The Cause and Consequences of the Great Depression

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A four-part series published in *The Intellectual Activist*
2004-2005

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This four-part series describes the economic catastrophe of the 1930s and – in contrast to conventional interpretations of that tragic decade – explains its true cause, ultimate cure and lasting consequence. This was a failure, not of freedom, capitalism, or the gold standard, but of "progressive" statism.

— Richard M. Salsman

What Made the Roaring '20s Roar

The Cause and Consequences of the Great Depression, Part 1

by Richard M. Salsman

The Great Depression of the 1930s—which began soon after the stock-price crash of October 1929—was the greatest economic catastrophe in modern human history. The economic depression persisted for about a decade, and although the entire industrialized world suffered from it to varying degrees, conditions were worst in the US. Those familiar with the sordid history of this tragic period may recall some of its important specifics.

Consider, for example, the stocks of publicly traded US companies: their prices plunged 88% from their peak level in September 1929 through June of 1932. As late as April 1942, US stock prices were still 75% below their 1929 peak and would not revisit that level until *November 1954*—almost a quarter of a century later. Anyone who bought stocks in mid-1929 and held on to them saw most of his adult life pass by before getting back to even.

US industrial production peaked in July of 1929 and by the summer of 1932 had plunged to just 46% of the prior peak. Thus American businesses were producing less than half of what they had been producing just three years earlier. Such a decline had never come close to happening before in the previous century of relatively free American markets. From 1929 to 1933, the profits of the largest US firms plunged by 76%. Taken together, all American businesses in 1932 (roughly 500,000 of them) lost nearly $6 billion; never before had they suffered an *aggregate* business loss.

The unemployment numbers are probably the most well known. At the worst point, in March of 1933, 28% of working-age Americans had no job. In 1929, prior to the stock-price crash, the unemployment rate had been a mere 5%. Whereas in 1929 there had been 1.8 million Americans out of work, by spring of 1933 that number reached 13 million.[1] At the end of the 1930s, the jobless rate remained as high as 15%, nearly three times its 1929 level. During the 1930s, unemployment averaged 17% and never fell below 14%.

In late 1929, roughly 25,000 banks operated in the US. By the end of 1933, 40% of these banks had gone bankrupt and closed their doors. International trade also collapsed: from 1929 to 1933 total imports and exports in the world plunged 61%.[2]

These are the "dry statistics" of the 1930s. But they cannot fully convey the terrible human toll that economic depression wrought. Businesses, careers, and lives were ruined. Many people saw their personal savings wiped out. Some families never fully recovered and spent subsequent decades in poverty. In some years, suicide rates increased. The 1930s were depressing in more ways than economic; for many, the future was as bleak as the present.

What explains this decade-long economic catastrophe? How did it end? If at any time in recent decades you attended college courses in economics or economic history, you were probably presented with the false conventional explanation. This fable of the Great Depression has been promulgated by academics for decades, so it also animates the popular accounts you may have read in business magazines, seen in television documentaries, or overheard at cocktail parties.

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The stock crash of 1929 and the 1930s depression, according to this fable, were caused by a massive failure of free-market capitalism. The crash was the inevitable result of a previous, reckless "boom" in stock prices. The "Roaring Twenties" were years of "false prosperity" caused by "cheap money" (defined as low interest rates). Hucksters at brokerage firms fostered "irrational exuberance" and "speculative excesses" among investors. The Federal Reserve was right to raise interest rates in 1928 and 1929 and halt "excessive speculation."

The economic collapse of the 1930s was due primarily to previous, excess production; there had been a vast rise in the output of automobiles, radios, and appliances in the 1920s—but eventually people had *too many* of these things, became sated, and stopped buying them. Excess inventories had to be liquidated and that necessitated production cutbacks and layoffs. Without unemployment benefits, however, jobless Americans could not consume enough to "get the economy moving again."

Academics further tell us that bankers made crazy loans in the 1920s, and when these loans could not be repaid in the 1930s, banks failed. The Fed could have printed more money in the 1930s, to spur a recovery and bail out the banks, but its hands were tied because it was on the gold standard. A shortage of gold made for a "rigid" money supply. The Fed thus lacked the power and the will to increase the money supply and restore prosperity. Making matters worse, after the beginning of the depression, people saved too much and hoarded their cash, fearing bank failures; so there was both overproduction and under-consumption. The collapse in foreign trade was the inevitable result of the US having imported too much in the prior decade; at the same time, unbearable debt burdens imposed by the Versailles Treaty after World War I forced Germany to pay billions in reparations, so it could not buy American exports.

Finally, we've all heard the dogma that the Great Depression was cured by state intervention in the economy and by World War II.

The Fed abandoned the gold standard and printed lots of money. In the 1930s, President Franklin Roosevelt's New Deal programs launched a vast increase in government spending, undertook beneficial "public works" projects, and generated "stimulative" budget deficits. This created jobs and gave people income so they could consume more and reduce excess inventories. Moreover, regulations and welfare programs were adopted: the SEC was formed, to police stock exchanges; deposit insurance was enacted, to halt bank runs; unemployment benefits were paid, allowing the jobless to buy products and boost their consumption; Social Security was enacted, enabling seniors to retire comfortably and increase consumption still further.

The best remedy of all, we've been told, was America's fortunate entry into World War II in 1941. Millions of jobless men were sent to fight; that reduced the unemployment rate and provided paychecks, too. Washington's vast new demand for jeeps, tanks, and guns was allegedly good for business and made factories hum again. In destroying factories, homes, cars, and appliances, war also reduced excess inventories and fostered US exports to Europe. US business now had an outlet for its productive excesses, so world trade could revive. The only real problem was that many American boys died in World War II, so they could not return home to contribute still further to a consumer spending boom.

The depression, according to this fable, was caused by a massive failure of capitalism. The "Roaring Twenties" were allegedly years of "false prosperity," and the crash was the inevitable result of a previous, reckless "boom."

This is academia's standard fable about the depression. In fact, it's a tissue of falsehoods.

Those familiar with the history of economic thought and with the most famous writings on the Great Depression will probably notice the key contributors to this wholesale misinterpretation of the Great Depression—some the reader would expect,

others he might not: it is part Karl Marx, part John Maynard Keynes, part Milton Friedman, part Ludwig von Mises, and part Alan Greenspan.

The fable of the Great Depression does not square with the facts or with logic. Of course, the statistics that show the extent of the economic disaster of the 1930s are all true and cannot be ignored. The facts must be explained—but explained rationally. It is important that we fully comprehend what happened and why. But to do so we must reject and move beyond the falsehoods that have been foisted on us over the decades.

Since the Great Depression was falsely attributed to capitalism, we lost important vestiges of freedom in the 1930s; in turn, we got greater doses of statism—which remain with us today in part due to persistent, false interpretations of the period.

Ultimately, the achievement of laissez-faire capitalism requires a greater dissemination of its philosophical underpinnings—but a rehabilitation of economics is important, too. As advocates of capitalism we must "clean out the historical stables," so to speak, especially by setting the record straight on the Great Depression. Whereas the conventional view attributes the 1929 stock crash and depression to laissez-faire capitalism, the evidence is overwhelming that both disasters should be attributed to capitalism's opposite, namely *statism*—the abrogation of capitalist principles and institutions.

Contrary to popular and academic opinion, American industry and finance in the 1920s generated a prosperity that was genuine.

The US economy of the 1920s was undoubtedly a *mixture* of capitalism and statism—but with more capitalist than statist features. The mix itself was new, an outgrowth of the populist-progressive era from 1880 to 1920. In the 1870s, the world had seen the rise of Bismarck in Germany and with him the rise of "cradle-to-grave" European welfare states. Unfortunately, some elements of Europe's statist systems were adopted by American politicians during the populist-progressive era, most notably the Sherman Anti-Trust Act of 1890,[3] the federal income tax, adopted in February 1913, and central banking, which was established through the Federal Reserve Act of December 1913.

At the end of World War I, the US political-economic system certainly was more statist than it had been a decade earlier. But America was relatively *less* statist than Europe, because it had a less-altruistic philosophy and because Europe had embarked on its statist path forty years earlier.

In the 1920s, the US central bank was not yet as arbitrary, tax rates were not yet as high, controls were not yet as extensive, and Washington had yet to adopt a system of favors to labor unions, or unemployment insurance, or Social Security. Unlike Europe's central banks, during World War I and the 1920s the US Federal Reserve kept the dollar convertible into gold, though not in as convenient a form as before. After the war (again, unlike Europe), the US reduced previously high tax rates. This was the predominantly capitalist and favorable context which made possible the decade known as the "Roaring Twenties."

Contrary to popular (and academic) opinion, American industry and finance in the 1920s generated a prosperity that was *genuine*—neither "artificial" nor a "boom" (a pejorative for prosperity which implies an "inevitable bust"). The Roaring Twenties began after a short, sharp recession in 1920–1921, which had followed (and was caused by) the high-inflation, high tax rates, and high tariffs of World War I. When the US government adopted the federal income tax in 1913, the top rate on the highest income-earners was 7%, while the lowest earners paid 1%. It was a graduated tax schedule, which would have pleased Karl Marx; but at least tax rates were relatively low. Yet by the end of World War I, the top US tax rate had been raised to an astounding 77%. Whereas a top producer of income in 1913 could keep 93 cents of every new dollar he earned, by 1918 he could retain only 23 cents—a 75% decline in after-tax income.

Both the Harding administration (1921–23) and the Coolidge administration (1923–29) had the good sense to cut these confiscatory, war-related tax rates. By 1922, the top US tax rate of 77% on

personal income had been reduced to 56%. In 1924, the rate was further cut to 46%. Calvin Coolidge, who said "the business of the American people is business," retained famed Pittsburgh banker Andrew Mellon, who had been appointed as Treasury secretary by Harding in 1921. Coolidge and Mellon jointly pushed for even lower tax rates, so that by 1925 the tax rate on top income-earners was down to 25%. Of course, this rate was still nearly four times as high as the pre-war rate (7%), but the reductions were positive for prosperity. Now the after-tax retention rate for top earners was 75 cents of every new dollar earned—more than triple the retention rate of 23 cents that had prevailed in 1918. Coolidge and Mellon also convinced Congress to cut the corporate profits tax rate from 13.5% to 11% (in 1913, it had been 1%).

In addition, Mellon insisted that Congress reduce federal spending, eliminate budget deficits, generate a surplus, and reduce the national debt. From 1921 to 1929, federal tax receipts declined by 31%, but federal spending fell by 38%, generating $8.1 billion in cumulative surpluses that were used to reduce the federal debt by 29%.

Coolidge and Mellon generally adopted a laissez-faire stance toward the economy; they neither subsidized farmers, businessmen, and investors nor harmed or impeded them. The president's non-interventionist posture reflected his abiding respect for producers of every kind. Coolidge believed "civilization and profits go hand in hand"[4] and remarked once that "The man who builds a factory builds a temple, the man who works there worships there and to each is due not scorn and blame but reverence and praise."[5]

Another bullish context for the 1920s was Britain's return to gold. The government had suspended the gold-coin standard during World War I after abiding by it for a century. In April 1925, Britain again made the pound convertible into a fixed weight of gold. It was a gold-bullion system, not a gold-coin standard, which made convertibility less practical for pound-holding citizens. But other central banks could again demand gold and keep the Bank of England honest. Other countries —Canada, Germany, Italy, and France—also returned to gold in some form while Britain was doing so.[6] In however diluted a form the world returned to gold, these decisions, together with US tax-rate cuts, were bullish. After World War I, the foundation for prosperity had been strengthened: a militaristic German regime was vanquished, thereby restoring peace and the conditions needed for greater trade; the British pound was again gold-based; and US tax rates were being cut dramatically.

The prosperity of the 1920s was both *genuine* and *sustainable*; it lasted about eight years (1922–1929) and ended only when statist policies were re-imposed. From the spring of 1921 to the summer of 1929, industrial production in America *more than doubled*, growing at a compounded rate of nearly 10% per year. Such a robust and prolonged period of economic progress in the US has never since been matched. In America's recorded history, the only other eight-year period of similar growth occurred amid the Industrial Revolution of the 1870s.

Invention in America flourished in the 1920s; the number of patents issued in the decade surpassed prior records and grew by 22%. Entrepreneurs launched and developed new companies and industries in the 1920s, then fostered their growth: automobiles, chemicals, household appliances, telephones, electric utilities, radio, aircraft, movies, and cosmetics. The number of business firms grew 20%. In 1910, fewer than 200,000 automobiles had been produced and sold in America. In 1920, that number had grown to nearly 2 million, and in 1929 car sales reached 4.5 million. The 1920s saw a total of 33.8 million cars produced and sold to a US adult populace that averaged 69 million.

Electricity production in the US increased nearly 150% in the 1920s; the proportion of households with electricity nearly doubled, from 35% in 1920 to 68% in 1929. Broadcasting and radio did not exist until 1920; in 1922, companies like Radio Corporation of America produced 100,000 radio sets; in 1929, 4.4 million radios were produced, and one-third of American households possessed one. Book publishing grew in the 1920s: 19% more books were sold in 1929 than in 1920. Newspaper circulation grew 39%. Department store sales grew 25%. In 1920, there were 13.2 million telephones

in America, twice the number there were in 1910; by 1930, the number of phones had nearly doubled again, to 20 million.

Real per capita personal income grew by 38% in the 1920s, while the US population increased 11%. Life expectancy had grown 8% from 1910 to 1920 but then grew 10% by the end of the 1920s, to 57 years.[7]

Fortunes were made and mansions were built in the 1920s. Real wages sky-rocketed, the general standard of living increased and the scope of human comforts widened. The decade also was characterized by benevolence and care-free fun: tap-dancing, vaudeville, the Charleston, "flappers," and the "speak-easy," where Americans openly defied prohibition.

The US stock-market rise of the 1920s was just as spectacular as the rise in production—and just as genuine. This was no coincidence: stock prices reflected and anticipated America's economic expansion, especially the higher profits generated by businessmen. From the summer of 1921 to the summer of 1929, stock prices of US-traded firms increased 385%—the biggest eight-year rise ever recorded, before or since. Compounded gains on stocks amounted to 22% per year.

The stock-market rise of the 1920s was just as spectacular —and just as genuine: stock prices reflected and anticipated America's economic expansion.

How could US stock prices have risen 22% per year in the 1920s, when output was rising by "only" about half that rate (10% per year)? Stockholders do not pay for a firm's output of goods and services; they pay for a share in its profits, especially when profits are distributed as dividends—and the firms that produced these spectacular stock-price gains saw their corporate profits grow 387% in the 1920s. That is, profits increased at a rate nearly *identical* to the eight-year growth rate seen in stock prices. Output expanded rapidly in the 1920s, but profits expanded even more so; ingenious businessmen were reducing unit costs through productivity gains—gains made possible by new technologies and by the assembly line.

The prosperity of the 1920s genuinely represented the actual production of real goods and services, as well as the financial acumen of investors. Stock prices rose rapidly but *rationally* reflected and anticipated underlying profitability and the capacity of firms to pay dividends. It is simply false to assert that this prosperity was "fake" or "artificial" —or that it reflected "paper gains." Precisely because the gains were extraordinary, many all-too-ordinary observers could not fully comprehend or believe them. Instead, they resorted to doubting the gains or ridiculing them.

The most common alleged "explanation" of fast-rising stock prices—in any era—has been "speculation." But this is merely a pejorative term for *forecasting*. There is nothing inherently "unreal" in looking ahead to the future and there is no factor that makes self-interested market-makers inherently prone to wildly inaccurate estimates of future business conditions. We know that governments can provide favorable conditions or impose unfavorable ones; but there is no defect in market-makers "speculating" about—or forecasting—potentially positive or negative results.

Another common claim about stock-price gains in the 1920s is that they were made possible by Federal Reserve "inflation." This view is held by many supposed free-market economists—monetarists and Austrians—and is certainly a tempting thesis for those who oppose central banking. But was Alan Greenspan correct when he wrote, in the mid-1960s, that the late-1920s represented a "fantastic speculative boom" that was triggered by "excess credit" pumped out by the Fed—credit which then allegedly "spilled over into the stock market"?[8]

This view of the late-1920s stock-price rise could not be more wrong.

For all its faults and improprieties, the Federal Reserve remained on the gold-coin standard in the 1920s; that standard should have been operated by free banks, with private institutions and their

customers, not government, holding all gold supplies. (That had been the system for nearly four decades prior to the Fed's founding in 1913.) Nevertheless, the dollar in the 1920s contained the same, fixed amount of gold as it had in the nearly half-century before the end of World War I. The US dollar was freely convertible to any bank or dollar-holder. Thus, there was neither inflation nor deflation in the 1920s. The US monetary standard was not debased; the dollar's gold content was not changed in the least.

It is certainly true that the money supply in the US—the sum of currency and checkable bank deposits—increased in the 1920s. But the money supply grew at a rate (29%) that was less than one-third as fast as the growth in money demand—a demand that was reflected in the growth rate of industrial output (109%). It was precisely because money was not created in excess that both wholesale and retail prices in the US actually declined in the eight years ending in 1929. Prices declined slowly each year. But since unit business costs were reduced even further, both profits and stock prices were able to increase. These were genuine gains—not allegedly "artificial" gains due to the Fed "pumping in money."

What underlies the "inflationist" view of stock gains? Most Austrian economists define inflation as "an increase in the money supply," while monetarists like Milton Friedman say it's an increase in the money supply in excess of an increase in output. Thus, when Austrians see any increase in the money supply, coupled with rising stock prices, they become convinced the stock-price rise is "artificial," precisely to the extent of the money-supply increase. Similarly, when monetarists observe any rate of increase in the money supply that exceeds the rise in goods prices—or when they see money-supply increases amid goods-price declines, as in the 1920s—they insist that "excess" money supply somehow "spills over" into stocks, causing their prices to be artificially "inflated."

In fact, no new money supply ever "goes into" or "comes out of" any stock market. For every buyer of a stock, there is an equal and opposite seller—and at an identical value, or price. The stock buyer transfers his supply of money from his bank account into the bank account of the stock seller. There is no net change in the money supply. A stock exchange is aptly named: it's a place where investors exchange titles to wealth—i.e., company shares. The stock exchange is not a repository for wealth or for some "excess" supply of money. Stock prices are determined, not by "money in-flows and out-flows," but by traders' joint expectations of firms' future profits and the political-legal climate. Profits increased dramatically in the 1920s, before plunging in the 1930s. Stocks prices rationally anticipated this shift in profitability; stock-price moves had nothing to do with the money supply.

Stock-price gains in the 1920s are often attributed to "inflation." Yet for all its faults, the Federal Reserve remained on the gold-coin standard in the 1920s.

In addition to being influenced by profits, stock prices are heavily influenced by interest rates. As a rule, lower interest rates are bullish for production and stock prices, while higher interest rates are bearish for both. Why? We must look more deeply into this issue because it can be an enormous source of confusion in the reading of economic history. In fact, this issue has confused the friends of capitalism as often as its enemies.

Interest rates reflect time preference—a technical concept in economics, but a crucial one. Time preference refers to the extent people are long-term-oriented or short-term-oriented in their lives—whether they think, run their businesses, and invest with a long-range view or instead by a short-range view or range-of-the moment. Many factors influence time preference—including a culture's prevailing philosophy, the relative dominance of conceptual versus concrete-bound thinking, the political-legal context, the changing value of money, rates of taxation, and the uncertainties associated with regulation or war.

When men are willing and able to focus on the

long term, they are willing to forego an immediate payback for longer-term benefits and thus accept a lower rate of interest. When men choose—or are forced—to focus on the short term, they demand a more immediate return on their investments, regarding future returns as too uncertain to rely on, and thus demand a higher rate of interest.

Everyone has his own time preference, and differences among men exist, but the time preference of a whole culture is reflected in its interest rates. An interest rate represents a profound integration of everyone's time preferences. A culture with lower interest rates tends to think, look, plan, and invest with a longer-range perspective; in contrast, cultures with higher interest rates tend to think and act with a shorter-range perspective or, in cases of sky-high interest rates, the range-of-the-moment.

For the most part, interest rates in the US declined sharply in the 1920s. The average corporate bond yield fell from 7.4% at the end of 1920 to 4.9% in early 1928. In addition to other favorable aspects of the 1920s—the fixed gold content of the dollar, growth in money supply that was less than growth in money demand, plus the general decline in the prices of wholesale and retail goods—this decline in corporate interest rates reflected not only a rise in profits but also improved corporate credit quality. Declining interest rates in the 1920s also reflected a sound dollar.

For John Kenneth Galbraith, fast-rising stock prices are due to "collective insanity." For Alan Greenspan, they reflect "irrational exuberance." All sides of the debate say investors are irrational and free markets fail.

It is here that we encounter one of the most dubious elements of the Austrian and monetarist views of the business cycle and of their account of the 1920s and 1930s.

All else equal, if a lender expects the value of money to *decline* over the term of the loan, he will demand a *higher* interest rate from the borrower, to compensate for the expected loss in money's purchasing power. The borrower who also expects such a decline in the value of money will be perfectly willing to pay the higher interest rate, for when the loan is due he expects to repay it in cheaper money. In contrast, any lender who expects the value of money to *increase* during the time his loan is outstanding will accept a *lower* interest rate, while the borrower who expects the same trend surely will be content to pay the lower rate. Thus, market expectations of a decrease in the value of money—i.e., inflation—will tend to cause an *increase* in interest rates; in contrast, expectations of an increase in the value of money—an appreciation in its purchasing power—will tend to lower interest rates. The latter climate characterized the 1920s.

Why are these principles so important for understanding the 1920s and the 1930s—and so crucial to interpreting similar periods in economic-financial history? These principles are not only misunderstood but literally stood on their heads by many economists, including supposed friends of capitalism.

An influential thesis holds that the 1920s "boom" was the cause of the 1930s collapse. The underlying premise is that prosperity necessarily brings impoverishment—and the longer any period of "apparent" prosperity lasts, the more it is ridiculed as "phony," "illusory," or the equivalent of "chasing rainbows."[9] For Harvard's John Kenneth Galbraith, fast-rising stock prices are caused by "collective insanity" and "general dementia."[10] For Alan Greenspan they reflect "irrational exuberance"[11] or "avarice" and "infectious greed"[12]—while stock market plunges occur (he says) because "investors suffer an abrupt collapse of comprehension."[13] All sides of the debate say investors are irrational and free markets fail.

It was Karl Marx who held that capitalism would be terribly productive, but that this very feature would make the system "sow the seeds of its own destruction." The capitalist cornucopia could be achieved only by exploiting and starving workers, whose ability to purchase output would steadily diminish and cause "excess" production. After the

"boom" would follow a "bust"—or, more precisely, *because* of the boom there must, of necessity, follow a bust. In this Marxist view, the "boom" is "artificial" because at root it is inherently unsustainable. Of course, one need not come under the exclusive influence of Karl Marx to commit this grave mistake; one can just as easily commit it by operating under the influence of a neo-Marxist like John Maynard Keynes. In the 1920s, this influential British economist re-introduced a patent fallacy that had been committed, routinely, by mercantilists almost two centuries earlier—the fallacy that "interest rates are the price of money."

The "price of money"—if one is to use this term at all—is a sloppy stand-in for the *value* of money. The value of money is its purchasing power: what it buys. But Keynesians mangle the proper interrelationships. If, as they claim, an interest rate is the "price of money"—and therefore the value of money—how might an interest rate decline? Assuming that the demand for money is fixed, only an increase in the money supply could lower money's "price." That is, printing more money would *lower* interest rates. Similarly, by this false view, to raise interest rates—to raise "the price of money"—would require a reduction in the supply of money.

But this defies the facts. Under this theory, inflation—a *decline* in the value of money caused by its excessive issuance relative to the demand for it—would bring lower interest rates. Instead, inflation brings *higher* interest rates. And deflation does not raise interest rates, as the Keynesians claim, but in fact *lowers* them.

If someone adopts what is essentially a mercantilist position on money supply and interest rates, how will he interpret (or misinterpret) the 1920s? He will note that interest rates declined. But since he will define the interest rate as the "price of money" he will assume some "excessive" creation of money. If he is an Austrian economist, he will complain that the money supply increased at all. If he is a Monetarist, he will complain that the money supply increased more than it should have. But both will insist the resulting prosperity was phony, because it was allegedly "inflated." (A Keynesian economist will agree with both the Austrian and monetarist about the "inflation"—but he will applaud it as a sure path to prosperity.)

This is the inane and tragic state of affairs that has come to surround the crucial economic history of the 1920s and 1930s. Whether one turns to accounts given by Marxists, Austrians, Monetarists, or Keynesians, one will not obtain an accurate, consistent account of these distinctive decades. Confusion reigns about what is or is not "genuine" prosperity, whether it is sustainable, what will bring it to a halt, or what factors might revive it again.

In the Austrian theory of business cycles, it is easy to detect a lack of appreciation for the intelligence, wisdom and foresight of entrepreneurs, businessman and investors.[14] Austrian economists presume producers are easily fooled by government manipulations of money, credit, and the economy—especially by the alleged phenomenon of "artificially" low interest rates. They claim producers are conned into undertaking projects that later will turn out badly and require liquidation. In fact, producers are not fooled; they know, even if implicitly, which government policies are conducive to wealth creation and which are destructive. That is, they know when it's worth producing and when it's only worth shrugging. And when they shrug and production grinds to a halt, it does not grind to a halt because they had previously produced.

When the Austrian view of the business cycle is coupled with a malevolent-universe premise—with the view that in the economy or stock market "what goes up must come down," that "all good things must come to an end," that no long ride of unbroken prosperity can ever persist without taking on irrationally exuberant hitchhikers—the combination can be catastrophic. For it can bring even the purported champions of capitalism to openly endorse destructive policies such as Federal Reserve interest-rate hikes, curbs on the stock exchange, and more burdensome government regulations.

This, in pattern—and not some inevitable "bust" sent as a punishment for "too much" prosperity—is what brought the economic growth of the 1920s to a halt. The prosperity of the Roaring Twenties was rooted in the capitalist elements of America's mixed economy—but at the end of the decade, those capitalist elements were rapidly

and systematically undermined.

That is the pattern we will examine in the next installment of this series, as we see how a rapid expansion in government intervention caused the 1929 stock market crash and the Great Depression of the 1930s. ❙

This series will be continued in a future issue of TIA.

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Hoover's Progressive Assault on Business
The Cause and Consequences of the Great Depression, Part 2

by Richard M. Salsman

In November 1928, Republican Herbert Hoover was elected in a landslide victory. Having been Secretary of Commerce since 1921, Hoover took unearned credit for the 1920s prosperity—caused by Coolidge's hands-off policies—and implied that as president he would keep it going. American voters fell for it.

In fact, Hoover had been an activist cabinet official, always seeking to intervene in the economy, to promote some "cooperative" coalition of business, labor, and government, or to sponsor some hare-brained legislative scheme—until he was stopped (usually) by Harding or Coolidge. It is no coincidence that Coolidge never endorsed Hoover for president. During the 1928 campaign, Coolidge said of Hoover: "That man has been giving me unsolicited advice for six years—all of it bad."[1]

Amazingly, Hoover was viewed at the time—and is still viewed today—as a "laissez-faire" politician. Thus, capitalism allegedly caused the depression, while Franklin Roosevelt's statism supposedly ended it.

Nothing could be further from the truth. In word and deed, Hoover was an active, anti-capitalist interventionist—a faithful disciple of the modern doctrine of Progressivism. In the 1920s, America's Progressives—including Franklin Roosevelt, then governor of New York—praised Hoover to the skies and applauded his successful run for the White House. Only after Hoover's progressively more intense interventions caused economic depression did the Progressives rush to paint him as Mr. Laissez-Faire. In 1975, a Progressive author had the honesty to document how avidly Progressive Hoover really was (while also concluding that Hoover caused misery because his interventions weren't coercive enough).[2] He was labeled "the forgotten Progressive"—but he had been conveniently forgotten by his original Progressive fans.

Who were the Progressives?

The "Progressive Era" began in America around the 1880s and brought an increase of state interventions in the US economy, primarily through the Interstate Commerce Commission (1887), antitrust laws (1890, 1914), central banking (the Federal Reserve, established in 1913) and the federal income tax (enacted in February 1913). Historians (and advocates) of the Progressives' agenda have admitted it was anti-capitalist—and imported from German universities.

The first two chapters of a recent book on progressivism are aptly titled: "The Empty Idea of Liberty" and "The Empty Idea of Property Rights." A sub-section of the book recounts the Progressives' bizarre Marxist view of "markets as a network of coercion." The author, a progressive, writes:

> The long tradition of progressive thought was an assault on the twin bulwarks of classical liberalism: liberty interests and property interests.... In the late 19th and early 20th centuries, the defense of property as the foundation of liberty was gradually usurped by political theorists on the left [who] embraced the Kantian view [that] the state, by promoting greater economic equality through various compulsory redistributive schemes, was in fact

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championing the cause of liberty.... [Progressives drew upon] the neo-Hegelian idealist view of property as the creature of the state, with private property rights protectable only in so far as they serve the public good.... [Their] analysis of coercion drew on a rich tradition of critical thought, including Marx's and later socialists' argument about the coerciveness of labor contracts.... The familiar progressive claim [was] that by intervening in market relations by admittedly coercive means in order to counteract private power the state could actually enlarge the scope of individual liberty.[3]

In philosophy, Progressives relied not only on Kant, Hegel, and Marx but on John Dewey, the prime exponent of Pragmatism (an American offshoot of Kantianism) who rejected fixed principles, denied that individuals are autonomous, and advised "social engineering." In law, progressives embraced the notions of Robert Hale and John Commons that businessmen are latent criminals and that courts shouldn't give "favor" to private property or contracts. Progressive economists—Richard Ely, Thorstein Veblen, John Maurice Clark, Rexford Tugwell, Wesley Mitchell, John Maynard Keynes—claimed markets were coercive, irrational, and unstable, that they exhibited "waste," "duplication," and "over-production," that consumption caused production, and that state intervention was needed to "stabilize" a free economy.

In a compendium of Progressives' economic theories, we're told they were "developed out of the thinking of Hegel, Marx, Darwin, and Pierce [an American pragmatist philosopher]." The main adherents pondered "how far the government may have to go in whittling down the extent to which owners actually manage or control their property" and concluded it was "a matter which can be settled only pragmatically by the method of trial and error." They said "technology must be interrupted in its development" while government must "mitigate the evils emanating from the private marketplaces" and "interfere with the operations of the private markets" so as to "influence the flow of economic activity" and "deflect economic tendencies in new directions." Veblen held that "savers of surplus income performed no useful function in the sense of contributing to the nation's supply of material goods and services" and "likewise, the individuals who specialized in undertaking business risks performed no useful function." According to Clark, "irresponsible self-seeking can no longer be trusted (if it ever could) to build a scheme of voluntary working together." Mitchell added that "the operations of the private markets cannot be relied upon to provide as large a national income as is possible or to distribute this income in an equitable fashion." Tugwell, a professor at Columbia University who would become the top economic advisor to President Roosevelt in the 1930s, said: "If we are to accept the principle of planning we must accept its implied destruction of laissez-faire industry. It is, in other words, a logical impossibility to have a planned economy and to have business operating its industries."[4]

Among these economists, the most famous was Keynes, whose ideas spread quickly in the late 1920s. In his 1926 essay, "The End of Laissez-Faire," Keynes wrote:

> It is *not* true that individuals possess a prescriptive "natural liberty" in their economic activities. There is *no* "compact" conferring perpetual rights on those who Have or on those who Acquire. The world is *not* so governed from above that private and social interest [sic] always coincide. It is *not* so managed from below that in practice they coincide. It is *not* a correct deduction from the Principles of Economics that enlightened self-interest always operates in the public interest. Nor is it true that self-interest generally *is* enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these....
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> I believe that in many cases the ideal size for the unit of control and organization lies somewhere between the individual and the modern State. I suggest, therefore, that progress lies in the growth and recognition of semi-autonomous bodies within the State—bodies whose criterion of action within their own field is solely the public good as they understand it, and from whose deliberations motives of private advantage are excluded....
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> I propose a return, it may be said, towards mediaeval conceptions.... [There are] advantages to State Socialism...[because] it seeks to engage men's altruistic impulses in service of Society, because it departs from laissez-faire, because it takes away from man's natural ability to make a million, and because it has courage for bold experiments. All these things I applaud.... The battle of Socialism against unlimited private profit is being won in detail by the hour....

> I believe that some coordinated act of intelligent judgment is required as to the scale on which it is desirable that the community as a whole should save, the scale on which these savings should go abroad in the form of foreign investments, and whether the present organization of the investment market distributes savings along the most nationally productive channels. I do not think that these matters should be left entirely to the chances of private judgment and private profits, as they are at present.[5]

Progressives deplored self-interest, individualism, laissez-faire capitalism, money-making, profit-seeking, inheritance, private property, contracts, and liberty. They argued for allegedly "higher" and "nobler" pursuits: service to the community, collective obligation, national economic planning, the elevation of public over private interest and personal sacrifice for the "common good." They heralded "higher" forms of liberty: freedom from big business and "monopoly capitalism," from the need to work for a living, from having to negotiate a proper wage, from having to judge the quality of products, and from the necessity to plan and save for one's retirement.

Coy about not issuing specific fascist blueprints, the Progressives chipped away at liberty and property piecemeal, "pragmatically."

In short, Progressives wanted freedom from the responsibility of living as an adult. They wanted state interventions to foster grown-up cry-babies, to subsidize economic losers and regulate and tax market winners. As ardent "reformers," progressives pushed for trust-busting, fiat paper money, regulatory agencies, public works, unemployment subsidies, state-run pension schemes, tariffs, and graduated ("progressive") tax rates. The "forward-looking" Progressives cribbed their agenda from a list of demands in *The Communist Manifesto* of Marx and Engels—published in 1848. The Progressives were shy only about Marxist demands for the complete abolition of private property and outright nationalization of industry; in advocating onerous taxes on property and extensive controls on its use and disposition, in the end they effectively favored the economics of fascism.

Republican Theodore Roosevelt, America's first Progressive president (1900–1908), said that "We must abandon definitely the laissez-faire theory of political economy as obsolete and fearlessly champion a system of increased governmental control, paying no heed to the cries of the worthy people who denounce this as socialistic."[6] Woodrow Wilson, America's second Progressive president (1913–1921) said that "To let the individual alone is to leave him helpless as against the obstacles with which he has to contend.... Without the watchful interference, the resolute interference of the government, there can be no fair play between individuals and such powerful institutions as the trusts. Freedom today is something more than being let alone. The program of a government of freedom must in these days be positive, not negative merely." These remarks appeared in Wilson's 1913 book, appropriately titled *The New Freedom*.[7] He did not favor freedom for the individual but rather a "new" freedom—the freedom of government to do whatever it wished to individuals.

At root, Progressives were nihilists. Posing as "scientific," they appealed to intuition, public feeling, and Christianity. Posing as "humanitarians," they pushed for political regimes which caused widespread human misery. They weren't intent on building industrial civilization but on tearing it down. Coy about not issuing specific fascist blueprints, instead they chipped away at liberty and property piecemeal—"pragmatically," by "trial and error" (*lots* of error). Seeking to sabotage capitalism and its philosophic, legal, and economic underpinnings, they sought to destroy the only social system which has ever enabled man to truly progress. The kindest thing one might call them is "regressives." They claimed their policies would bring human "progress" and "a net increase in societal happiness."

In fact, America's progress reversed under its first two "Progressive" presidents. From the time Roosevelt took office (March 1901) until Wilson left it (March 1921) US stock prices—a gauge of the value of US businesses—declined by 9%. During the previous twenty years (1881–1901)

stocks had risen by 20%. In the eight years of "progressive" US central banking—up until Wilson left the White House in 1921—retail prices in the US increased by nearly 11% per year; they had risen just 2% per year in the eight years before the Federal Reserve began operating in 1913. Although there was no federal income tax under Roosevelt, it was imposed by Wilson beginning in 1913, with an initial rate of 7% on the highest incomes; that rate was raised to 77% by the time Wilson left office. In addition, Wilson disrupted or ruined the lives of 4.3 million Americans when he conscripted them to fight in World War I—an act of international altruism on behalf of Europe—with the result that 126,000 Americans were killed and 234,000 were wounded.

This was the alleged "progress" achieved by America's first two "Progressive" presidents: their policies reduced the value of American firms, imposed a vastly-higher cost of living, increased punitive taxation, reduced real incomes, and dislocated millions of American lives (not including soldiers' family members), while causing death or injury to 360,000 of them.

Unlike the Roosevelt and Wilson administrations, those of Warren Harding (1921–1923) and Calvin Coolidge (1923–1929) were not marked by a commitment to essentially regressive causes, laws, or wars. American voters in the 1920s seemed to glimpse the fact that the policies of Roosevelt and Wilson had brought economic stagnation, investment losses, inflation, and death or injury to thousands of Americans. Harding became president after pledging a "return to normalcy"—to the prewar years of lower tax rates, less regulation, smaller government, and peace. Coolidge, who was vice president under Harding and successor upon his death, concurred with this approach. Both were ridiculed by Progressives for their "passivity." Yet they steadily reduced the federal tax rate on top US income-earners from 77% to 56% in 1922, to 46% in 1924, and to 25% in 1925. Reduced statism incensed the Progressives, who seemed in retreat. The result of the Harding-Coolidge tax-rate cuts—plus each man's basic adherence to laissez-faire—was the prosperous "Roaring Twenties." The "non-Progressive," "do-nothing" presidencies of Harding and Coolidge were a "throwback" to 19th century presidencies—which is why the 1920s were marked by real economic progress.

Soon, however, America would be regressing and suffering again—at the hands of its third Progressive president, Herbert Hoover.

In Hoover's view, "the only trouble with capitalism is capitalists—they're too greedy."[8] "American business," he proclaimed, "needs a lifting purpose greater than the struggle of materialism, a finer regard for the rights of others, a stronger devotion to obligations of citizenship."[9] In his 1922 book *American Individualism*, Hoover had spelled out his anti-capitalist premises. In his view, 19th-century "rugged individualism" was obsolete. Modern times made it necessary to "temper" individualism with altruism, with self-sacrificial duty to others—what Hoover called "a better, brighter, and broader individualism" which "carries increasing responsibility and service to our fellows." We must, he preached, embrace "the rising vision of service—service to those with whom we come in contact, service to the nation, and service to the world itself."[10]

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As president, Hoover would impose political and economic plans that fully reflected this anti-individualist creed. Prior to World War I, he had been a successful, multi-millionaire mining engineer. But during the war (when Hoover lobbied to become "food dictator" under Wilson[11]) and afterwards he became a philanthropist and earned the nickname, "The Great Humanitarian." Hoover would devote the rest of his life not to business or

mining but to Progressive-inspired social engineering. He fancied himself "chief engineer" of the economy, of "the machinery of our social system."

In his 1922 book, Hoover claimed to see "inequalities, tyrannies, dominations, and injustices" wherever he looked and insisted they were caused by "individualism run riot." He proposed a "solution" for this:

> Individualism cannot be maintained as the foundation of a society if it looks to only legalistic justice based upon contracts, property, and political equality.... In our individualism we have abandoned the laissez-faire of the 18th century, the notion that it is "every man for himself and devil-take-the-hindmost."... We abandoned that when we adopted the ideal of equality of opportunity.... [We now demand] social and economic justice [because] social injustice is the destruction of justice itself.... The impulse to production can only be maintained at a high pitch if there is a fair division of the product.... Fair division can only be obtained by certain restrictions *on the strong* and dominant . . . [The system I propose is] not capitalism or socialism nor a cross breed of them.... I refuse to be damned by anybody's word classification or any other compartment that is based on the assumption of some group dominating somebody else. [12]

By "some group dominating," Hoover meant Wall Street, the wealthy, and big business. "A few men," he said, "through unrestrained control of property determine the welfare of great numbers" and manipulate, for selfish gain, a system which is "far apart from the rightful expression of American individualism." Private property rights must be curbed. "The right of private property," Hoover wrote, "is not an object in itself" but only a means to "stimulation of effort." And yet, he added, "the acquisition and preservation of private property" is nothing but "the selfish snatching and hoarding of the common product." This can and must stop. "Our American demand for equality of opportunity," he wrote, will serve as "a constant, militant check upon capital becoming a thing to be feared."[13] Government, he said, should determine what is and is not "rightful expression." The Washington boys should dictate what, precisely, shall be "the welfare of great numbers" and how, exactly, citizens will be allowed to share in "the common product."

Like most Progressives, Hoover believed men were instinct-driven brutes, not rational beings. Thus they could be treated like animals—cajoled, poked, prodded, branded, taxed, and controlled—to great benefit. "Production both of mind and body," he wrote, "rests upon impulses in each individual" and further, upon "original instincts, motives, and acquired desires" in which "the dominant ones are selfish." But, he added, selfishness is evil and "must be curbed with a vengeance" if we are to preserve civilization. "No civilization could be built or can endure," he intoned, "solely upon the groundwork of unrestrained and unintelligent self-interest. The problem of the world is to restrain the destructive instincts and enlarge those of altruistic character and constructive impulse, for thus we build for the future." Hoover urged public officials to recognize and foster people's "mystical yearnings for spiritual things" and "impulses of service to community." He yearned for the day when "the selfish impulses become less and less dominant and, if we ever reach the millennium, they will disappear in the aspirations and satisfactions of pure altruism." Hoover was pleased to see that "domination by arbitrary individual ownership is disappearing" and hoped "taxation will reduce relatively excessive individual accumulations" of wealth.[14]

Hoover also urged Washington to intensify its regulation of producers. In his view, "every new invention of importance, from railroads to radio, created opportunities for oppression."[15] Previous regulatory assaults, he argued, had proved "highly beneficial." But still more control—a more intense corralling of the economy's animals—was needed. "As we build up our powers of production," he wrote, "we create new forces with which men may dominate—railway, power, oil, and what not." Controls must "keep pace with the growing complexity of our economic organization" and must be used to "curb the forces in business which would destroy equality of opportunity." Hoover provided a list of alleged "evils" to be regulated or obliterated: "unequal voice in bargaining," "arrogant domination by some employers," "uncertainty of employment in some professions," and "excessive fortunes." He warned that if Washington failed to impose new and harsher controls, America would

face "great dangers."[16]

Where did Hoover derive his view that producers should suffer successively more regulation? From his Lord and Master, Jesus Christ:

> A whole host of rules and regulations are necessary to maintain human rights with this amazing transformation into an industrial era.... The basic principles laid down in the Ten Commandments and the Sermon on the Mount are as applicable today as when they were declared, but they require a host of subsidiary clauses. The ten ways to evil in the time of Moses have increased to ten thousand now.[17]

Upon becoming president, Hoover "succeeded" in his mission: he repeatedly imposed policies which sabotaged free bargaining, encouraged Washington's arrogant domination of producers, destroyed prosperity, spread poverty, and caused mass unemployment. The first statist threat to the prosperity of the 1920s came amid Hoover's presidential campaign of 1928. He had been Secretary of Commerce under Coolidge, but unlike Coolidge, Hoover was no free-trader. He believed international peace required that each nation be "economically self-sufficient." Hoover was a nationalist-autarkist—an opponent, not merely of fully free trade, but of international trade as such. In 1928, eager for the farm vote, he proposed tariffs to raise farm prices. The main danger of tariffs, which are taxes on internationally traded goods, is that, unlike domestic taxes, they spread globally. In burdening the exports other nations send to us, they invariably provoke foreign tariffs on *our* exports.

The destructiveness of tariffs was well-known by the late 1920s. Earlier in that decade (1920–21) Congress had enacted two tariff acts that contributed to a severe, one-year recession. But that didn't faze Hoover. Soon after he took office in March 1929, his tariff plan began to move though Congress. The House took it up in late May. By summer, the proposal, known as the Smoot-Hawley Tariff, took an ominous turn: tariffs would be extended to thousands of imported goods of every kind, not just agricultural goods.

The US economic growth rate peaked in July. In September, the tariff bill reached the Senate, the same month stock prices peaked. On October 21, an amendment to impose tariffs only on agricultural imports was defeated. Three days later the stock market suffered its first one-day crash. Five days later, October 29—amid rumors that Hoover would not veto the pending tariff bill—stock prices crashed even further.

In its final form, as signed by Hoover in June 1930, the Smoot-Hawley Tariff Act imposed an effective tax rate of 60% on more than 3,200 products and materials imported into the US. Tariff rates had quadrupled. Almost immediately, thirty other nations retaliated with their own tariffs on US exports. Over the next three years, US exports plunged 64%. US farm exports alone fell 60%—and farmers trekked to bankruptcy courts instead of to their fields. Total world trade plummeted 61% from 1930 to 1933. High tariffs not only depressed international trade but also raised US business costs, thereby depressing profits. The 1930s profit decline was precisely what the US stock market was anticipating in 1929; profits had grown by 25% in 1929 compared to 1928—but in 1930, they plunged 34% compared to the 1929 level. By the middle of 1931, profits had plummeted further, by nearly 50%, and they kept declining through 1933.

High tariffs not only quashed international trade but also raised costs, depressing profits. This was precisely what the stock market was anticipating in 1929.

The Federal Reserve exerted a further statist influence, deliberately smashing US stock prices in late 1929 and later. For many years, Fed officials, congressmen, and Hoover had denounced "vicious speculators" and "speculative excesses" in the stock market. One historian described Hoover's attitude thus: "In his *Memoirs* Hoover passed his judgment on speculators: 'There are crimes far worse than murder for which men should be reviled and punished.'"[18] For Hoover, investors who innocently forecasted likely outcomes were *worse than murderers*. Soon investors would cease forecasting alto-

gether—and investment would collapse. In February of 1929, assaults on investors grew more hostile and the Fed made a rare public announcement that it would restrict bank loans to investors who were borrowing to buy stocks. Although "margin buying" was a tiny fraction of market activity, the Fed's anti-margin policy was depressive, for the US government was now adopting—as official policy—the myth that stock prices (the value of businesses) could get "too high," that stocks could be "improperly" priced, and that stock loans (unlike business loans) were "unproductive."

Throughout 1929, the Fed became increasingly obsessed with the stock market and its so-called "speculative excesses." It set out to exterminate perfectly legitimate stock gains—and fully succeeded.

By 1933, nearly 40% of all US banks had failed. No other country suffered such bank failures. American banks were prone to widespread runs and failures due to government regulation.

As early as February 1928, the Fed had begun to raise the interest rate it charged for borrowings by member banks, from 3.5% to 4%. By the end of 1928, the rate was up to 5%. The Fed's sole aim was to curb stock-price gains. In August of 1929, the Fed imposed one more severe increase in its borrowing rate, bringing it to 6%. For most of 1929, this rate was above long-term bond yields, a deliberately punitive policy. The Fed openly defied the market's "time preference," as reflected in long-term interest rates. By forcing short-term interest rates above long-term rates, the Fed effectively forced investors to think and act in a short-range manner, against their preferences. Under such pressure, US stock prices had to plunge. But even after they did so, Fed officials clung to the myth that stocks could be "overpriced"—in effect, that businesses could be worth too much. In its 1929 annual report, issued in April 1930, Fed officials wrote that "the course adopted by the Board resulted in a substantial conservation of credit resources of the banking system ...[and] the protection of Federal Reserve credit against diversion into channels of speculation" as well as "the maintenance of economic stability." Fed officials weren't bothered in the least by the stock-price crash of late 1929, nor were they willing to concede the errors of their ways. They could not even imagine that a stock-price crash might be rationally signaling a pending plunge in profits. After all, they insisted, the market's prior rise was a mere "speculative excess," not genuine in the least—a plain "bubble" and mere "air." What harm could come from its policy? Perhaps a few plungers—those who had plunged from the ledges of skyscrapers, following the downward path of their investment portfolios—were inconvenienced. But so what? Progressive economists like Thorstein Veblen had taught that businessmen and capitalists "performed no useful function."

Central banking itself is a central feature of Progressivism and statism; it is central planning applied to money and banking. The Fed was (and is) the obvious instrument of this in US money and banking. For most of the 1920s, the Fed's power had not been exercised aggressively—although it did transfer vast sums of gold from private banks to itself during World War I. Still, not until 1929 did the Fed begin to intervene aggressively and insinuate itself arbitrarily into matters which previously had been managed by stock-market professionals. Now the Fed would have a say about stock prices—and twist or smash them as it pleased. No fully private, capitalist banking system could ever wield such power and so arbitrarily. Capitalism has no "official" or singular credit policy to which all must conform or else suffer.

In the early 1930s, as business contracted and loans soured, US banks began to fail *en masse*. Most failures started in the farming areas before spreading to cities. By 1933, nearly 40% of all US banks had failed. No other country suffered such bank failures. Why? Apart from the obvious harm done to trade, farming, profits, and capital-raising by the Hoover tariffs and Fed rate hikes, American banks were prone to widespread runs and failures due to government *regulation*.

For decades, banks had been prohibited from establishing their own branch systems; some states even restricted banks to *one office*. Progressives had taught people to fear banking "giants"—and thus to prohibit them. By 1929, the US had nearly 25,000 banks, each with one or a few branches. As a result, many banks were un-diversified, with predominantly one kind of loan, such as farm loans. Thus, they were made susceptible to local and industry-specific weaknesses. In Canada, by contrast, there were not thousands of banks with only a few branches each but rather a dozen large banks with thousands of branches; this relatively freer banking system suffered no major bank failures during Canada's depression.

As US bank failures multiplied, did Washington's progressives call for a relaxation or a repeal of the anti-branching laws? No. Did trust-busters stop impeding bank mergers? No. Did the paper-money zealots rush to reverse the World War I taking of gold, to remove gold from Fed vaults and return it to banks and their customers—its rightful owners? No, again. Instead, they imposed further controls on banking.

In 1932, the Glass-Steagall Act split the industry in two, forcibly separating commercial banking from investment banking. That same year, the federal government formed the National Credit Corporation and the Reconstruction Finance Corporation, funded by taxes imposed on sound banks for the purposes of subsidizing unsound banks. Piling on further and similar burdens, in 1934 Congress enacted bank deposit insurance—a socialist scheme aimed again at propping up weak banks by taxing strong ones. As Franklin Roosevelt signed the deposit insurance bill, he conceded that it would "put a premium on unsound banking."

By the early 1930s, statist policies inspired by the "warm-hearted" progressives had stifled international trade, sabotaged stock prices, depressed investment, bankrupted farmers, busted banks, dissipated savings, and spread insecurity. The "humanitarian" policy makers also caused people to be thrown out of work in droves. In the months after the October 1929 stock-price crash, Hoover spread joblessness by intervening in wage negotiations. Summoning top businessmen to the White House, he pressured them to pledge publicly not to cut wage rates. Progressives had convinced Hoover that wages were the "fuel" for buying goods, and that production could be preserved only if consumer "purchasing power" was preserved. This policy, plus public works schemes, could be deployed to "fight" business slumps. A popular book at the time, written by two Progressives, spelled out the path the president should take—the so-called "Road to Plenty."[19] In fact, this was a one-way road to still further economic catastrophe and poverty.

Most businesses began to lose money in early 1930. To preserve profits and remain in business, they needed to cut wage rates and keep more workers working, not maintain artificially high wage rates and a steadily shrinking workforce. But Progressives (and Hoover) allegedly knew better, insisting it was wrong and self-defeating to "protect profits at the expense of wages." Tragically, many businessmen heeded Hoover's command; but in keeping wage rates up they could survive only by laying workers off.

The myth of "keeping wages up" was not a Hoover idiosyncrasy. By the early 20th century, it had become the prevailing view among Progressives. It was a fatal theory, since it reversed cause and effect. These anti-classical economists with their new-fangled theories claimed consumption was the source of production. Since wages were the source of consumption, to keep them up would keep production up. But the truth is precisely the reverse, as Jean-Baptiste Say had shown long ago: production is the source of wages and consumption. Only profit can be said to constitute a net increase in production; if there is no profit, no value added, then no wealth is created. Worse, losses constitute a net destruction of wealth; amid losses, either wages or employment must fall.

Unfortunately, by the late 1920s Say's view of the primacy of production (profits) and the impossibility of a general "over-production" had been long forgotten or blithely dismissed. During the Progressive era, "neo-classical" economists trying to answer Marx argued that "the problem of production has been solved," that hereafter we need only determine "optimal allocations" of "scarce resources." And profits should not be large, they

added, in a "perfectly competitive" economy. Thereafter, Keynesians disinterred 17th century mercantilist myths and pushed for protectionism, inflation, regulation, and state-sponsored consumption. Business slumps were attributed to "overproduction," "under-consumption," or "excessive saving." To prevent them, the state must encourage consumption.

Say had shown that consumption entails the destruction of wealth. Thus, Progressive economists were effectively telling Hoover to promote wealth-destruction. In acting on this advice, Hoover succeeded in doing so to a stupendous degree.

If profits were to revive, yet wage rates were not to be cut, the only alternative was for jobs to be cut. They were cut. The unemployment rate skyrocketed to 28% by 1932.

With the spreading failures of numerous banks and thus the destruction of checking deposits came a 30% collapse in the money supply, which brought a similar-size collapse in prices. Businesses were getting less in terms of prices received, yet paying the same or more in terms of wages paid to labor. That brought lower profits, then losses, then huge losses, and finally no real incentive to produce much of anything. As a result of "wage maintenance" programs, the US depression deepened.

If profits were to revive, yet wage rates were not to be cut, the only alternative was for jobs to be cut. They were cut. The unemployment rate skyrocketed: a mere 5% before the 1929 stock crash, by Spring 1930 it was 8%, then as high as 15% a year later, 22% the year after that, and then 28%—an all-time high—by the Spring of 1932.

In the first three decades of the century (1900–1929), when Washington took no active role in the labor market, the average US unemployment rate had been 3.6%. In the decade of the 1930s, as government intervention in the labor market intensified, the jobless rate averaged 18%. Throughout the 1930s, legislatures granted favors to labor unions, which kept wages artificially high and made joblessness worse. In 1932, Hoover signed the Norris-LaGuardia Anti-Injunction Act, which removed labor disputes from the courts; union thugs would no longer be enjoined or prosecuted for instigating violence in the form of strikes, picketing, trespassing, plant occupations, sabotage, or blockades against replacement workers. The 1932 act also outlawed "yellow-dog" contracts, wherein a potential hire would pledge that he was not a union member and would not become one while employed by the hirer. In 1933, Congress made collective bargaining compulsory, thereby forcing businesses to "negotiate" with union thugs.[20] In 1935, the National Labor Relations Act established a board in Washington which further imposed unions on business owners. In 1938, came the Fair Labor Standards Act, which mandated minimum wages, maximum hours, time-and-a-half-pay for overtime and imposed other means of shackling business and boosting unemployment.

One account of the early 1930s asserts that Hoover failed to prevent the Great Depression because he "avoided legislation wherever possible."[21] This is nonsense. On Hoover's watch, businessmen, farmers, and investors were inundated and ruined by an array of interventionist agencies and acts, including the Federal Reserve Board (which Hoover refused to restrain), the Agricultural Marketing Act (1929), the Federal Farm Board (1929), the Smoot-Hawley Tariff Act (1930), the Norris-La Guardia Anti-Injunction Act (1932), and in 1932 alone the Timber Conservation Board, the Federal Oil Conservation Board, the National Credit Corporation, the Reconstruction Finance Corporation, the Federal Employment Stabilization Board, the Emergency and Relief Construction Act, and the Glass-Steagall Act. Under Hoover, $2 billion of hard-earned taxpayer wealth was forcibly taken and spent on "public works" projects. Beyond this, federal spending and budget deficits ballooned, amid vast increases in tax rates. Every new control, subsidy, and tax acted only to further depress stocks, production, and job-creation.

By 1930, in the middle of his presidency, Hoover remained convinced he was doing the right

things. He had tried to stop wasteful stock speculation and to keep wages up. He had fought against "over-production" and actively encouraged consumption. He had adopted government make-work programs, as advised. Unlike the hand-offs policy adopted during the brief 1920–21 recession, he had made sure Washington planners took an activist, interventionist approach to economic revival. "No president before had ever believed that there was a governmental responsibility in cases [of recession]," he later wrote. "No matter what the urging on prior occasions, presidents steadfastly had maintained that the Federal government was apart from such eruptions.... Therefore we had to pioneer a new field."[22] In the legend of his own mind, Hoover was a worthy "pioneer." In fact, he *was* a "pioneer" of sorts: a pioneer in the "new field" of Progressive interventionism. He did what all of the Progressive philosophers, lawyers, and economists had preached for years. How could it not work? Perplexed yet undeterred, in 1930 Hoover said:

> The business community and the government have cooperated in widespread measures of mitigation than have ever been attempted before.... Our leading business concerns have sustained wages.... These measures have maintained a higher degree of consumption that would otherwise have been the case. They have prevented a large measure of unemployment.... We have even more amplified plans in the future.[23]

Near the end of his term, as everything except the burgeoning Washington bureaucracy was collapsing around his head, Hoover remained as Progressively anti-progress as ever—and wholly unrepentant:

> We might have done nothing. That would have been utter ruin. Instead we met the situation with proposals to private business and to Congress of the most gigantic program of economic defense and counterattack ever evolved in the history of the Republic. We put it into action.... For the first time in the history of depression, dividends, profits, and the cost of living have been reduced before wages suffered.... Wages were maintained until...the profits had practically vanished.... We prevented an immediate attack on wages as a basis for maintaining profits.... We have placed humanity before money, through the sacrifice of profits and dividends before wages.[24]

Hoover had embraced the "noble" ideas of altruism, harmony, peace, goodwill, "equal opportunity," "humanity above money," so as to benefit—the wretched, huddled mass of unemployables? How could this happen?

Hoover had waged war on "greedy materialism," then wondered why material comforts faded; he had routed "vicious speculators," then wondered why forecasting ceased; he had dissipated "excessive fortunes," then wondered why investment shriveled; he had kept wage rates up, then wondered why employment went down; he had made profits vanish, then wondered why businesses did, too; he had helped boost consumption, then wondered why production went bust. In short, Hoover had done what all good Progressives had told him to do; then he wondered why progress was smashed.

Hoover was a "pioneer" in the "new field" of Progressive interventionism. He did what all of the Progressive philosophers and economists had preached for years. How could it not work?

Instead of attributing the depression to his own policies, Hoover blamed foreigners—those whose exports to the US had been taxed and blocked by his punitive tariffs. Later, in a last, desperate attempt to exonerate himself and Progressivism, Hoover would regurgitate the usual screed of Marxists (and of Austrian economists such as Ludwig von Mises and Friedrich Hayek): that economic depression is the "inevitable" result of a previously "false" prosperity.

> Booms are times of speculation, over-expansion, wasteful expenditures in industry and commerce, with consequent destruction of capital.... It is the wastes, the miscalculations and maladjustments grown rampant during booms that make unavoidable the painful process of liquidation. The obvious way to lesson the losses and miseries of depression is first to check the destructive extremes of booms.[25]

Today there's not a single economist or historian of the 1930s who does not ridicule and condemn Hoover's presidency—and simultaneously endorse the rationalization he used to exonerate himself, the Marxian-Austrian theory of "boom and bust."

Hoover may have been finished, politically, in 1932—but the Progressives were not finished inflicting damage. In the next installment of this series, we will examine the policies of Hoover's successor, an equally anti-progress "Progressive" named Franklin Roosevelt. ∎

This series will be continued in a future issue of TIA.

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Roosevelt's Raw Deal

The Cause and Consequences of the Great Depression, Part 3

by Richard M. Salsman

In his 1928 campaign Herbert Hoover had pledge to continue the relatively laissez-faire policies of President Coolidge (1923–1929). He didn't. As the "Progressive" president (1929–1933), Hoover launched unprecedented interventions, triggering the Great Depression.[1] In 1928, Coolidge had described Hoover as the "man [who] has been giving me unsolicited advice for six years—all of it bad." As president, Hoover imposed his bad advice by force of law—with predictably bad results. Yet in 1932 he ran for re-election, unabashedly. The GOP was insane enough to renominate him. The Democrats, in contrast, nominated a man who was pledging to shrink the Federal government by 25%.

Meanwhile, Hoover was still expanding government. In June of 1932, he decided to "bolster" his chance of re-election by inflicting one more act of destruction on producers: he raised the tax rate on America's top income-earners from 25% to 63%. An expropriation of such magnitude hadn't been seen since World War I. Previously, top producers could keep 75 cents of each new dollar they earned; after Hoover's maniacal tax-rate hikes they could keep only 37 cents—a 51% plunge in the incentive to earn after-tax income. That caused output to plunge further.

Hoover pledged allegiance to the Progressive economists' dogma that depressions were caused by "excessive" and "wasteful" production, "too much" saving and "insufficient" consumption. What better way to "stimulate" the economy, they thought, than to confiscate a larger portion of the wealth earned by those who save and produce the most? Why not also a scheme to give the loot to the poor, who would consume it all? The moral base of the scheme was the creed of "noble" altruism—and hatred of "greed." But Hoover also believed "the impulse to production can only be maintained at a high pitch if there is a fair division of the product" and this "can only be obtained by certain restrictions on the strong and dominant." Thus he sought to maintain production—by looting the top producers.

No wonder voters in November 1932 gave a landslide victory to the man who ran as the anti-Hoover. They were offered an even better alternative than Hoover's earlier, false promise of small government. In 1932, his opponent endorsed *smaller* government. Perhaps, voters thought, they might now get what they'd wanted in 1928. In contrast to Hoover's expanded state, the Democratic Party's platform[2] of 1932 (and their candidate) called for "an immediate and drastic reduction of government expenditures by abolishing useless commissions and offices, consolidating departments and bureaus, and eliminating extravagance, to accomplish a saving of not less than 25% in the cost of the Federal government."

Pledging "a sound currency to be maintained at all hazards," the platform also repudiated Hoover's dollar policy and endorsed the gold-exchange standard. Britain's government had defaulted on that standard in September 1931, intensifying the

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world-wide depression. Hoover made matters worse by revealing in an April 1932 speech that he had considered mimicking Britain's default by abandoning the gold-convertible dollar. That accelerated bank runs in the US and caused many more bank failures as fearful depositors rushed to retrieve their gold before it was stolen.

The Democrats' 1932 platform also hinted at cutting Hoover's tariffs; it called for "a fact-finding tariff commission free from executive interference, reciprocal tariff agreements with other nations, and an international economic conference designed to restore international trade and facilitate exchange." And whereas Hoover had increased the national debt by a third due to his deficit spending, his opponent in 1932 demanded "maintenance of national credit" by "a complete and honest balancing of the federal budget" which would foster a "permanent economic recovery."[3] Voters in 1932 who worried that this new Democrat might have only recently advocated smaller government could recall how in March 1930 he had excoriated Hoover's regulatory excesses and suggested there'd been too much regulation even in the relatively regulation-free 1920s: "The doctrine of regulation and legislation by 'master minds' in whose judgment and will all the people may gladly and quietly acquiesce has been too glaringly apparent in Washington these last ten years. Were it possible to find master minds so unselfish, so willing to decide unhesitatingly against there own personal interests…such a government might be in the interest of the country. But there are none such on the political horizon and we cannot expect a reversal of all the teachings of history."[4]

Who was this anti-Hoover who endorsed smaller government, sound money, and deregulation? He was FDR.

Given his solemn pledges, wasn't this Democrat likely to end the depression? Surely he seemed to be such a man to desperate voters. Who was this anti-Hoover—this man who called for 25% smaller government—the man who won a landslide victory in 1932 because he endorsed smaller government, freer trade, sound money, and deregulation? He was "FDR," New York Governor Franklin Delano Roosevelt, the man who, among all presidents in US history, would come to be known—correctly—as the biggest advocate of the biggest kind of government Americans had ever seen. Of course, FDR also came to be known—falsely—as the man who "ended" the Great Depression and "saved capitalism," first by enacting his "New Deal" and then by maneuvering America into World War II.

In fact, FDR was every bit as "Progressive" as Hoover, so his New Deal caused a further retrogression in liberty and prosperity. His main legacy is that he intensified the severity and extended the scope of interventionist policies Hoover already had enacted (or contemplated). He transformed America into the full-fledged welfare state it still is today. Instead of "saving" capitalism"—which would have required abolishing state interventions, agencies, and welfare—the New Deal ended capitalism, for all intents and purposes.

The New Deal also prolonged the depression for a decade.

Conservatives and liberals alike portray FDR as a left-winger, but above all, he was a pragmatist. He held no fixed principles and didn't care whether he harbored contradictions or governed arbitrarily. It's been said that FDR

> was a man of no fixed convictions about methods and policies.… To some he seemed a "chameleon in plaid" because of this enormous flexibility. Indeed, even to some of his friends he seemed almost in a state of anomie, lacking any guideposts at all. [He] was a man infinitely complex and almost incomprehensible. His character was contradictory to a bewildering degree. He shifted nimbly from one set of policies to another. In many ways inconsistency ruled.[5]

Thus for a dozen years (1933–1945) America was ruled by a man "in a state of anomie"—which means "alienation and purposelessness experienced by a person as a result of a lack of standards, values, or ideals." New Deal policies were based on "experimentation" and "trial and error." According to one biographer, FDR "saw himself as a quarterback in a football game. He could not say what the play after

next was going to be until the next play was completed."[6] FDR "could take either side [of an argument or policy option] without doing violence to any basic political or economic philosophy, since he had none."[7] In July 1933, FDR derided the nation's few remaining laissez-faire economists and denied that any economic laws were conducive to wealth-creation: "I have no sympathy for the professional economists who insist that things must run their course. I happen to know that professional economists have changed their definition of economic laws every five or ten years for a very long time."[8]

In general, businessmen and investors cannot plan or operate efficiently amid extreme volatility—especially political-legal volatility. The New Deal was political-legal volatility *squared*. Who could hope to discern FDR's framework or predict his next policy, if FDR himself could not? The problem was revealed in an exchange between a young reporter and FDR, as witnessed by his secretary of Labor: "'Mr. President, are you a Communist?' 'No,' said Roosevelt. 'Are you a Capitalist?' 'No.' 'Are you a Socialist?' 'No.' Then the young man asked what his philosophy was. 'Philosophy?' The president was puzzled. 'Philosophy? I am a Christian and a Democrat—that's all.'"[9] FDR was "puzzled" when asked about his philosophy. What was his integrated view of existence and the moral-political code that went with it? How might businessmen anticipate his next policy move? A pragmatist can never really answer such questions—because he doesn't have an integrated view.

In the 1930s, America's leading pragmatist philosopher was John Dewey, who taught at Columbia University (1904–1930) and heavily influenced its faculty. In the months surrounding his election in November 1932, FDR was advised to gather a group of experts to help him develop his speeches, policy positions, and legislation. Dubbed the "Brain Trust," its members came from Columbia. One adviser, economics professor John Maurice Clark, captured the essence of the pragmatist approach that infested New Deal policy-making: "Few would nowadays attempt to draw solutions ready-made from traditional theories.... The more popular course [involves] throwing all received theories overboard and trying to work out every problem as a fresh and disconnected exercise.... The process of feeling one's way experimentally seems to have a place.... It would seem that the only final answer must come from trying the experiment and seeing how it works."[10]

The New Deal was political-legal volatility squared. Who could hope to discern FDR's framework or predict his next policy, if FDR himself could not?

Leonard Peikoff has explained the essence of the pragmatist approach: "The truth of an idea, according to pragmatism, cannot be known in advance of action. The pragmatist does not expect to know, prior to taking action, whether or not his 'plan' will work" and so "men's actions, according to pragmatism, are subject to perpetual change in every respect, as and when men so decide."[11] Though a pragmatist, FDR seemed to endorse a body of ideas; as he put it, "I am a Christian and a Democrat—that's all." But if a Christian, what would that mean for government's role in the economy? Coolidge was a Christian who kept his hands off the economy, while Hoover was a Christian who intervened in it. What about FDR the "Democrat"? Thomas Jefferson was a Democrat; was FDR a Jeffersonian?

As a pragmatist, FDR necessarily borrowed his ethical-political views from mainstream ideologues—who were altruist-collectivists. Peikoff has explained how "the pragmatist ethics is content-less" because

> it urges men to pursue "practicality," but refrains from specifying any "rigid" set of values that could serve to define the concept. As a result, pragmatists...are compelled, if they are to implement their ethical approach at all, to rely on value codes formulated by other, non-pragmatist moralists. As a rule the pragmatist appropriates these codes without acknowledging them; he accepts them by a process of osmosis, eclectically absorbing the cultural deposits left by the moral theories of predecessors.

The pragmatist, he says, "is compelled to employ some kind of standard to evaluate the results of his social experiments…[which] he absorbs from other, non-pragmatist trend-setters."[12]

From Columbia, FDR also imported non-pragmatists who were ideologically and avowedly anti-capitalist. "In [FDR's] choice of academic advisers," one historian has recounted, "he signaled that he was hospitable to heterodoxy…. His Brain Trust, drawn from the Columbia University professoriate…shared a common perspective [that] the deranged condition of the American economy reflected fundamental structural imbalances that could be corrected only through actions by government."[13] FDR's three top advisers—who actively recruited other New Dealers—were professors Raymond Moley (political science), Adolph Berle (law), and Rexford Tugwell (economics).

Berle's *The Modern Corporation and Private Property* (1932), which became a favorite book among New-Dealers, argued that economic power—defined as control of a business due to shareholding or board membership—was a form of dictatorial political power that should be fought. "Nearly 50% of American industry is owned and operated by 200 large corporations," Berle noted, and "some 6,000 men, as directors of these corporations, virtually control American industry." Berle could find "no great difference between having all industry run by a committee of [Soviet] Commissars and by a small group of [American] Directors" and predicted that "at the present rate of trend, the American and Russian systems will look very much alike within a comparatively short period—say twenty years."[14] Regurgitating such inanities while campaigning in 1932, FDR said, "This concentrated economic power in a few hands is the precise opposite of the individualism of which [President Hoover] speaks."[15] FDR had blithely absorbed Berle's absurd, anti-capitalist notion that private property ownership was "the opposite of individualism."

The most statist of the Columbia imports was FDR's chief economic adviser, Rexford Tugwell, a protégé of bohemian-socialist-Progressive Thorstein Veblen, famous for a puerile satire of "conspicuous consumption"—of the lavish lifestyles of the rich. For Veblen, living amid wealth meant living in sin; virtue entailed asceticism. Tugwell gladly ingested Veblen's anti-wealth bias. "Throughout his academic career [Tugwell] championed his version of a 'new economics,' which rejected the doctrines of laissez-faire as unrealistic, wasteful, and socially immoral." He relied on "a well-established body of home-grown American heterodoxy [which said] the interests of those in business (profit maximizers) and of engineers (output and efficiency maximizers) were fundamentally opposed. Indeed, business—in the pursuit of maximum profits—could be expected to practice 'industrial sabotage'…. Socially undesirable outcomes were inherent in the capitalistic industrial system and could be corrected only if decisions were transferred to technical experts. In the early 1920s Veblen called for a 'Soviet of Engineers' to perform this planning function."[16] In a speech to fellow economists in late 1931, Tugwell made explicit his hatred of capitalism, his yearning for national economic planning, and his hope for a merger of state and business into a monolithic Leviathan:

> Planning is by definition the opposite of conflict; its meaning is aligned to coordination, to rationality, to publicly defined and expertly approached aims; but not to private money-making ventures; and not to the guidance of a hidden hand…. Planning implies the guidance of capital uses; this would limit entrance into or expansion of operations. Planning also implies adjustment of production to consumption; and there is no way of accomplishing this except through a control of prices and profit margins…. Business will be logically required to disappear…. To take away from business the freedom of venture and of expansion, and to limit the profits it may acquire, is to destroy it as business and to make of it something else…. The traditional incentives, hope of money-making, and fear of money loss, will be weakened; and a kind of civil service loyalty and fervor will need to grow gradually into acceptance.[17]…
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> The world awaits a great outpouring of energy as soon as we shall have removed the dead hand of competitive enterprise that stifles public impulses and finds use only for the less effective and less beneficial influences of man. When industry is government and government is industry the dual conflict deep in our modern institutions will have abated.[18]

For such Progressives it was not government ("public impulses") which stifled enterprise but "en-

terprise that stifle[d] public impulses." Not coincidentally, Tugwell admired the USSR, which from its beginning in 1917 had outlawed businessmen, murdered thousands, and starved millions. Yet in his book, *American Economic Life and the Means of Its Improvement* (1928), Tugwell claimed that "the worst enemies" of the USSR under Stalin "are being forced to admit that that the system appears to be able to produce goods in greater quantities than the old one and to spread such prosperity as there is over wider areas of the population." The Soviets, he enthused, "carry out their industrial operations in accordance with a completely thought-out program" which "seems to indicate clearly enough that it works." Tugwell conceded that there might be "those who suffer under it," with a "supposed loss of incentive," but those who seek "peace, prosperity, and progress must, in the coming years, devote much study and thought to Russia."[19] In 1933, with Tugwell by his side, FDR officially recognized Moscow's brutal regime.

The obscene idolatry of foreign dictators by American intellectuals and policy advisers in the 1930s was not reserved exclusively for Soviet thugs like Stalin—nor was Tugwell the sole idolater. In time, thousands of state-worshippers would work in Washington's burgeoning bureaucracy. As recounted in a 1934 book by a New Deal insider, foreign dictators were viewed at the time as perfectly worthy role models for FDR and his pragmatist cohorts:

> Roosevelt had the benefit of several other great national experiments as useful points of reference for the American New Deal. He had before him the spectacle of Soviet Union with its recent dramatization of economic reorganization through the Five-Year Plan. He had before him the example of Fascist Italy with its regimentation of business, labor, and banking in the "Corporative State." He had before him the instances of Kemal, Mussolini, and Hitler in restoring national pride and self-confidence to beaten or dispirited peoples. He had, moreover, the highly suggestive example of England's abandonment of the gold standard and her resort to a managed currency, as well as the demonstration by Japan that even an economically weak nation can afford to go it alone in the face of solemn international disapproval.[20]

American intellectuals weren't alone in adoring tyrants. John Maynard Keynes, Britain's leading economist—and increasingly the darling of US economists—wrote in 1925: "I sympathize with those who look for something good in Soviet Russia.... The New Order must not be judged either by the horrors of the Revolution or the privations." He was pleased that in Russia "money-making and money-accumulating cannot enter into the life-calculations of a rational man. A society of which this is even partially true is a tremendous innovation." Keynes denounced "the habitual appeal to the money motive" and "the universal striving after individual economic security" in Britain and the US and saw Russian communism as the "ideal" system.[21] In 1933, his hatred for capitalism was shared by most "intellectuals" and New Dealers. For Keynes, "the decadent, international but individualistic capitalism, in the hands of which we found ourselves after the War, is not a success. It is not intelligent, it is not beautiful, it is not just, it is not virtuous—and it does not deliver the goods. In short, we dislike it and are beginning to despise it."[22]

FDR's advisers imposed a more extensive and punitive version of Hoover's policies, as Tugwell later admitted: "The ideas embodied in New Deal legislation," he said, "were a compilation of those which had come to maturity under Hoover's aegis. We all of us owed much to Hoover."[23] In a 1974 interview, Tugwell added, "We didn't admit it at the time, but practically the whole New Deal was extrapolated from programs that Hoover started."[24] To "extrapolate" means "to continue logically along the same line." According to one account, "the whole theme of the New Deal had been a war on business. It was a Holy War. Roosevelt and the men around him delighted in picturing business itself as evil and profit as criminal."[25]

In March 1933, Americans saw the "picture" more clearly and viciously drawn by FDR, in his inaugural address.[26] He called for central planning and hinted at a pending war on business. Somehow FDR's broad assault on employers would promote employment:

> Plenty is at our doorstep, but a generous use of it languishes...because the rulers of the exchange of mankind's goods have failed, through their own

stubbornness and their own incompetence, have admitted their failure, and abdicated. Practices of the unscrupulous money changers stand indicted in the court of public opinion, rejected by the hearts and minds of men.... They know only the rules of a generation of self-seekers.... The money changers have fled from their high seats in the temple of our civilization. We may now restore that temple to the ancient truths. The measure of the restoration lies in the extent to which we apply social values more noble than mere monetary profit. Happiness lies not in the mere possession of money...[or] in the mad chase of evanescent profits.... There must be a strict supervision of all banking and credits and investments...an end to speculation with other people's money.... [We must recognize] the falsity of material wealth as the standard of success.... Small wonder that confidence languishes, for it thrives only on honesty, on honor, on the sacredness of obligations, on faithful protection, on unselfish performance.... Our greatest primary task is to put people to work...in part by direct recruiting by the Government itself.... It can be helped by national planning.

FDR also demanded that "we" must give him great power–by departing from the US Constitution "temporarily." FDR issued 3,728 Executive Orders–more than the total number issues by all US Presidents since 1945.

FDR added that "we" must be prepared to sacrifice "our" lives and property for "the common discipline"—which really meant that those most successful at living and earning property would be exploited for the benefit of New-Dealers:

> We now realize as we have never realized before our interdependence on each other; that we can not merely take but we must give as well; that if we are to go forward, we must move as a trained and loyal army willing to sacrifice for the good of a common discipline.... We are, I know, ready and willing to submit our lives and property to such discipline, because it makes possible a leadership which aims at a larger good. This I propose to offer, pledging that the larger purposes will bind upon us all as a sacred obligation with a unity of duty hitherto evoked only in time of armed strife.... We face the arduous days that lie before us...with the clean satisfaction that comes from the stern performance of duty by old and young alike.

FDR also demanded that "we" must give him great power—by departing from the US Constitution "temporarily."

> Our Constitution is so simple and practical that it is possible always to meet extraordinary needs by changes in emphasis and arrangement without loss of essential form.... It is to be hoped that the normal balance of executive and legislative authority may be wholly adequate to meet the unprecedented task before us. But it may be that an unprecedented demand and need for un-delayed action may call for temporary departure from that normal balance of public procedure.... I shall ask the Congress for the one remaining instrument to meet the crisis—broad Executive power to wage a war against the emergency, as great as the power that would be given to me if we were in fact invaded by a foreign foe.... [I]n their need [voters] have registered a mandate that they want direct, vigorous action. They have asked for discipline.... They have made me the present instrument of their wishes.

FDR delivered on his promises. In twelve years as president (1933–1945) he and the US Congress enacted a blizzard of legislation seizing property (like gold), regulating business, trust-busting successful firms (like Alcoa), breaking up banks, and imposing taxes. FDR issued 3,728 Executive Orders (six a week, on average)—more than the total number issued by all US Presidents since 1945.[27] Prior to 1937, a mere half-dozen of FDR's New Deal schemes were struck down as unconstitutional by the Supreme Court; thereafter, newly appointed justices left most New Deal interventions unchallenged. Finally, from December 1941 until his death in April 1945, FDR conscripted 16 million Americans and sacrificed them in World War II: 406,000 were killed, while 671,000 were wounded.[28]

FDR's first day in office, March 4, 1933, saw interventions in the gold market and banking. In July 1932, FDR had promised "a sound currency to be preserved at all hazards." Yet in October 1932, he told advisers, "I do not want to be committed to the gold standard. I don't have the faintest idea

whether we will be on the gold standard on March 4th or not. Nobody can foresee where we will be."[29] Upon taking office, he issued an order suspending internal gold payments. On April 5 he outlawed the private ownership of gold. Two weeks later he blocked exports of gold from the US and blithely declared the nation was "off the gold standard." The next day he stated publicly that "one of the things I hope to do is get the world back to some form of gold standard."[30] Yet in June 1933, he went further and ordered the abrogation of gold clauses in government and private bonds; for years, the clauses had protected lenders from inflation. Later, the abrogations were challenged legally and appealed to the Supreme Court, but the Court upheld the takings. In a dissent, Justice McReynolds wrote that "the Constitution is gone" and added that FDR's actions mimicked "Nero in his worst form." FDR also imposed $10,000 fines and 3-year jail terms on citizens who refused to transfer their gold to Washington in exchange for the Fed's depreciating fiat paper currency.

By the end of 1933, the gold content of the US dollar had been reduced by 41%; this was a massive devaluation (inflation), similar to Britain's in 1931.

Did FDR default on the gold standard because of some alleged "shortage of gold," as is often claimed? Until the default, the Fed had been required to hold a gold reserve amounting to 40% of its currency issuance; at the time of default this reserve equaled 70% of its currency and was 26% above its year-earlier level.[31] Did a "gold shortage" cause the Bank of England's default? No. At the time of default its gold reserve was greater than it had been when Britain made the pound convertible again in 1925.[32] Britain and the US defaulted *in order to* debase their currencies—to cause inflation and raise prices, allegedly to create jobs. Progressive economists had said depression would be solved not by creating more output but by creating more money. Yet the gold defaults further depressed producer's confidence and encouraged hoarding, especially in the months leading up to default.

The international gold standard had been one of capitalism's greatest achievements. For six decades the world had been integrated, with one form of money (gold) into which all currencies were convertible. This objective system was suspended by the Progressives during World War I, then sabotaged by Hoover and FDR in the early 1930s.

Having wrecked the dollar in 1933, the New Dealers then wrecked nearly as many banks as Hoover had wrecked in the prior two years. Bank runs and failures worsened in the four-month period from FDR's election in November 1932 to his inauguration in March 1933. Once in office, FDR immediately closed the nation's banks, sound and unsound alike, for ten days. Acting on advice from Hoover, he invoked the Trading With the Enemy Act (1917)[33]—a World War I provision reserved for wartime to prevent treasonous assistance to foreign combatants. Innocent American depositors wishing to withdraw *their* money from *their* banks were guilty of "trading with the enemy"—the dastardly "money-changers." Hoover and FDR wanted to penalize the hoarding of money in order to promote consumption. The real gold-hoarder, of course, was the Fed. Private hoarding reflected people's rationally based fear of the effects of government interventions—that stock portfolios would plunge further, that banks would be shut and gold seized. These fears were fully justified.

Innocent American depositors wishing to withdraw their money from their banks were guilty of "trading with the enemy"–the dastardly "money-changers."

Confidence in American banking was further undermined when the US Congress, at the urging of Hoover and FDR, held show trials of America's top bankers lasting thirty-two months (April 1932 to December 1934). Forced to "testify," bankers were subjected to character assaults and falsely charged with causing stock-price plunges, bank failures, and economic depression. Allegedly bankers "cooked the books" and knowingly pawned soon-to-be-worthless securities on the unsuspecting investors. Senator Wheeler of Montana said "the best

way to restore confidence in the banks would be to take these cooked presidents out of the banks and treat them the same way we treated Al Capone."[34] The pejorative term "banksters" was used often. After being riddled with trumped-up and unproven charges, bankers were fined, jailed, or forced to resign due to technical regulatory violations having no connection to the nation wide economic collapse. This was the "scapegoat phase" so common to the history of state intervention and its ensuing chaos—the phase orchestrated by statists to obscure their own culpability.

During the 1930s many people believed (as they do today) that the main goal of the New Deal was to encourage US economic recovery and expansion—to increase private output and jobs. This belief is false. Indeed, it is the opposite of the truth. New Dealers did not believe there was insufficient wealth-creation; they believed there was *too much* wealth already. They did not fear lower output; they said output was excessive and should be curbed. They did not worry about insufficient saving or investing; they worried that there was too much of each and far too little consumption.

In September 1932, FDR had said, "Our industrial plant is built. The problem just now is whether under existing conditions it is not overbuilt. A mere builder of more industrial plants…is as likely to be a danger as a help. Our task is not necessarily producing more goods. It is the soberer, less dramatic business of administering resources and plants already in hand."[35] Did FDR change his view as the 1930s wore on? No. In June 1933, upon signing the misnamed National Recovery Act (NRA), he declared that its goal was to "prevent unfair competition and disastrous overproduction."[36] In 1934, he warned that if "private enterprise in times such as these" is left free it will "destroy not only itself but also our processes of civilization."[37] Purporting to explain the severe depression of 1937–1938, FDR said "production in many important lines of goods outran the ability of the public to purchase them."[38]

In his second inaugural address[39] (January 1937) FDR complained of seeing "one-third of a nation ill-housed, ill-clad, ill-nourished." But he denied that freedom, the profit motive, or production—say, of more homes, clothes, or food—was the solution. "We have always known," he said, "that heedless self-interest was bad morals; we know now that it is bad economics." He promised still more "practical controls over blind economic forces and blindly selfish men" and still more assaults on material success: "We are fashioning an instrument of unimagined power for the establishment of a morally better world…[which] undermines the old admiration of worldly success…[and those] who betray for profit the elementary decencies of life."

FDR even worried when he saw the tiniest evidence of economic recovery: "To hold to progress today…is more difficult. Dulled conscience, irresponsibility, and ruthless self-interest already reappear. Such symptoms of prosperity may become portents of disaster! Prosperity already tests the persistence of our progressive purpose." For FDR, the "disaster" wasn't depression; it was prosperity.

This was the vicious, disingenuous essence of the Progressives: they did not favor progress or prosperity, because they knew each was accompanied by unequal wealth and incomes—in their view, by "social injustice." Thus progress must be opposed, for it "tests the persistence" of the Progressive purpose. So what was that purpose? Not to foster progress or abundance but to redistribute abundance from rich to poor, even if the result was regress and stagnation. "The test of our progress," FDR said later in his January 1937 inaugural address, "is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little." Inequalities of wealth and income he called "cancers of injustice," presumably to be cut out by Progressive surgeons.

Progressives' altruist-collectivist premises inclined them to embrace any wacky theory that might prove anti-capitalist. In the 19th century, the bulwark of pro-capitalist economics had been Say's Law, which stressed the primacy of production (and hence of producers), showed that supply constitutes demand, argued that saving and investment bring prosperity, rejected the "over-production" myth, and denied that consumption caused production. Progressives never refuted Saysian economics; they

blithely and superficially rejected it because it was, in their view, an "apology" for capitalism. Writing in the 1930s, Keynes observed (correctly) that "the doctrines associated with the name of J.-B. Say and his law of markets" had been "long abandoned by most economists." Keynes, who doubted whether "many modern economists really accept Say's Law," was himself its leading opponent, labeling it "incompetent to tackle the problems of unemployment and of the trade cycle."[40] Yet joblessness and depression had spread precisely because Say's Law and its corollaries had been abandoned by so many economists and because prominent politicians like Hoover and FDR had actually implemented the advice of Keynesian cranks. The "over-production" myth brought policies designed specifically to curb or destroy production.

With every passing year of Keynesian-caused stagnation in the 1930s, Keynesian economists intensified their claim that the real cause was capitalism. In one book, a team of Keynesians from Harvard and Tufts declared that "the present capitalist system is no longer capable of functioning effectively" because "private investment cannot be any longer revived on a scale sufficient to absorb the savings of the people." They insisted that "recovery through private investment is hopeless" because "the frontier is gone," because "population increase has slowed down," and because "technological development has matured." In their view, there was "no longer in sight any such great inventions as the railroads, the automobiles, etc.," and "the present capitalist system is therefore incapable of recovering its energy." They added that this was "not a mere emergency condition but…a characteristic of the system which will continue indefinitely. For this reason, we must adopt…the Dual Consumptive System [in which] the government will become the borrower of those savings funds which private business will not take…and spend these funds [on]…government projects."[41] In *The General Theory of Employment, Interest and Money* (1936), Keynes supplied his own blueprint for interventionists. But British and American politicians weren't nearly interventionist enough for Keynes's tastes. What about Hitler's economists? In the forward to the German edition of his book, Keynes explained that his theory was "much more easily adapted to the conditions of a totalitarian state" than the "theory of a given output produced under the conditions of free competition and a large measure of laissez-faire."[42]

FDR's National Recovery Act (NRA) personified the "over-production" myth. In place from June 1933 until May 1935 (when the Supreme Court struck it down as unconstitutional), the NRA imposed a complete regimentation of American industry, with more than 700 codes "negotiated" between NRA bureaucrats, union leaders, and business associations. Appropriately, the NRA was headed by a blustering former military official. One economic historian has explained how "Several [NRA] codes attempted to control output and production capacity" by means of "limitations on the number of hours…during which machines or plants might be operated" plus "maximum production quotas for individual members of an industry" and "restrictions on production capacity" which "included limitations on construction of new plants, limitations on changing the location of plants, limitations on reopening old plants not operated within a specified time prior to approval of the industry code, and limitations on the opening of new routes or extensions of those already existing…. The [NRA's] restrictions on output, productive capacity, and inventories were similar to those of the German [Nazi] production cartels."[43]

Another historian notes that

> the impact [of NRA codes] on lifting the economy out of depression was increasingly perceived to be negative. Work had been spread, but output in the manufacturing sector had stagnated. Codes that encouraged firms to limit production and to postpone investment (out of fear that capital spending would simply add to excess capacity) offered no formula for a return to prosperity. In the press, the NRA was being pilloried as standing for "No Recovery Allowed."[44]

In September 1934, FDR seemed to admit failure: "There may be a serious question as to the wisdom of many of those [NRA] devices to control production…whether their effect may have been to prevent that volume of production which would make possible lower prices and increased employment."[45] So did FDR seek the NRA's repeal? No.

He still believed his own words, upon introducing the NRA, that its purpose was to prevent "disastrous over-production." By that standard, wasn't the NRA a smashing success? Didn't it "work"? As a pragmatist facing failure and "unease," FDR couldn't say what "worked"—or didn't—or why—or why not.

Still in the grip of the "over-production" myth, Hoover, FDR, and Congress paid farmers not to plant and to take fields out of cultivation; they also paid farmers to plow under fields, destroy crops, and slaughter livestock.

Other New Deal policies sought to restrain new output or destroy existing wealth. Recall that in 1930 Hoover's tariffs were supposed to "help the farmers." Instead many went broke and abandoned their lands. Still in the grip of the "over-production" myth, Hoover, FDR, and Congress paid farmers not to plant and to take fields out of cultivation; they also paid farmers to plow under fields, destroy crops, and slaughter livestock.[46] Yet FDR was worried about the "ill-nourished?" These sabotage schemes were funded by taxes on food processors. Farmers employing scientific, mechanized methods also were punished, since "agri-business" was "too productive." New Deal schemes promoting "land conservation" took farm lands out of use and left them untended. The result was the "Dust Bowl." Millions of once-fertile acres in America's Great Plains were depleted by lack of maintenance, soil erosion, and dust storms that blew away topsoil. The resulting migration was the backdrop of John Steinbeck's 1939 novel, *The Grapes of Wrath*, an anti-capitalist screed that blamed the farm debacle on greedy landowners and capitalism.

The New Deal also entailed "public works projects," make-work schemes to waste labor and undermine productivity—all paid for by taxes on real producers. The aim was not real production but the maintenance of "wages" and consumption. From 1930 to 1932, Hoover approved $2 billion in public works spending, or 29% of total federal spending; in 1933 alone, FDR approved an additional $3.3 billion for such schemes, or 72% of total spending. Wealth was destroyed on a vast scale—and most people knew it. Procedural manuals for administrators of these schemes included such instructions as: "Whenever practical…work should be performed by hand rather than by machines, in order to provide for the employment of a greater number of persons."[47]

From such spending boondoggles came ever-widening government budget deficits (totaling $1.7 billion during the Hoover years of 1929–1932), thus more government borrowing from an already-shrinking savings pool. Instead of reversing this trend with spending cuts, Hoover had raised the top tax rate from 25% to 63%. Instead of increasing tax revenues, this resulted in revenues in 1933 falling to half the level they had been in 1930. FDR's policy was similar, but more severe: deficits during his first term totaled $13.4 billion, so in 1936 he raised the top tax to 79%, higher than the top rate in World War I. Now the after-tax retention rate for producers was 23 cents of each new dollar earned, or 72% below that of the late 1920s. Hoover and FDR also raised the federal tax rate on corporate profits and dividends, from 11% in 1929 to 15% in 1936, 19% in 1938, 38% in 1940, and 44% in 1941. Thus, from 1929 to 1941 the after-tax earnings retention rate for businesses plunged by 37%, from 89 cents to 56 cents per dollar.

By the late 1930s, many firms were still straining under rising tax burdens. They tried to build their businesses, invest, and hire workers, but were taxed at high rates if they ever did so profitably. To mitigate their income tax burdens and boost investment, many began to retain a greater share of profits instead of paying them out as dividends. In 1938, Congress responded to this by imposing the "undistributed profits tax"—a wealth tax, with rates as high as 70%. That further paralyzed business, as did the arbitrariness of New Deal tax schemes. FDR was mum about tax-rate hikes in 1936. Then, "unexpectedly on June 19 [he] asked Congress for an inheritance tax as well as an estate tax, gift taxes

to [prevent] evasion of the inheritance tax, stepped-up income taxes on [in FDR's words] 'very great individual incomes' and a corporate income tax graduated according to the size of corporations with a dividend tax to prevent evasion. Leaving Congress tired, sick, and in confusion, [FDR] then departed for the Yale-Harvard boat races."[48] In the summer of 1936, FDR had made clear his goal—not prosperity, but economic equality. He couched this in terms to make him appear as though he were a worthy descendent of America's Founders:

> For too many of us the political equality we once had won [in America's founding period] was meaningless in the face of economic inequality.... A small group had concentrated into their own hands an almost complete control over other people's property, other people's money, other people's labor—other people's lives. For too many of us life was no longer free; liberty was no longer real; men could no longer follow the pursuit of happiness. Against economic tyranny such as this, the American citizen could appeal only to the organized power of Government.... Better the occasional faults of Government that lives in a spirit of charity than the consistent omissions of a Government frozen in the ice of its own indifference.[49]

As FDR began his second term in office (January 1937), he planned to become more dictatorial: "I should like to have it said of my first administration that in it forces of selfishness and of lust for power have met their match. I should like to have it said of my second administration that in it these forces have met their master."[50] The next month he delivered to Congress a plan to "pack" the Supreme Court—to expand the number of seats from 9 to 15, so he alone could name six new justices friendly to New Deal schemes. A former supporter described this as "an audacious plan to destroy the independence of the judiciary."[51] FDR wanted the Court to rubber stamp his statist whims. Eventually the Democrat-controlled Congress rejected the plan, but while debate wore on the Supreme Court began to render decisions more favorable to the New Deal; then some anti-New Deal justices retired. FDR's brazen power-grab and the Court's abdication of judicial responsibility shook the American business world.[52] Now there seemed no effective restraint on the New-Dealers by an independent judiciary.

As the rule of law and freedom of contract deteriorated further, so did the economy. From 1937 to 1938, America suffered *a depression within a depression*. Stock prices crashed by 49%, profits fell 47%, production plunged 33%, and the unemployment rate increased from 14% to 20%. In 1938, stock prices and profits were still below their levels of 1931—and 60% below their levels of 1929.

As statist burdens mounted on those who were producing the most and delivering what little prosperity existed, those same producers were blamed by statists for the persistent economic stagnation caused by statism. In November 1937, FDR was told that the economy was sinking again. By one account, he "got very excited, very dictatorial, and very disagreeable. [FDR said] there were 2,000 men in this country who had made up their minds that they would hold a pistol to [his] head and make certain demands of him, otherwise they would continue depressing business."[53] In fact, for five years FDR had been holding a pistol to the heads of producers; yet he saw *himself* as the victim.

From 1937 to 1938, America suffered a depression within a depression. In 1939, stock prices and profits were still below their levels of 1931–and 60% below their levels of 1929.

The 1920s had seen a relatively laissez-faire federal government reducing its tax burden on producers and cutting its own spending and debt; that made room for a stupendous rise in prosperity. The 1930s, by contrast, saw an interventionist government imposing greater tax burdens, spending wildly and multiplying the national debt; that made economic recovery impossible. Coolidge had said "civilization and profits go hand in hand" and "the man who builds a factory builds a temple" and is due "reverence and praise." In Hoover's view, "the only trouble with capitalism is capitalists—they're too

greedy." For FDR, "a mere builder of more industrial plants is as likely to be a danger as a help."

Historians fixated on party affiliation usually link Coolidge and Hoover—and blame the depression on capitalism. The real link, of course, connects Hoover and FDR: their Progressive policies were anti-capitalist. Coolidge had presided over a genuine prosperity; but Hoover triggered the 1930s depression, while FDR prolonged it.

The "New Deal" was neither "new" nor a "deal"—not new, because it was a larger-scale, more intensive version of Hoover's interventionism; not a "deal," because a deal is a mutually beneficial, voluntarily negotiated bargain. There was nothing "voluntary" about the New Deal—and it benefited only power-lusters and parasites. In truth, FDR imposed a raw deal on America's great producers—a relentless and unpredictable avalanche of executive orders, laws, decrees, mandates, rules, regulations, and confiscations aimed solely at punishing and curbing wealth-creation. By 1940, FDR had succeeded only in keeping the US economy as depressed as Hoover had eft it eight years earlier.

Yet against all evidence, the myth remains that FDR ended the Great Depression—and that he did it by getting America involved in World War II. In the final installment of this series, we will see why only the end of FDR's presidency (by his death in 1945) and the end World War II—not FDR himself or the war itself—brought the depression to a close. ❚

This series will conclude in a future issue of TIA.

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Freedom and Prosperity

The Cause and Consequences of the Great Depression, Part 4

by Richard M. Salsman

The Great Depression is a subject mired in superstitious folklore—the product of modern intellectuals—in which the prosperity of the "Roaring Twentie" was actually a disastrous spree of unrestrained "over-production," which led inevitably to an economic collapse, from which America was only saved by FDR's "New Deal." But what put a definitive end to the Great Depression, in this mythology, was a booming "wartime prosperity" caused by the mass conscription of men and materials in World War II.

In fact, none of this mythology is true.

In reality, the tax-rate cuts and generally hands-off policies of the Harding-Coolidge years set the stage for prosperity (see Part 1, "What Made the Roaring '20s Roar," June 2004). Then, in late 1929 and the early 1930s, Washington's interventions instigated the stock-price crash and depression: the Federal Reserve raised interest rates to absurdly high levels while Congress tripled tariff rates to nearly 60% and more than doubled the top federal tax rate on income to 63% (see Part 2, "Hoover's Progressive Assault on Business," July 2004). During the balance of the 1930s, Franklin Roosevelt's statist policies only deepened and prolonged the stagnation. While scapegoating investors and businessmen, FDR sabotaged the gold standard, ruined banks, endorsed wasteful spending, ballooned budget deficits, multiplied debt, raised the top income tax rate to a still-more punitive level (79%) and issued a flood of regulation, to arrest what he called "disastrous over-production" (see Part 3, "Roosevelt's Raw Deal," August 2004). As for what ended the Great Depression, a genuine and lasting recovery began only in 1945, after FDR died and the war ended—and Americans enjoyed a revival of property rights protection, the rule of law, sounder money, tax-rate cuts, freer trade, less government support for unions, and substantial reductions in government employment, bureaucracy, and spending.

In the 1920s, Presidents Harding and Coolidge had cut the top tax rate on the highest American income-earners from 77% to 25%, raised a total of $43 billion in federal revenues, reduced federal employment by 12%, slashed federal spending by 52% and used $8 billion of the resulting surpluses to reduce the federal debt by 29% (to $17 billion). The Harding-Coolidge years were generally characterized by limited government, the rule of law, and classical economics. As a result, stock prices, profits, and industrial production in the US advanced during those years by 385%, 387%, and 109%, respectively. New industries were formed and living standards sky-rocketed, amid declining prices. The dollar was "as good as gold," the money supply grew just 1.6% per year, and retail prices fell 1.3% per year. Employment grew 15% in the 1920s while the jobless rate averaged a mere 4.7%.

In contrast, during the 1930s, Hoover and Roosevelt raised the top personal income tax rate from 25% to 79%, generated only $37 billion in federal revenues (13% below the 1920s), increased federal employment by 59%, boosted federal

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spending by 167%, and paid for the $24 billion in resulting deficits by burdening future taxpayers with a 158% rise in the federal debt (to $43 billion). Unlike the 1920s, the Hoover-FDR years witnessed burgeoning government, extensive (and intensive) regulation, and Keynesian economic policies. By the end of the 1930s, stock prices, profits, and industrial production in the US remained, respectively, 60%, 44%, and 10% below their 1929 levels. The dollar was devalued, the money supply grew by 5% per year in the 1930s (more than *triple* the rate of increase seen in the 1920s), and employment fell 2% amid a jobless rate that averaged 18.4%.[1]

Another depressive aspect to Washington's statist policies in the 1930s was its appeasement of fascism in Europe and Japan. Mussolini had begun to impose a fascist dictatorship on Italy in 1924—as did Hitler in Germany, soon after his election in 1933. Franco established a fascist regime in Spain in 1936. Japan erected a fascist regime in the late 1920s and in 1931 invaded southern China. In 1935 Mussolini proceeded to invade and annex Ethiopia. In the late 1930s Hitler invaded and annexed the Rhineland, Austria, Czechoslovakia, and (in September 1939) Poland. Until 1939, Britain's Labor Party governments had appeased each of these fascist regimes and invasions. Soon after Hitler's assault on Poland, Britain finally declared war on Germany, but with barely a handful of munitions to back its new resolve. In summer 1940 Paris fell to the Nazis and by December—still a year before Japan's bombing of Pearl Harbor—Nazi bombs were dropping on London.

Where was the US government during all this? It was busy imposing its own form of fascism at home, a pattern that dictators abroad certainly noticed. In the US in the 1930s—and as late as 1937—Congress adopted no fewer than five "neutrality acts," which precluded Washington from helping, arming, or harming *any* of the combatants. That only emboldened the foreign dictators and imperialists. The result was an inhospitable business climate in Europe and Britain, which indirectly harmed American business. So not only Washington's *domestic* policy but also its *foreign* policy in the 1930s sabotaged investor-business confidence. Washington did nothing to oppose the rise of fascism abroad; even when it provided material assistance to allies (the Lend-Lease Act, 1941–1945) it included subsidies to Stalin's USSR, which had been allied with Hitler up through June of 1941.

It's unlikely that there ever would have been a stock-price crash in 1929 or an economic depression in the 1930s had the US Congress enacted even one "neutrality act"—i.e., a policy of laissez-faire—toward American investors and businesses, and had it also authorized some limited use of US military force to block fascism's early advances abroad. Instead, Washington's policies were *uniformly* anti-capitalist: its New Deal spread fascism domestically, while its Neutrality Acts appeased (and thus encouraged) fascism's spread abroad. This lethal combination wrecked portfolios, depressed production, and ultimately led to the deaths of hundred of thousands of American soldiers.

Despite the stark contrast between the policies of the 1920s and 1930s, for decades political scientists, economists, and historians have blamed the Great Depression on laissez-faire capitalism and the gold standard, while insisting that FDR's New Deal, Keynesian policies, and World War II "cured" the Great Depression and brought a lasting economic recovery. As late as 1991 one could still find a prominent Keynesian professor at MIT arguing that recovery from the Great Depression was made possible by the economic-military policies of Hitler and his Nazis in Germany-and by a similar set of policies adopted by FDR and his New Dealers:

> Free market capitalism and the orthodox finance of the gold standard had led to disaster. Direct management of the economy could only do better.... The reversal of economic policy in the US under Roosevelt and in Germany under Franz von Papen and Hitler turned the economic tide in 1933.... The policies that replaced fiscal orthodoxy were expansionary and in large part socialist.... Hitler was appointed chancellor at the end of January 1933, and sustained economic recovery began only thereafter....
>
> The Nazis set out to reduce unemployment in 1933 and 1934, and they did so. German unemployment peaked at 30% in 1932 and declined to 12% by 1935.... Hitler consolidated his political revolution, with an immediate economic gain to the German people. It was a major achievement to turn the economic tide.... Personal freedom and autonomy were

sacrificed in the process of controlling production and wages and distributing the "social dividend" to the populace.... The Nazis destroyed the labor unions [and] introduced compulsory labor service in 1935....

> At the cost of their personal liberty and higher wages, the German workers achieved some amelioration of working conditions.... Only after 1936, by which time the recovery was well underway, did the Nazis turn to preparation for war....
>
> The American recovery under the New Deal was similar to the German expansion in its use of a socialist approach to the role of government.[2]

According to Keynes, war, wealth-destruction, fiat-paper money, slave labor, and senseless makework schemes were keys to prosperity.

In the mid-1950s one Keynesian economist conceded that no genuine recovery actually occurred in the 1930s, but, he insisted, only because Keynesian policies (protectionism, deficit spending, inflation, government make-work projects, and the "socialization of investment") *were not really adopted* by New Dealers:

> The trend of the direct effects of fiscal policy on aggregate full-employment demand is definitely downward in the 1930s. For recovery to have been achieved in this period, private demand would have had to be higher out of a given private disposable income than it was in 1929. Fiscal policy, then, seems to have been an unsuccessful recovery device in the 1930s—not because it did not work, but because it was not tried.[3]

This gimmick is similar to the argument deployed by Soviet apologists who claimed that stagnation, starvation, and oppression didn't reflect Marxist-Leninism per se but a failure to adopt it in "pure form." In fact, *precisely to the extent* Marxist-Leninist dogmas were practiced in the Soviet Union—as Keynesian dogmas were practiced in America and Britain in the 1930s and during World War II—the effect was widespread depression, poverty, and human misery. What, specifically, had Keynes written about statism, inflation, war, and their alleged power to preserve economic prosperity? Consider the following bit of quackery, excerpted from his widely-acclaimed 1936 book:

> Wasteful loan expenditure may...enrich the community on balance. Pyramid-building, earthquakes, even wars may serve to increase wealth, if the education of our statesmen on the principles of classical economics stands in the way of anything better.... If the Treasury were to fill up old bottles with banknotes, bury them at suitable depths in disused coal mines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well-tried principles of laissez-faire to dig up the notes again, there need be no means of unemployment and, with the help of the repercussions, the real income of the community, and its capital wealth also, would probably become a good deal greater than it actually is.[4]

According to Keynes, war, wealth-destruction, fiat-paper money, slave labor, and senseless make-work schemes were keys to prosperity. So also, he thought, was the mixed economy. In a 1939 article, "Democracy and Efficiency," he called for "an amalgam of private capitalism and state socialism"[5]—the equivalent of seeking economic health by a mixture of food and poison. It was, of course, precisely *to the extent* state socialism was incorporated in US-British policies that prosperity ended in the late 1920s and the Great Depression began and persisted in the 1930s. Even amid war, when German bombs rained down on Britain, Keynes wished the bombs would inflict *more* damage than they were actually inflicting—and hoped U.S. bombs might fall inadvertently on British factories and executives, to foster some "success" in British industry. In 1944, after recounting Britain's stagnation (without admitting that his dogmas had *caused* it) Keynes wrote:

> If by some sad geographical slip the American Air Force (it is too late now to hope for much from the enemy) were to destroy every [British] factory on the North-East coast and in Lancashire (at an hour when the directors were sitting there and no one else), we should have nothing to fear. How else we are to regain the exuberant inexperience, which is necessary for success, I cannot surmise.[6]

These excerpts from Keynes (and those cited in earlier installments of this series) capture the irra-

tionality, charlatanism, malevolence, and barbarism that marked the 20th century. It is no coincidence that Keynesian dogma dominated economics from the 1930s to the 1970s: it was the irrational economics that the irrational philosophy of the time called for. Eager to deny that their policies caused and prolonged the 1930s depression instead of curing it, most Keynesians today insist their policies weren't *truly* adopted until World War II and that once adopted, such policies generated what a typical textbook of economic history calls the "war prosperity" of the early 1940s:

> As early as 1940, World War II produced demand for the products of American industry.... In the process of another full wartime mobilization, the American unemployment problem vanished at last.... War spending, such a huge shot in the nation's economic arm, seemed to revitalize the economy.... The Keynesian message had been that, if all other factors remained unchanged, large government expenditures financed by new money creation would lay the foundation for a broad advance, [that] sufficient expenditures by government would produce prosperity again.... [Government] expenditures rose to whatever levels were deemed necessary. It was up to Congress and the monetary authorities to find the means.... As always, for war purposes the government needed command over resources far in excess of any conceivable taxing power. This necessitated enormous federal deficits.... Necessarily, bonds had to be sold to the banking system, and that produced money supply increases with inflationary potential.... Real GNP per capita rose 45% [from 1941 to 1945]. It was an abrupt change from the futility of Keynesian message illustrated: government expenditures, utilizing deficit spending, could and did wipe away the depression.... The war had solved the riddle of lingering stagnation and unemployment that had defeated all New Deal efforts.[7]

This is the standard account given in most economic histories: that wars in general—and World War II in particular-could "stimulate" an economy and cure (or ward off) depression. After all, the above excerpt recounts, real per capita GDP rose 45% during the war. Elsewhere one finds that the US industrial production index increased by 88% from summer 1940 to summer 1944, before declining 33% amid the winding down of war policies (1944–1946). And the official US jobless rate dropped from an average of 17.2% in 1939 to a mere 1.5% in 1944–45. Is this not "proof" that World War II was the key to economic recovery? Didn't war end the Great Depression, create wealth and otherwise spread joy throughout the land? Weren't Keynesians—although derided by some as cranks—in fact real geniuses of "fine-tuning" and central planning?

Statists typically evade the fact that government does not and cannot create wealth; it can only borrow, steal, or destroy it. These last three methods were used increasingly in the 1930s—and especially during World War II. By their nature, all wars, even just and proper ones, are acts of destruction, not production. "Wartime prosperity" is an oxymoron. Not only did Washington's wartime policies fail to "stimulate" the economy; they conscripted innocent workers, pulling them out of the private economy by the millions and causing more than a million of them to be maimed or killed; these policies also bolstered Stalin's tyranny and depressed American living standards much *further* than statist policies had depressed them in the 1930s.

Even amid war, when German bombs rained down on Britian, Keynes wished the bombs would inflict more damage.

Washington's most egregious assault on American life, liberty, property, and living standards during World War II was its adoption of military conscription (1940–1945). This was effectively slave labor, and as the MIT professor noted above, Hitler had already shown how to use this method to "reduce unemployment" in Germany. From 1940 to 1945, Washington conscripted 16 million people into the military, most between the vital ages of 18 and 30. During the war, 406,000 US military personnel were killed and 671,000 were wounded. Recall how the historian cited above rejoiced that "the American unemployment problem vanished at last." Yes—after Washington effectively kidnapped the jobless and shipped them abroad, to destroy or

be destroyed. No wonder America's jobless rate plummeted during the war; the unemployed had totaled nearly 10 million in 1939; by 1942 3.8 million people were deployed in the US military; at its peak in 1945 the deployment reached 12.1 million. This Keynesians referred to—openly and proudly—as their "full employment" policy.

Yet if one accurately counts as unemployed all those working-age adults who don't produce wealth, who impede its creation, or who destroy it—that is, those who are unemployed in the private sector, non-military regulatory bureaucrats, and innocents conscripted into the military—one finds that after declining during the 1920s (to just 10% of working-age adults in 1929) and then rising in the 1930s, this more accurate rate of unemployment climbed from 23% in 1940 to 36% in 1945, the last year of the war; by 1950 this productive-job-less rate declined to 17%, but remained 70% *above* its level in 1929.

In addition to young men, many American business executives were effectively conscripted for war. As Washington increasingly controlled the purse strings, it threatened firms with the loss of government purchases if they didn't serve the cause. As in World War I, executives became known as "dollar-a-year" men—those who drew no salary and were forced to live off their previously earned wealth (if they had any left after the 1930s). In addition, during the war Washington "requisitioned" (i.e., expropriated) patents, equipment, factories, companies, and whole industries. Laws and rules essentially *prohibited* the production of automobiles, houses, appliances, radios, and luxury items for private citizens. When American businesses weren't subsidized (bribed) into making ships, tanks, jeeps, planes and guns they were directly compelled to produce them. The vast regulatory apparatus erected in the 1930s gave Washington enormous power to get its own way in the early 1940s; it spent roughly $250 billion for military purposes during the war—nearly *one-third* of the economy's total output.

Washington actively burdened and sacrificed America's top producers during the war. Non-military federal employment increased by 300% from 1939 to 1945, compared to a 59% rise in the 1930s. Total federal spending increased more than tenfold, from $9 billion in 1940 to $95 billion in 1945. Since federal tax receipts increased by a lesser amount—"only" seven-fold—the federal debt quintupled from $45 billion to $253 billion. The top federal tax rate on personal income was raised from 79% to 94%, reducing the retention rate on each new dollar earned (and thus the incentive to earn additional income) by 71% (from 21 cents to just 6 cents). Tax rates also were boosted on the lowest income-earners, from 4% in 1940 to 23% in 1944, causing a 20% decline in the after-tax retention rate. Washington further raised the tax rate on corporate profits, from 19% to 53%, reducing the retention rate by 42% (from 81 cents to 47 cents). Never before had there been a federal tax on capital gains from asset sales in the US; it was introduced in 1942, at a rate of 25%. That same year Milton Friedman, a young analyst at the US Treasury Department, noticed a growing resort to tax evasion; he advised tax withholding, which was adopted permanently in 1942 and ever since has been recognized by statists as a crucial way of surreptitiously funding burgeoning government without inciting tax revolts.[8]

To their credit, and despite all of these burdens, in just a few years American businessmen demonstrated their superlative ability to produce an overwhelming array of war items necessary for victory: 86,338 tanks, 297,000 planes, 17.4 million rifles and side-arms, 315,000 pieces of field artillery and mortars, 4.2 million tons of artillery shells, 41.4 million rounds of small-arms ammunition, 64,500 landing vessels, and 12,000 navy ships including destroyers, aircraft carriers, and cargo shops (plus radar systems and other electronic devices crucial to America's success during the war).[9] This production surely protected the bodies and saved the lives of thousands of American officers and soldiers in battle, partly mitigating the harm of conscription; but no one should pretend it constituted the creation of real wealth. The items were financed by borrowed or stolen wealth, were used to destroy wealth, were frequently destroyed when used, and when not destroyed weren't even easily convertible to civilian use. Not much of value remained in post-war inventories even for future military use.

Nor could it be said that American business benefited from its stupendous production of war goods. Washington imposed an extra tax on "excess profits," to prevent "war profiteering." Although total revenues for all US firms increased 72% and pre-tax, pre-dividend income increased 84% from 1940 to 1945, tax burdens were so high that dividends to stockholders increased by just 3% (a mere fraction of the 29% rise in retail prices caused by government inflation). The largest US firms, those most contaminated by US war planning, actually saw their profits plummet (by 17%) during the war. Stock prices also declined in real terms: from the time Hitler invaded Poland (September 1939) to the time Germany surrendered (May 1945), the Dow Jones stock-price index rose just 11%, equivalent to a real *decline* of 18%, given the 29% rise in retail prices. By the end of the war, US stock prices were still 46% below their average in 1929. Despite ably supplying Washington, American businesses, executives, and capitalists were exploited and sacrificed during the war.

It was the vast output of *munitions* incorporated in aggregate measures of US output during the war which came to be cited so confidently by economic historians claiming to have found a "wartime prosperity." For decades, of course, Soviet dictators and commissars also crowed about vast increases in their "aggregate economic output"—while the homeless starved in Moscow's bread lines. Military output, it should be recognized, must necessarily be measured and monetized arbitrarily. What is the "market price" of a tank when government throws gobs of stolen (or printed) money toward its purchase? In fact, a close scrutiny of the *constituents* of total US output during the war reveals only *declining* wealth and living standards—to *below* the levels of the 1930s.

Consider education, an indicator of any culture's intellectual progress. From 1900 to 1942 there wasn't a *single* year in the US—not even in the 1930s—that didn't record a rise in the portion of those people 17 years or older holding a high school diploma. That changed drastically in World War II, when the portion declined by 17%; it didn't return to its prior peak until 1948. The number of advanced degrees (BAs, MAs, and PhDs) granted in the US also had increased dramatically in the decades before the war; but from 1940 to 1944 they plunged by 35%. Not only young life but young intellectual potential and ingenuity were sacrificed. After skyrocketing in the 1920s, the number of newly issued US patents declined 30% in the mid-1930s (1932 to 1937); after recovering somewhat in the late 1930s, patent issuance plunged by 40% during the war. Why? Washington was stealing both *existing* patents and the potential graduates who would likely be earning *future* patents. How could this war-based trend possibly be described as contributing to America's "prosperity"?

As Washington conscripted millions of young working men, the labor force became so depleted that business increasingly had to rely on housewives, young children, the elderly, and cripples. In the 19th century, socialists had condemned factory owners who employed such people; but now it was the 20th century and the statists were running things, so such hiring was recounted, not with criticism but instead with praise and wonder about these "extraordinary employment opportunities":

> Women, teenagers, the disabled, the aged—all were needed to replace the millions gone to foreign fields, if output was to be expanded.... The upward draft of [government] expenditures produced extraordinary employment opportunities and pulled into the labor force unusual numbers from the 14-19 years age group. The increase of labor force participation among teenage females was 80%, and for males, 57%. Half the nation's males over 65 were in gainful employment. Retirement at 65 had gone out of fashion.[10]

Most housewives and teenagers entered the factories because the military pay of their drafted spouses and fathers was a fraction of their prior pay; most of the elderly did so because their fixed incomes were being eroded by government inflation. Even if the new entrants were eager to work, is it plausible that during the war the US "finally" achieved prosperity—with a much-diluted labor force consisting of previously unemployed, less-skilled housewives, children, and grandparents under the direction of "dollar-a-year" executives stripped of all monetary incentive? It's easy to guess why *altruists* would hope this were true—but it isn't. These workers were far less productive than

the healthy, skilled workers they replaced. They also worked longer hours, reversing prior trends: the average work week rose from 38 hours in 1939 to 46 hours in 1945. Meanwhile, factory injury rates jumped 34% from 1939 to 1944; the unskilled and inexperienced, toiling longer hours in heavy industry, were maimed like soldiers. Yet in his 1944 State of the Union Address, FDR demanded "national service" legislation granting him the power to conscript civilians for work in preferred factories.[11] Fortunately, Congress declined.

Few economic historians today are willing to concede that the mere piling-up of state-requisitioned military items, produced amid forced labor and asceticism, only to be destroyed in battle, is not "prosperty."

Other evidence shows a marked decline in American living standards during the war. Private sector investment (in factories, equipment, and residential housing) plunged 66% from 1941 to 1943; by war's end it was still 40% below the level of 1941. New investment did not cover depreciation, so there was capital *decumulation*. The value of newly built private factories and homes collapsed 84% and 79%, respectively. The number of new homes built during the five years of the war (1941–1945) was 21% below the number built in the five years from 1936 to 1940 and 55% below what was built in the five years from 1925 to 1929. Spending on consumer durables, including appliances, dropped 31% from 1941 to 1944. The value of newly-laid streets, roads, and highways during the war was 55% below the level of 1936–1940 and 49% below the level achieved in 1925–1929. Car sales during the war were 75% below the sales seen in 1936–1940 and 78% below the sales recorded in 1925–1929.

A similar, sharp decline was seen in the value of new water and sewer systems: 59% lower during the war compared to 1936–1940 and 51% below the level of 1925–1929. The production of radios fell by 61% during the war, compared to the output of 1936–1940. The number of newly published books dropped 22% amid war, compared to 1936–1940; that was also 15% below the total in 1925–1929. War also sabotaged romance and families: the marriage rate, steady in the 1920s, had fallen 22% in the early 1930s, before rising later in the decade, but it fell 14% between 1941 and 1944. The divorce rate, which had declined throughout most of the 1920s, shot up by 90% from 1941 to 1946.

The few consumer items that were produced in wartime became ever more expensive, lower in quality, and harder to find; price controls brought shortages, lines, black markets, graft, and motives to "cut corners." The same historian who claims "war prosperity" nevertheless concedes how asceticism was the norm amid war: "Retailers' inventories of old goods evaporated. Price controls, together with ticket-rationing of such items as gasoline, meat, and sugar, ensured some facsimile of 'fair shares' as the war progressed. To save cloth, cuffs came off men's trousers. Woolens became scarce and nylon stockings for the ladies vanished. Natural crepe soles on men's shoes disappeared. The buying public got used to substitute fabrics and strange combinations of meat and meal."[12]

Far from "war prosperity," America suffered *war privation* from 1940 to 1945. In addition to robbing people's political freedom, Washington robbed them of property rights, schooling, incentives, income, savings, wealth, job safety, and marital happiness, as it curbed or prohibited the production of precisely those goods and services which raised living standards: schools, homes, clothes, cars, radios, streets, utilities. Were these not the values that constituted real prosperity and progress? Few economic historians today are willing to concede that the mere piling-up of state-requisitioned military items, produced amid forced labor and asceticism, only to be destroyed in battle, is *not* "prosperity." War can only reduce or impede prosperity. Had World War II lasted ten years instead of four, living standards would have deteriorated still further.

Only a few aspects of US war policy in

1941–1945 might be interpreted as favoring prosperity, for at least some stress was placed on boosting production (compared to assaults on "overproduction" in the 1930s), while businessmen were being respected again as superlative producers and Washington was focused again on the legitimate government function of national defense. But these were *pro-capitalist* elements which hardly required a war to embrace. Even given its entry in the war, Washington should have secured well-paid, well-trained *volunteers,* not conscripts, and should have borrowed against ally assets (to be sold later for repayment), instead of taxing innocent Americans. Regardless, the nature of war is not to "boost" prosperity or living standards but to *depress* them.

Contemporary economists have had little to say about the real source of economic recovery from the Great Depression, beyond erroneous claims about "wartime prosperity." But one such attempt was made recently. Is it a worthy hypothesis? The author claims that the US economy revived simply because it was depressed for so long; its growth rate necessarily had to "revert to the mean." The utter inanity of this "theory" can be captured only by perusing a representative excerpt:

> When the economy is below trend, there is what may be regarded as an endogenous propagation mechanism in the economy. The constituent particulars of it, the sources of it, are not, however, so easily observed, measured, or modeled. This suggests a kind of black box, one in which there is no formally articulated mechanism generating the movement to trend.... That one must plead ignorant...is not unique to macroeconomics.[13]

In fact, the Great Depression ended and lasting economy recovery began only after FDR died (April 1945), Germany surrendered (May 1945), and Republicans re-gained control of Congress. The GOP had controlled Congress during the prosperous 1920s, with an average margin of 62–38% over Democrats. But in 1933 Democrats won Congressional control and enjoyed an average margin of 70–30% during the depression-dominated 1930s. Voters' growing dissatisfaction saw the Democrats' margin narrow steadily from 80–20% in 1937–1939 to 60–40% in 1943–1945 and 57–43% in 1945–1947, before Republicans regained control by a wide margin (55–45%) in 1947–1949. At first the revival of the congressional Republicans merely muted the severity of the Democrats' newest interventions; when the GOP eventually regained control it introduced more pro-capitalist measures.

For nearly a decade the margin of victory for Democratic presidents also had diminished: FDR beat Landon by 25 percentage points in 1936 but beat Wilkie by just 10 points in 1940 and Dewey by only seven points in 1940. In 1948 FDR's successor, vice president Harry Truman, again beat Dewey, but by a mere five percentage points. Truman tried to enact more welfare-state programs—what he called his "Fair Deal"—including national health insurance, federal aid to education, and government power projects. But each scheme was blocked by the Republicans, who controlled what Truman derided as the "do-nothing Congress" (1947–1949). Truman's veto power was also weak: it couldn't stop such GOP measures as the Taft-Hartley Act (1947), which again forbade criminal abuses by labor unions.

Economic freedom was increased across the board in the years after FDR's death and the end of war and during the steady accumulation of GOP power in Congress.

Economic freedom was increased across the board in the years after FDR's death and the end of war and during the steady accumulation of GOP power in Congress. First, there was massive deregulation: factories were privatized and companies were freed of war-production decrees. Then price controls were removed (1946). From 1945 to 1948 Congress slashed outlays by 68% and federal spending fell from 44% of GDP to just 12%. Over the same period, federal employment declined 46%; regulators—and returning soldiers—became producers again. Soon federal budget surpluses emerged (1947–1949) for the first time since 1930. From 1945 to 1948, the top federal income-tax rate

on the highest earners was cut from 94% to 82%, so the retention rate for each new dollar earned tripled (from 6 cents to 18 cents). Business executives again received large salaries (and had a tax incentive to do so). Corporate profits and dividends doubled between 1946 and 1950, while the Dow Jones stock-price index rose 40%. The rates of investment spending, car making, homebuilding, book publishing, schooling, and marriage soared-while rates of unemployment, on-the-job injury, and divorce plunged.

In signing the Bretton-Woods agreement with dozens of other nations in 1945, the US government once again made the dollar convertible into a fixed weight of gold (1/35th of an ounce). Although it wasn't a gold-coin standard operated by private banks, it was superior to both the monetary arbitrariness of the New Deal in the 1930s and the massive war-time inflation; whereas the money supply increased by 144% from 1940 to 1945, it grew just 13% from 1945 to 1950. Starting in 1946, the US also began to participate in a multi-national round of free trade talks, which soon led to the General Agreement on Tariffs and Trade (GATT); over the next few years, the GATT slashed tariff rates by half. US labor law also was reformed in a pro-capitalist direction. Legislation since the 1930s had compelled employers to pay above-market wages and to "bargain" with arbitrary and hostile unions, resulting in work stoppages, trespassing, plant sabotage, violence, and mass unemployment; but in 1947 the Taft-Hartley Act began to curb or forbid such anti-wealth aspects of 1930s labor law, such that the unionized part of the labor, which had doubled in the 1930s (to 25%) and peaked in 1945 (at 36%), dropped steadily from 32% in 1950 to 17% in 1990 and to near 12% today.

Although the post-war US recovery was made possible by a less-onerous tax burden and lighter regulation, there is no question that the *magnitude* of statism remained high compared to the 1920s, so the economic gains of the 1950s (and thereafter) could not match those achieved in the 1920s; but the undeniable post-war *lessening* of statism certainly was favorable to prosperity.

As World War II came to a close in 1945, Keynes and his ilk loudly predicted a multi-year global depression, on the grounds that government "investment," interventions, and deficit-spending would likely shrink. Of course, government interventions *did* shrink in the late 1940s—by more than Keynes had predicted—but the result was a multi-year prosperity, precisely *because* government shrank. Without the end of World War II in 1945 and the pro-capitalist policy shifts that followed soon thereafter, the Great Depression would have lasted longer than it did; US living standards would have shriveled to levels last observed in the early 1900s.

Given this vast evidence, the conclusion is inescapable that the 1920s were prosperous and progressive because economic policy was largely pro-capitalist, while the 1930s were stagnant and regressive due to statism. The further government controls introduced during World War II undeniably damaged American life, liberty, property, and happiness; only when some pro-capitalist policies were re-introduced in the immediate post-war years did any discernable or lasting prosperity return.

Whether one turns to Marxist, Keynesian, or monetarist interpretations of the 1929 stock crash and 1930s depression, one is likely to be misled about the real cause of each. Unfortunately, that danger also holds true, albeit to a lesser extent, if one relies on Austrian economics. The defect in the Austrian account lies not in any failure to identify the vast damage done by various government interventions in the 1930s, but rather in its dubious claim that the depression of the 1930s was an "inevitable" consequence of an allegedly "false" prosperity in the 1920s.

But there's a view of the stock-price crash and depression that is far worse than the falsehoods of those who've adopted definite interpretations of these episodes, for it's an approach mired in skepticism and the arbitrary, as exemplified by *The Great Depression*, a 1934 book by the late British economist Lionel Robbins:

> One thing is clear.... No single explanation of [the Great Depression] will be sufficient.... The course of the slump has been...affected by a multiplicity of influences that any attempt to bring them under one heading must necessarily involve over-simplification.... Who can diagnose with certainty

> the relative importance of the part played by political power and the part played by bad banking...not to mention personal dishonesty?... What weight are we to assign to the peculiar psychology of the American people?... Clearly the time has not come, if it ever will, for exact assessment of causal priority in history. All that can be done is to ascertain the existence of certain tendencies.[14]

There are many ways to classify various extant theories of the Great Depression. Robbins's thesis might best be classified as the "Who-Knows-What-the-Hell-Happened?" theory of the depression. Notice in Robbins the inability (or refusal) to seek and find a single, unified theory. He's not clear about the cause of the Great Depression, yet for him "one thing is clear" and certain: no "exact assessment of causal priority" is possible regarding the 1930s—*ever*. Of course, the phrase "unified theory" is a redundancy, for a "theory" is really no theory at all if it is but a hash of so-called "contributing factors" or "tendencies." As was true in Robbins' time, today any unified interpretation of the Great Depression—any real *theory*—is blithely dismissed or actively ridiculed as "simplistic." Amid such bias, no real understanding of the Great Depression can ever be achieved. And amid such skepticism, America remains susceptible to repeated doses of Keynesian quackery. In treating the Great Depression, economists must be unabashedly "simplistic"—in the best sense of the term. They must clearly identify the fact that the Great Depression was caused by *statism*. But since the precise opposite view—or no consistent view at all—permeates the field, we continue to suffer the evils and indignities of statism.

Pro-capitalists today are familiar with the typical response obtained whenever they dare mention the need to abolish "alphabet" regulatory agencies, central banks, deposit insurance, high and graduated tax rates, Social Security, unemployment benefits, public education, farm subsidies, tariffs, quotas, or foreign aid: "We can't do that! We'll suffer from another Great Depression!" Observe President Bush's timidity today as he tries to scale back just minor aspects of Social Security; he is condemned for trying to "roll back the New Deal," a charge which carries the implication that seniors will again be left exposed to another Great Depression. President's Reagan's call for even a watered-down version of the gold standard met the same type of objection back in 1982.

Such is the tragic legacy of the Great Depression: a crime committed by statism, for which statism has been held blameless, so that statist elements might remain intact and sacrosanct, forever. Yet armed with facts, with the certainty reason makes possible, and a commitment to objective scholarship, the cause and consequences of the Great Depression can be understood, finally. And then the battle for capitalism should become that much easier to wage. ∎

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