Economic viewpoints

THE 1930s AND THE PRESENT DAY – CRISES COMPARED

Panagiotis Evangelopoulos

Many analysts are comparing the deep crisis of our times with the crash of 1929 and the Great Depression that followed in the 1930s. They generally argue that Barack Obama is driving the world to recovery along Roosevelt's 'state superiority' line. Alas, today's crisis rings alarm bells for the manner in which we must manage the future of democracy, the state and markets. Markets cannot be 'ordered about' and when in the face of sound logic and practice an attempt is made to do just this, markets become refractory, or – even worse – they may collapse.

Keywords: Great Depression, New Deal, Roosevelt, Obama, crisis, state, markets.

Many analysts of the period of deep crisis through which we are currently passing are in the habit of elaborating historical comparisons with the crash of 1929 and the Great Depression that followed. The more sophisticated among them, mostly convinced social-democrats who support government intervention in the economy, speak openly of a return to the period of control of the economy by the state. With the election of Barack Obama[1] and the aura of success that surrounds him, these analysts have turned up the volume, comparing the new age that is dawning with that of Franklin D. Roosevelt[2] and the New Deal.

Such a response would be seriously misguided and there should be no surrender of the global economy into the hands of politicians and bureaucrats. It is governments and their regulatory authorities that produced the crisis and, today more than ever, are part of it. Furthermore, they can in no way participate in the mechanism that will extricate us from the crisis. The foundations of the state are rotten, and the American state in particular, with its bloated deficit and massive debt is the least qualified of all to provide a basis for remedial leverage of the economy. The state is the source of the crisis, inextricably and centrally involved in it. Every ill-conceived policy of extending its operations can only bring more trouble, with the world's economies sinking for years into a quagmire as occurred throughout the 1930s,[3] the decade of the 'celebrated' New Deal.

History, though it does not repeat itself, provides us with the means for understanding the mistakes of the past and facing the challenges of the future. The New Deal marked a whole historical epoch, comprising the greatest possible intervention that had ever been perpetrated by the state in the US economy up to that point, using a political bureaucracy for planning within which individuals had to act and markets operate. But today we know that the New Deal did not work and indeed condemned the US economy to what was historically its most protracted period of stagnation.

North and Thomas (1973) showed that the rise and success of the Western world historically was based on prevailing institutions of individual liberty, free enterprise and secure property rights. North (1990) forms a unified institutional economic historian approach that demonstrates how efficient institutional frameworks achieve successful economic performance. Yet in North (1981) he warns on page 188:

> 'The story of this chapter [14] is how the framers of the Constitution attempted to control the state and how ultimately those controls broke down . . . the Great Depression was merely an episode that was the immediate vehicle for the acceleration of this transformation. The economist's and the economic historian's failure to analyze structural change has led them to misread the economic history of twentieth century.'

Roosevelt was elected in 1932 and put into immediate application the package of measures for state management of the crisis. In 1936 he was re-elected but unemployment remained at 15%, and it would not have fallen if the statistics had not lost their meaning with the outbreak of World War II. The eight years of the New Deal were the darkest in US economic history. It is not necessary to resort to statistics.[4] All that is necessary is to read a few of the US novels from the inter-war period to form an idea of the dire situation of that time: ordinary people, unemployed, without a future, without prospects, on the road or staying put, and beside them big modern manufacturing plants working at less than half of their productive capacity. In the cities the service sector was languishing and trade was grinding on, with turnover in basic necessities and other tried-and-tested products pegged at more or less the same levels. It was as if the America that had contributed so much to the Second Industrial Revolution, and had come to maturity as a result of it, was no more. It was as if Roosevelt, as the surgeon with the most delicate instruments of state regulation in his hands, or as the big-stage contractor steamrollering over everything in his path, was working on an economic corpse that had lost all ability to react.

Of course analysts prejudiced in favour of state intervention in the economy limit the Depression to the years 1929–33 and present Roosevelt and the New Deal as saviours of the USA and of capitalism. But this is not true. The Great Depression lasted right through to the end of Roosevelt's second term and only World War II salvaged his reputation, reinforcing the mistaken impression of the success of the New Deal. Roosevelt, like Obama today, was charismatic and knew very well how to tell stories and cultivate expectations. His slogan in 1932 was 'Happy Days Are Here Again'; there was an upturn on the Stock Exchange when he was elected, but it did not last long and the economy continued to mark time. From 1937 onwards things went from bad to worse.[5] On 18 October 1937 the Dow Jones index fell 7.2% and on 22 November 1937 it fell 9%. No upturn was in sight. The New Deal had razed the economy to the ground with its one-sided statism and its dilettantish political incompetence, until salvation appeared in the macabre form of an equally destructive world war. To be entirely schematic: to understand how unfavourable were the consequences of the New Deal, how central was its role not only in maintaining but also in exacerbating the longest and deepest depression the world has known, it is sufficient to reflect that, from the crash, the Dow Jones index required 25 years – until 1954 – to return to 1929 levels.

Today, in the midst of the severe crisis we are experiencing, the self-regulation and self-correction of markets has, particularly among the journalists of the ordinary press, come to be represented as a parody of free-market principles and free-market virtues. But apart from being incorrect, this approach is also dangerous, because when ideas become predominant they have consequences, from which we either benefit and go forward or suffer damage and are ruined. The state has never been a panacea for our economic problems, and this is particularly true of the present day. On the other hand, it is the state that has the lion's share of the responsibility for causing the present crisis, whether through its monetary policy,[6] or through it employing every possible means (including the creation of securitisation warehouses Fannie Mae and Freddie Mac, legislation such as the Community Reinvestment Act, misuse of the privilege of monopoly rights in issuing money, limitless subsidisation of the most anti-productive activities and retention of an irrational social insurance system) to distort housing markets and the financial system.

We must recall the true lessons of the 'New Deal' if we are to secure the future of democracy, the state and markets. The greatest danger is that of the state and politicians exceeding all previous excesses of intervention and requiring of the economic system something that it cannot give. Markets cannot be ordered at the discretion of politicians. When in the face of sound logic and practice an attempt is made to do this, they become refractory, or – even worse – they collapse. Starting from a higher level of state intervention than Roosevelt, Obama must be especially careful in his attempts not to extend the hand of government.

1. The problems that arise from Obama's administrative initiatives, directed by old-fashioned Keynesianism and voracious expansionism, reinforced by organised political groups and unions that contributed so much crucially to the Obama election, are deeply and brightly examined by Rowley and Smith (2009). The new research very fairly changes the roles of Keynes and Roosevelt into the faces and policies of G. W. Bush and Barack Obama. The paper explains how the *laissez-faire* capitalism developed the dynamism of the American economy. In our tough times, the book concludes, we can revive the American economy by keeping the principles and operations of market capitalism and applying a list of policies based on a public choice approach.
2. Contrary to the general belief, Amity Shlaes in her recent book (2007) offers an excellent analysis with abundant evidence of how Roosevelt worsened the Great Depression.
3. Rothbard (2000, originally published in 1963) critiques state interference during the Great Depression. He concludes that the Great Depression was generated by government intervention in the economy.
4. For detailed evidence and more controversies see Chandler (1970), Friedman and Schwartz (1963) and Olson (1982).
5. Peter Temin, a 'warm' Keynesian expansionist economic historian who also studied the financial panic of 1837 (Temin, 1969) and the inflationary boom between 1832 and 1837 (ibid) and who is a strong supporter of the argument that the deflationary bias of gold-standard ideology caused the Great Depression (Temin, 1976), finally accepts in Temin (1989) the failure of Roosevelt governmental policy. On pages 121–122, Temin writes, 'It must be admitted that the 1937 recession in the United States also did not help the cause of full employment'. He adds, 'Continuing high unemployment created a problem for Roosevelt. The New Deal had turned the economy around but it had not brought full employment. Roosevelt therefore needed to attack the third aim of socialism – the distribution of income to all – separately.' There are obvious contradictions in Temin's argument: there was a rebound of the economy but a high level of unemployment. What kind of rebound is this?
6. Ludwig von Mises (1981), who anticipated the Great Depression, writes in the preface to the English edition of his book *The Theory of Money and Credit* (first published in 1912) in Vienna, June 1934: 'And the thing which is chiefly advocated as a remedy is nothing but another expansion of credit, such as certainly might lead to a transitory boom, but would be bound to end in a correspondingly severer crisis'. And Mises adds in the last words of his preface: 'Recurring crises are nothing but the consequence of attempts, despite all the teachings of experience and all the warnings of the economists, to stimulate economic activity by means of additional credit'.

References

Chandler, L. V. (1970) *America's Greatest Depression, 1929–1941*, New York: Harper & Row.
Friedman, M. and A. Schwartz (1963) *A Monetary History of the United States, 1867–1960*, Princeton, NJ: Princeton University Press.
Mises, L. von (1981) [1912] *The Theory of Money and Credit*, Indianapolis, IN: Liberty Classics/Liberty Fund.
North, D. C. (1981) *Structure and Change in Economic History*, New York: W. W. Norton.
North, D. C. (1990) *Institutions, Institutional Change and Economic Performance*, Cambridge: Cambridge University Press.
North, D. C. and R. Thomas (1973) *The Rise of the Western World: A New Economic History*, Cambridge: Cambridge University Press.

Olson, M. (1982) *The Rise and Decline of Nations. Economic Growth, Stagflation and Social Rigidities*, New Haven, CT: Yale University Press.
Rothbard, M. N. (2000) [1963] *America's Great Depression*, Auburn, AL: Ludwig von Mises Institute.
Rowley, C. K. and N. Smith (2009) *Economic Contractions in the United States: A Failure of Government*, Fairfax, VA: The Locke Institute, and London: Institute of Economic Affairs.
Shlaes, A. (2007) *The Forgotten Man: A New History of the Great Depression*, London: HarperCollins.
Temin, P. (1969) *The Jacksonian Economy*, New York: W. W. Norton.
Temin, P. (1976) *Did Monetary Forces Cause the Great Depression?*, New York: W. W. Norton.
Temin, P. (1989) *Lessons from the Great Depression*, Cambridge, MA: MIT Press.

Panagiotis Evangelopoulos is a Lecturer at the Department of Economics, University of Peloponnese, Greece (panos@evangelopoulos.gr and panevans@uop.gr).