

## STUDY PACK 19

### THE GREAT DEPRESSION

“The truth is that the Great Depression was possible only because of an interventionist and inflationary government. And, to the extent that Mr. Hoover was guilty of counter-productive policies, he was more than matched by Mr. Roosevelt, whose economic meddling kept our economy seriously depressed until the outbreak of World War II.” ~ William P. Hoar, *The Architects of Conspiracy*, p.180 ~

#### I. AMERICAN INFLUENCE ON THE WORLD ECONOMY

By the 1920's, the American economy had grown until it impacted the entire world. Trade with the United States built up many national economies but it also made the rest of the world vulnerable to American economic problems.

#### II. THE GREAT DEPRESSION

The period between 1929 and 1941 is referred to as the Great Depression. This was the worst period of economic troubles in United States history. Economic disaster was experienced around the world as well as in the United States.

Economic production at the factories and mines in the United States fell by 50%. Stock prices fell to 10% of their pre-Depression value. Real disposable income dropped 28%. Unemployment reached 25%.

Thousands of banks, hundreds of thousands of businesses, and millions of farmers went into bankruptcy. Almost everyone in the country experienced painful economic losses.

The American people's faith in the future was shattered by the Great Depression. People who lived through the Great Depression continued to be influenced by it. Often, their greatest fear was that of “another depression.”

Economist Alan Reynolds has written: “The Terror of the Great Crash has been the failure to explain it. People were left with the feeling that massive economic contractions could occur at any moment, without warning, without cause. This fear has been exploited ever since as the major justification for virtually unlimited federal intervention in economic affairs.”

#### III. MYTHOLOGY ABOUT THE GREAT DEPRESSION

Statists, interventionists, and socialists have continually used people's fear of another Great Depression to advance their agenda. In order to do so, they have created an historical myth about the Great Depression. The myth goes something like this: “Capitalism and the free market were responsible for the Great Depression. Only government intervention brought about economic recovery.” Of course, they add an economic myth to their historical myth: “Only government regulation of the economy can prevent another Great Depression.”

These myths have been repeated in so many history books, economic books, and political campaigns that the myth has stuck in the minds of many Americans. The story of the Great Depression is usually told this way:

“Unfettered capitalism during the 1920’s (the Roaring Twenties) caused the free market system to collapse in 1929. The stock market crashed destroying American productivity and bringing hardship to many. Republican President Herbert Hoover, an advocate of laissez-faire capitalism, cruelly refused to use the government to help hurting Americans. As a result, the economy continued to get worse. Democrat Franklin Delano Roosevelt, Hoover’s successor, used the government to help the people and gradually rebuilt the economy.”

A companion myth is usually advanced as well. It goes like this: “The capitalist market system collapsed as a result of a conspiracy on the part of the rich against the poor.”

The lessons drawn from this myth are clear:

- Only government intervention in the economy can save us from another depression.
- Only government can protect average citizens from the evil rich.
- Government can be trusted.
- Capitalism cannot be trusted.

However, the truth is a far cry from the popular mythology about the Great Depression. In reality, the Great Depression was caused by \_\_\_\_\_ , and \_\_\_\_\_ .

The United States had experienced several recessions before the Great Depression. Each had been created by bad monetary policy on the part of government. Let us look at some of these:

In 1819, the inflationary monetary policy of the federally chartered Second Bank of the United States caused a sharp economic downturn. It took about two years for the productive capacity of the American people to undo the damage that had been caused.

In 1836-7, another downturn came about as the federal government refused to re-charter the Second National Bank ending its inflationary policies. This caused a temporary economic downturn, often called the Panic of 1837. Again the productivity of the American people overcame these economic difficulties in about two years.

In 1857, a decade of inflationary money expansion on the part of state governments led to a recession. Again, two years of economic production placed the economy on a sound footing again.

In 1873, the national government’s inflationary greenback notes created an economic downturn, often called the Panic of 1873. Again, the people defeated the economic downturn through productivity.

The Panic of 1893 was caused by the inflationary policies of the federal government. This time, it took the American people four years to grow the economy large enough to overcome bad government policy.

In 1921, another economic downturn was caused by inflation. Again, it was over in two years as \_\_\_\_\_ and \_\_\_\_\_ .

In the 1920's, the new Federal Reserve System bloated the federal money supply by more than 60%. This reckless money and credit expansion overwhelmed even the great economic growth of the 1920's. This growth had been caused by strong tax cuts which had been enacted under Presidents Harding and Coolidge.

The Federal Reserve followed the reckless expansion of the money supply by a sudden contraction of the money supply. Soon the stock market crashed, and the economy went into its worst period in American history. Many fortunes collapsed overnight, and several former millionaires committed suicide.

Capitalism did not cause this crash. \_\_\_\_\_ . In spite of bad government monetary policy, the American economy could have recovered quickly. Left alone, American productivity might have recovered in two or three years.

## V. WHAT MADE THE GREAT DEPRESSION SO BAD?

However, Herbert Hoover was no laissez-faire capitalist. He dramatically increased government spending, began \_\_\_\_\_ and raised taxes. The U.S. economy suffered even more as the Great Depression spread throughout the world.

Agriculture in the U.S. collapsed as did much manufacturing. Thousands of rural banks went out of business, and the stock market continued to fall.

Hoover's government intervention did not rescue the country from the stock market crash. It only made it worse.

Hoover was defeated in 1932 by Franklin Delano Roosevelt. Roosevelt began massive programs of government economic controls. In the past, government interference in economic policy had been limited primarily to the money supply. Now the world's freest economy was \_\_\_\_\_. \_\_\_\_\_ What should have been a brief economic downturn was turned into a full-fledged 12-year economic depression.

Roosevelt continued to make inspiring speeches in which he blamed the Republicans and the wealthy for the nation's problems. Ironically, few seemed to notice that he was one of the wealthy.

Roosevelt took credit for saving the country while his economic programs prevented the country \_\_\_\_\_ .

## VI. COMMENTARY ON THE GREAT DEPRESSION

Economist Lawrence Reed described the Great Depression this way:

“The genesis of the Great Depression lay in the inflationary monetary policies of the U.S. government in the 1920's. It was prolonged and exacerbated by a litany of political missteps: trade-crushing tariffs, incentive-sapping taxes, mind-numbing controls on production and competition, senseless destruction of crops and cattle, and coercive labor laws, to recount just a few. It was not the free market which produced twelve years of agony; rather it was political bungling on a scale as grand as there ever was.

Those who can survey the events of the 1920's and 1930's and blame free-market capitalism for the economic calamity have their eyes, ears, and minds firmly closed to the facts. Changing the wrong-headed thinking about this sordid episode in American history is vital to reviving faith in free markets and preserving our liberties. The nation managed to survive Roosevelt and his New Deal quackery, and now the American heritage of freedom awaits a rediscovery by a new generation of citizens. This time we have nothing to fear but myths and misconceptions."

Hans F. Senholz describes how ultimately the Great Depression was caused by the American people's lack of understanding of economics:

"Nothing would be more foolish than to single out the men who led us in those baleful years and condemn them for all the evil that befell us. The \_\_\_\_\_ of the Great Depression were \_\_\_\_\_. It is true, they abhorred the painful symptoms of the great dilemma. But the large majority favored and voted for the very policies that made the disaster inevitable: inflation and credit expansion, protective tariffs, labor laws that raised wages, and farm laws that raised prices, ever higher taxes on the rich and distribution of their wealth. The \_\_\_\_\_ and earlier when social and economic ideologies that were hostile toward our traditional order of private property and individual enterprise conquered our colleges and universities. The professors of earlier years were as guilty as the political leaders of the 1930's."

The impact of the United States not following its capitalist principles was felt by people around the world.