricultural Adjustment Act (AAA), which levied a new tax on agricultural processors and used the revenue to supervise the wholesale destruction of valuable crops and cattle. Federal agents oversaw the ugly spectacle of perfectly good fields of cotton, wheat, and corn being plowed under. Healthy cattle, sheep, and pigs by the millions were slaughtered and buried in mass graves.

Even if the AAA had helped farmers by curtailing supplies and raising prices, it could have done so only by hurting millions of others who had to pay those prices or make do with less to eat.

FDR's economic stimulus could not prevent the 1937 collapse.

Perhaps the most radical aspect of the New Deal was the National Industrial Recovery Act (NIRA), passed in June

1933, which set up the National Recovery Administration (NRA). Under the NIRA, most manufacturing industries were suddenly forced into government-mandated cartels.

Codes that regulated prices and terms of sale briefly transformed much of the American economy into a fascist-style arrangement, while the NRA was financed by new taxes on the very industries it controlled. Some economists have estimated that the NRA boosted the cost of doing business by an average of 40 percent.

Like Hoover before him, Roosevelt signed into law steep income-tax rate increases for the high brackets and introduced a five-percent withholding tax on corporate dividends. In fact, tax hikes became a favorite policy of the president's for the next 10 years, culminating in a top income-tax rate of 94 percent during the last year of World War II.

In an unprecedented spending spree, his New Deal even paid researchers to study the history of the safety pin, hired 100 Washington workers to patrol the streets with balloons to frighten starlings away from public buildings, and put men on the public payroll to chase tumbleweeds on windy days.

The American economy was soon relieved of the burden of some of the New Deal's excesses when the Supreme Court outlawed the NRA in 1935 and the AAA in 1936, earning Roosevelt's eternal wrath and derision. Recognizing much of what Roosevelt did as unconstitutional, the "nine old men" of the Court also threw out other, more minor acts and programs which hindered recovery. Freed from the

Voices of CCU

STRESSED OUT BY THE ECONOMY?

By Joanie DeBrito



As Americans continue debating policy solutions for health care, we can take responsibility for managing our own health. It's especially important these days, as the economic downturn appears to have damaged our emotional and physical health, according to the Gallup-

Healthways poll.

They have kept track of 1,000 Americans, 350 days per year since January 2008. Low scores on Gallup's emotional-health index in some states have been correlated with a higher incidence of stress-related illnesses such as heart disease.

Some of the tips that we give CCU students for managing stress include participating in regular exercise, eating a nutritious diet, drinking plenty of water, and getting seven to nine hours of uninterrupted sleep every day. True, college life is more conducive to the first of those than the last one—but *Centennial Review* readers should try all four.

Daily, rigorous exercise is helpful for managing depressive symptoms, whether they stem from the economy, school pressures, or other sources of stress. Additionally, regular expression of gratitude, honest conversations with loved ones, laughter, prayer, and meditation have been shown to improve health and wellness. Members of CCU's Christian community can attest to that.

We try to ensure that the curriculum, student services, extracurricular events, and overall culture here on campus encourage personal responsibility for health and wellness. And we're pleased that Colorado, with its abundance of sunshine and open space, ranks fourth among the 50 states in Gallup's well-being index.

A down economy may be out of one's control, but a positive attitude about one's health is a choice. That's one of CCU's goals in nurturing the next generation of healthy, God-honoring citizens and leaders. ■

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worst of the New Deal, the economy showed some signs of life. Unemployment dropped to 18 percent in 1935 and below 14 percent in 1937. But by 1938 it was back up to 20 percent as the economy slumped again. The stock market crashed nearly 50 percent between August 1937 and March 1938. The "economic stimulus" of Franklin Roosevelt's New Deal had achieved a real "first": a depression within a depression!



**America's Great Depression:
A Preventable Tragedy
in Four Acts**

By Lawrence W. Reed

Unlike previous economic contractions lasting only about two years, America's misery after 1929 was prolonged to 1941 by both parties' political folly. Is the past our prologue?

Act Four: Labor Militancy vs. Business Confidence

The stage was set for the 1937-38 collapse with the passage of the National Labor Relations Act in 1935—better known as the Wagner Act and organized labor's "Magna Carta." Armed with sweeping new powers, labor unions went on a militant organizing frenzy. Threats, boycotts, strikes, seizures of plants, and widespread violence pushed productivity down sharply and unemployment up dramatically. Membership in the nation's labor unions soared; man-hours of work lost to strikes doubled to nearly 30 million in one year.

From the White House on the heels of the Wagner Act came a thunderous barrage of insults against business. Businessmen, Roosevelt fumed, were obstacles on the road to recovery. New strictures on the stock market were imposed. A tax on corporate retained earnings, called the "undistributed profits tax," was levied. Not until both Roosevelt and the war were gone did investors feel confident enough to reinvest to any significant degree.

On the eve of America's entry into World War II and 12 years after the stock-market crash of Black Thursday, 10 million Americans were still jobless. Roosevelt had pledged in 1932 to end the crisis, but it persisted two presidential terms and countless interventions later.

Along with the horror of World War II came a revival of trade with America's allies. The war's destruction of people and resources did not help the U.S. economy, but this renewed trade did. More important, the Truman administration that followed Roosevelt was decidedly less eager to berate and bludgeon private investors, and as a result those investors came back into the economy to fuel a postwar boom.

Perhaps most helpful to the postwar private economy was the largest reduction in government spending in U.S. history (largely due to the cut in war-related expenditures) and a rollback of the corporate income tax in 1945 from 90 percent to 38 percent.

The Tragic Flaw: Politics, not Markets

The genesis of the Great Depression lay in the inflationary monetary policies of the U.S. government in the 1920s. It was prolonged and exacerbated by a string of political missteps: trade-crushing tariffs, incentive-sapping taxes, mind-numbing controls on production and competition, senseless destruction of foodstuffs, and coercive labor laws, to name just a few.

It was not the free market that produced 12 years of agony; rather, it was political bungling on a scale as grand as there ever was. ■



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