The Great Depression II

A Comparative Look at the Similarities between The Great Depression and The Great Recession

Brian Lonto
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Introduction

In his article on the Great Depression, Hans Sennholz (1969) closed by posing the question, “Can it [The Great Depression] happen again?” It is undeniable that the Great Depression was the worst economic crisis seen in the United States and throughout the world. This period was characterized by many fallacious economic policies on the part of governments on the world wide scale. Recently though, the United States entered into another period of economic decline, accented by a stock market crash in 2008. Businesses went under as financial institutions scrambled for government bailouts. A cursory look at this current crisis (what is now being titled by economists as ‘The Great Recession’) points to the housing bubble as the cause of all the economic malaise now facing the United States. When examined deeper, it is realized that there are striking similarities between the Great Recession and the Great Depression which means that like the Great Depression, this current recession is bound to go on for several more years and unless the lessons of the Great Depression are heeded, could become the second Great Depression.

The Interest-ing Similarity

Any good analysis of the Great Depression begins by examining the inflationary boom that led up to the stock market crash of 1929 and therefore, that is where this paper begins as well. While the 1920s is typically characterized as a time of vast business expansion and production, earning the nick name “The Roaring 20s,” it is better characterized by the roaring inflation that the Federal Reserve entered into during this time. It was this inflation that caused the economic boom of the 20s. Generally, the
1920s has not been viewed as a period of inflation because prices remained fairly steady and inflation is generally connected with rising prices. It is this very fact, however, that indicates there was inflation. Industry experienced mass increases in production. For instance, production of automobiles increased 4.2 percent per year, petroleum production increased by 12.6 percent, manufactured goods increased by four percent, and raw materials increased at 2.5 percent. With such an increase in supply and demand staying relatively the same, prices during this time should have dropped drastically (following the laws of supply and demand). Instead, the inflationary factors of the Federal Reserve Bank put upward pressure on prices offsetting the downward pressure of increased supply and as a result, prices remained relatively constant. Inflation then is more accurately associated not with higher prices in general, but rather prices being higher than they would be in a free market, which is the case of the 1920s. Additionally, when the numbers are looked at, the money supply of the United States grew by 55% between July 1921 and July 1929 which is an average annual rate of 7.3%. (Woods 2009, p.96 & Rothbard 1963, p.82)

In 1921, many European economies were reeling following the end of World War One and the Federal Reserve Bank of the United States entered into a burst of artificial credit expansion amounting to a total of $11.5 billion from 1922-1927. The goal of this inflation was to increase lending to foreign governments and banks (most notably, Great Britain) and stimulate business activity and production domestically. (Anderson 1979, p.182 & Rothbard 1963, p.130) This expansion in bank credit was due to three causes, 1) an influx to the U.S. of around $1 billion of gold in 1921-1922, 2) an $800 million decline in money circulation, and 3) the Federal Reserve policies of reducing their
rediscout rates and increasing their holdings of U.S. government securities. (Anderson 1979, pp.95-96) As a result, the inflation that the Federal Reserve embarked on was not increasing the amount of money in circulation but rather additional loans to business which created the boom-bust cycle. (Woods 2009, p.96)

After the stock market crashed and the depression hit, the best thing that the government could have done would have been to step back and do nothing. In this way, the economy could naturally adjust, liquidating the malinvestments. Instead, the government encouraged the Federal Reserve to continue to inflate in an effort to re-stimulate the economy. Backed with this inflation, President Hoover launched programs to try and fix things (counteracting the popular view that he was laissez-faire and that he simply sat back and watched the depression ravish the U.S.). One of these programs was extending emergency loans to failing firms and lending to states for relief programs. Also, who can forget the Hoover Dam. (Woods 2009, p.99) Under Hoover’s direction, the Federal Reserve continued down the path of ‘cheap money’ by lowering discount rates and extending credit, increasing controlled reserves by $1 billion. In 1932, Hoover passed the Glass-Steagall Act which broadened the eligibility of assets available for rediscouts with the Fed. In addition, it also permitted the Federal Reserve to use government bonds as collateral for its notes in addition to commercial paper which paved the way for more inflating reserves and creating even more cheap money. (Rothbard 1963)

Upon taking office, President F. D. Roosevelt wished to inflate and control the nation’s money supply even more than Hoover. He was faced with a small obstacle though; the U.S. still had a remnant of a gold standard. To accomplish his goal then, he
abolished the gold standard in 1933 by executive order commanding all citizens to turn in their supplies of gold in return for paper dollars. (Folsom 2008) Roosevelt’s actions led to an increased inflation, seen in increasing reserves (raising reserve requirements and money creation to meet the new requirements) and continuing to lower interest rates. This in turn led to even more commercial loans being given out which helped to bring about yet another crash in 1937. (Anderson 1979)

As Austrian Business Cycle Theory (ABCT) dictates, when there is an inflationary credit boom brought about by the Fed’s lowering of interest rates, there is massive resource misallocation and a distortion of the capital structure. Eventually all of the malinvestments are realized and liquidation occurs in the form of a bust. (Woods 2009) In the case of the Great Depression, the liquidation phase began with the stock market crash in 1929. Afterwards, as the Federal Reserve continued in inflating and lowering interest rates by extending credit, there was a series of smaller crashes and the depression was compounded and extended. The effect of the additional inflation then only compounded the matter and made it worse. Instead of letting the economy adjust naturally, inflation kept kicking the can down the road, thus prolonging the downturn with intrusive policies. In the words of F.A. Hayek (1933 & Woods 2009, pp. 71-72),

Instead of furthering the inevitable liquidation of the maladjustments brought about by the boom during the last three years, all conceivable means have been used to prevent that readjustment from taking place; and one of these means, which has been repeatedly tried though without success, from the earliest to the most recent stages of depression, has been this deliberate policy of credit expansion. To combat the depression by a forced credit expansion is to attempt to cure the evil by the very means which brought it about; because we are suffering from a misdirection – a procedure that can only lead to a much more severe crisis as soon as the credit expansion comes to an end. It is probably to this experiment together with the attempts to prevent liquidation once the crisis had come, that we owe the exceptional severity and duration of the depression.
Additionally, the continued inflation policies went against all of the lessons learned following the 1920 depression when the government went completely hands off and the economy recovered in less than a year.

Similarly, the time period leading up to the current financial crisis and the stock market crash in 2008 witnessed a lot of the same type of procedures by the Federal Reserve. The housing bubble was created in large part through inflation and government backed securities.\(^1\) As a result, there was misallocation of resources into the housing market and as a result, malinvestments piled up. The malinvestments were realized when people began defaulting on loans, and the crisis rapidly sped through financial sector and into the rest of the economy. Like the Great Depression, inflation was at the heart of the matter as the Federal Reserve pumped banks full of reserves to loan out to mortgagees. Following the terrorist attacks on September 11, 2001, the Federal Reserve under the direction of Alan Greenspan, drastically lowered their discount rates drastically down to 1%. (Woods 2009 & Tempelman 2010, p.8) In fact, the timespan between 2000 and 2007 witnessed more dollars created (over $214 billion) than ever before in U.S. history (see Graph 1).\(^2\) Whenever the Fed lowers interest rates by increasing the money supply, it encourages production in longer-term projects. In the case of the current crisis, this was manifested by a boom in house construction is good evidence of that. Additionally, banks were also able to increase the number of mortgages they loaned out, yet another goal of the Federal Reserve and other Politicians. While in current literature, the

\(^1\) While inflation was a large contributor to the housing bubble but some credit must be given to the Community Reinvestment Act and the Government Sponsored Enterprises of Fannie Mae and Freddie Mac. Yet, even these programs experienced some direct funding from inflation.

\(^2\) This rise was simply the largest to date in 2007. As can be seen by Graph 1, after 2007 and the financial crisis, the Federal Reserve launched huge inflationary measures resulting in even larger increases in the money supply.
emphasis is placed on the subprime loans, it is important to realize that foreclosures occurred at the same time in both prime and subprime markets. Therefore it wasn’t that the prime loan market was affected by the subprime market (as many contemporaries claim), but rather, both markets were affected by the vast increases of credit. In essence then, it is the Federal Reserve and their inflationary procedures that made the entire housing bubble possible, causing the unnatural rise in housing prices. (Woods 2009)

Again, like the Great Depression, the problems of inflation were not realized with the stock market crash and like the Great Depression, the Federal Reserve continued in its inflationary procedures after the crisis initially hit.

Similar to the Great Depression, after the crisis struck in 2008, the Federal Reserve again did not take heed the lessons of their previous inflation and began a policy of mass inflation, illustrated by Graph 1. A good portion of this inflation went towards the great Wall Street bailouts and other relief programs to be covered later.

Looking back on the Financial Crisis, the ABCT perfectly explains the process and the reasons for the crisis, just as it does for the Great Depression. This observation thankfully is beginning to get more noticed by mainstream economists. Jerry Templeman, a self-acclaimed mainstream economist, reflects on the Great Recession and comments on how predictions by Austrian and Austrian-inspired economists were “uncanny not just in their accuracy but in their specificity.” He points out that during the time leading up to the crisis, the ABCT was pretty much ignored. Now it seems like more and more economists are lending increased credibility to the Austrian arguments. He points out the fact that the financial crisis followed the predicted steps of the ABCT exactly and further comments on how no one can deny this fact. He also points out that
there is an increasing perception that the Federal Reserve is at fault for causing the other
two great economic calamities of U.S. History (referring to the Great Depression and the
inflation in the 1970s). While he doesn’t conclude that the U.S. should abolish the
Federal Reserve and inflation, he does at the very least make the claim that “alternative
monetary regimes merit greater consideration than they have received to date.”
(Tempelman 2010)

While the correlations and the similarities between the Great Depression and the
Great Recession are not exact, both events followed the same fundamental pattern and as
a result the Great Depression can weigh in on the future outcome of the Great Recession.
Both events were brought about through the Federal Reserve’s inflation of the money
supply thence artificially lowering interest rates and creating booms. Following the
predictions of the ABCT, both of the booms were followed by busts that were manifested
in stock market crashes. Following the stock market crashes, the Federal Reserve
continued inflation in large amounts although it is safe to say that the inflation seen post
2008 surpassed the inflation in the time period of the New Deal. In both cases, the
inflation post bust prolonged the economic downturn and unless corrective measures are
taken in the current crisis, it is safe to say that our current economic malaise will continue
for quite a while longer.

Superfluous Spending

Part of the role that both inflation and taxation play is that they provide means for
government spending which is the subject that is now turned to. There are two aspects of
government spending that need to be looked at; the first being the effects that government
spending in general has on the economy and the second aspect being the effect that
deficit spending has on the economy. While the latter falls under the broader category of government spending, it is important to look at the additional complexities and hindrances of economic growth that deficit spending inflicts on a market. Government spending by definition is a “coerced transfer of resources from private producers to the uses preferred by government officials.” Despite arguments that government spending can be considered investment, it is important to realize that government spending is consumptive. Government expenditures cannot be viewed of as investment because investment is the process where entrepreneurs allocate resources that could have been used for consumption and puts them towards production. In this way, more capital is being created which is not the case of government spending (this will be further discussed in a minute). Government spending also transfers funds from profitable enterprises and subsidizes who are less profitable. In this way, less profitable enterprises are propped up and prevented or at least prolonged from failing. Some argue that some of these enterprises and services are necessary and that the free market fails to produce them. This argument quickly loses water, however, because the very reason that the free market won’t produce these goods is that they are inefficient and unprofitable to sustain; if these goods or services were truly necessary and a benefit to society, entrepreneurs would produce the good or service. As a result then, government spending simply perpetuates inefficiencies and losing/unsuccesful ventures. (Rothbard 2004, p.1254-1259)

The same principle of government spending being consumptive applies to deficit spending and government borrowing. The difference between private entrepreneurs taking out a loan and government doing the same is that a private entrepreneur is using the loan to further production, creating more capital for which a portion goes to pay off
his debt. It is through capital accumulation that economic growth occurs. Government borrowing on the other hand supplies more resources to government for politicians to spend. As a result, it increases consumption and puts an even further drain on capital because nothing is being produced in order to pay back the debt. (Sennholz 1987, p.72; Lee 1986, pp.182-185) Roger Garrison (2007) notes several avenues available to government to borrow funds. If a government borrows domestically, the domestic market will be crowded out because fewer funds will be available for entrepreneurs to borrow and put towards production. If governments borrow from foreign countries and banks, then their export markets weaken as creditors will now buy government bonds instead of goods from the indebted country. Faced with growing debt, government are either forced to curtail spending, or increase inflation and/or raise taxes to pay off the debt of which the latter has already been shown to create even more problems for a market.

As Graph 2 illustrates, government spending decreased during most of the 1920s beginning only slowly to rise towards the end of the 20s as the stock market crash approached. During this time, U.S. Government debt also decreased as Table 1 shows. As the depression hit, these numbers changed drastically as government spending and deficits increased (indicated by Table 2). After taking office, President Roosevelt met with the economist John Maynard Keynes who advocated for vast government expenditures in addition to monetary expansion. With this mindset, Roosevelt announced his spending program January of 1934 (despite actually beginning the program in December of 1933), promising a deficit of $7 billion in sixth months. In the eleven previous months, the federal government had spent $4.52 billion for a monthly average of
around $410 million. In November of 1933, Roosevelt spent $505 million, then in December spent another $703 million, and then in January of 1934 spent $956 million following the announcement of his program. Despite his best efforts though, he fell short of his $7 billion deficit goal by June, only growing the deficit to $4 billion. In April of 1935, Roosevelt asked Congress for even more money to spend on the jobs market. Congress complied by writing a check of $4.88 billion for Roosevelt to use as he wished. Roosevelt then utilized creative math and accounting skills, putting together a bill that spent $13.6 billion of the allotted $4.88 billion. Included in this bill was a proposition of a project to plant a belt of trees from Mexico to Canada; an act that was illegal under the Agricultural Appropriation Act. Roosevelt continued his superfluous spending, hitting a total of $7,756 billion in 1937 alone. (Anderson 1979, pp.425-426)

When looking to Government spending in the current epoch, there is not a direct correlation available. That said, some comparison can be drawn because the effects of government spending are similar in the two cases. To better understand and compare the numbers from the two periods, government spending per capita will be looked at similar to Holcombe. Graph 3 shows how government spending has increased in the more recent past. Government spending was relatively stable during 1996-1998. Since then, Government spending has risen relatively dramatically rising from $6,316.40/person in 1998 to $9601.85/person in 2007. As the graph also shows, the federal government increased the rate of their spending following the crash in 2008, raising the level up to $11,993.85/person (increase of $2,392/person) in just three years. This is slightly different than what was seen in pre-Great Depression as there was not a period of decrease in government spending leading up to the crash (which is unlike the 1920s). In
both cases, however, government spending was on the rise prior to both crashes, and following both crashes, also increased more dramatically. Further, the effects of government spending in the two crises were similar as well. Graph 4 gives the general categories of government spending that President Obama reported in his 2011 Economic Report of the President to Congress. Breaking these categories down into the categories that Snell gave for the Great Depression (Table 2), the following numbers are attained (see Table 3). Like in the Great Depression, all of the categories saw increases but as Table 3 also shows, the percentage increases in the current epoch were much milder than the percentage increases seen in the Great Depression resulting in the effects on the current period being less severe than in the Great Depression.

A direct and specific comparison between the two periods is the bailing out of failing firms. As was mentioned on page three of this paper, one of the ends of the inflation in Hoover’s time was to fund bailouts of various firms. In the current crisis, government has ratcheted up the ante in bailing out distressed firms. For instance, the Federal Reserve bought out Bear Stearns and gave it to JP Morgan, then later handed an $85 billion bailout to AIG. In addition, the Federal Reserve handed out bailouts to the Big Three automakers. When these bailouts weren’t working, it was decided that the necessary measure was to launch one massive bailout (the Emergency Economic Stabilization Act of 2008) authorizing the U.S. Treasury Department to purchase $700 billion in assets at one time. Once the Treasury bought these assets, they resold them at a huge loss and bought another $700 billion of assets, repeating the process. Another program was the Troubled Assets Relief Program (a.k.a. TARP), allowing the Treasury the right to seize any financial institutions at whatever price it dictates. The Treasury
therefore launched on large buying sprees made possible by the cooperation of the Federal Reserve launching massive inflation. (Woods 2009, pp.39-43)

**An Economy Taxed**

Monetary inflation is not the only parallel that can be drawn between the Great Depression and the Great Recession. Sadly, both the Great Recession and the Great Depression had a cacophony of the same problems and another major similarity between the two events is increased taxation, mostly in the form of progressive income taxation.

President Franklin D. Roosevelt was a huge proponent of progressive income taxation. As he took office, the U.S. was in the middle of the Great Depression and he had a grand vision for restoring prosperity. His plan for carrying out this vision, however, served the exact opposite purpose that he intended. Roosevelt’s overall tax plan for the New Deal was concentrated on the redistribution of wealth rather than necessarily raising state revenues. In 1933, Roosevelt engineered raises in income tax rates, especially in the higher brackets. As a result, the income tax rates in 1934 were the highest they had ever been up to that point in U.S. history. The rates were also highly progressive ranging from 13.5% for those earning $20,000/year and up to 69.9% for those earning $5,000,000/year or more. Then, in 1935, Roosevelt tried to circumvent a U.S. Constitutional provision that all tax bills must originate in the House of Representatives by attempting to attach a rider to a pending Senate bill that raised rates even higher. Many politicians and citizens were infuriated at this attempt and consequently the rider was shot down. Nonetheless, a bill (H.R. 8974) was proposed carrying with it the provisions that Roosevelt had proposed in his rider. After the bill’s passing, income taxes were raised 13.9% for those making $20,000/year and progressed
up to 83.2% for those making $4,000,000/year or more (note also that the highest bracket was also lowered; for a complete list of tax rates, please see Table 4 at the end of this paper). (Anderson 1979, pp.365-368)

There are several problems with income taxation. Income taxation above all places the burden on the taxpayer by reducing his/her monetary and real income; there is no way he/she can shift the tax onto someone else. Hence, a taxpayer’s standards of living are reduced as well. This results in the income for work becoming more expensive and the taxpayer’s leisure cheaper which in turn produces a shift away from work to leisure. As this spreads through the rest of the economy, because of reduced income, people’s standards of living and supply of exchangeable goods decrease, which in turn widens the scope of the economic downturn. Additionally, income taxes penalize work for money as against work for a return in kind. Rothbard notes that “obviously, a relative advantage is conferred on work done for a nonmonetary reward. Working women are penalized as compared with housewives; people will tend to work for their families rather than in the labor market.” This results in a reduction of specialization because the division of labor breaks down. The tax also affects the taxpayer’s time preference causing a shift away from saving/investing and into consumption. For economic growth to occur, there needs to be saving and investing in production so that there is continued production. With this shift away from saving/investing, economic progression is reversed. All of these effects cause the market to breakdown and brings regression in living standards. The progressive tax introduces additional problems such as reducing incentives and productivity since it imposes a higher tax rate on those earning higher income due to their efficient production processes. As a result, a progressive income tax
essentially acts as a penalty on for being productive. This results in additional hampers on saving and investing because it is the higher brackets that are more able to save and invest which helps the economy grow.\(^3\) (Rothbard 2004, p.1164-1171, 1191-1196) In the case of the Great Depression, the progressive taxes paralyzed the initiative of rich men as it reduced their profit motive. This worsened the economic condition because it is through production that an economy experiences growth and with a down economy, the last thing needed was less incentive to produce. (Anderson 1979, pp.368-371)

Increases in progressive income taxation can also be seen in Great Recession, albeit they are not as economically penal as in the Great Depression. When looking over U.S. tax brackets, in the past ten years, the brackets have remained fairly steady, and even decreased to an extent. Despite the lack of dramatic changes in progressive income taxation, however, President Obama is slowly stepping into a similar role to the one that President Roosevelt played in the Great Depression and New Deal proposing increases in progressive taxation. When President Obama took office, the Bush Era Tax Cuts of 2001 and 2003 were still in effect, set to expire January 1\(^{st}\) 2011. President Obama urged strongly for Congress to let the tax cuts expire and called for a $921 billion tax increase beginning on January 1, 2011. Eventually, Congress let the tax cuts expire resulting in the United States seeing an immediate increase in taxes as rates returned to the higher progressive levels seen prior to June, 2001 effectively increasing the tax burden. (Foster 2010)

\(^3\) This does not repudiate, however, the general principles of income taxation. Whether income tax is flat or progressive, government is confiscating income from individuals leaving them worse off than they would have been without the tax. As a result, the effects of the tax depend on the total amount handed over to government and the worst tax is the one that results in more allocation of resources to the government. In the case of the Great Depression however, the progressive income tax did result in more resources to the government.
In addition, President Obama has not hid his intentions to raise taxes, especially in the higher brackets, and prevent the rich from exploiting loopholes. Recently, he has advocated a tax plan with what he has titled “The Warren Buffett Rule.” Under this rule, it is argued that families and businesses making over $1 million should not pay a smaller share of income of their income in taxes than a middle-income family. As a result, this rule seeks to close tax loopholes and limit deductions that rich people can take. While there are already measures in place that partially achieve this goal, the president and many in Congress wish to increase these measures. (Dubay 2011b) As part of this policy, Senator Harry Reid (D-NV) has proposed a millionaire tax adding a 5.6% surtax on incomes of married filers earning over $1 million. When all of this is added up with the surtax included in the Universal Healthcare Bill, estimates by the Heritage Foundation place the income tax for the top bracket at 55%. (Dubay 2011c) Further, president Obama, supported by others in Congress, has announced intentions to raise taxes on married taxpayers earning more than $250,000/year and single taxpayers earning more than $200,000/year despite promises to keep tax rates the same for those in the brackets below those two benchmarks. Already, the tax rates for those below those two benchmarks have been increased. (Beach et al, 2010 & Dubay 2011a)

Similar to the Great Depression, this again reduces business incentive and punishes the efficient producers. This will result in a positive effect on the unemployment rate (i.e. causing unemployment rate to increase) because the producers looking to expand and most able to hire and create jobs have less funds available. Additionally, people overall will have less incentive to work causing the overall productivity in the United States to decrease. It is also worth noting, that in the case of
the Great Depression, raising progressive income taxes was not the first tactic that the government resorted to; while the U.S. already had a progressive income tax before both depressions, it wasn’t for several years after the stock market crash when progressive income taxes became steeper. Similarly, immediately following the crash in 2008, the U.S. Government pursued other avenues of repair before increasing the progressivity and steepness of tax rates.

**Ignoble Ignorance**

Hans Sennholz (1969) closes his article *The Great Depression: Will We Repeat It*, with a section discussing how there is an even deeper rooted cause behind the Great Depression that is often overlooked in economic analysis. He writes:

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 ultimate roots of the Great Depression were growing in the hearts and minds of the American people. 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, 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 seeds for the Great Depression were sown by scholars and teachers during the 1920s 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 1930s.

He goes on to further claim that moral decay facilitated the social and economic decline. He claims that the Great Depression would have been inconceivable if there had not been a “growth of covetousness and envy of great personal wealth and income and the mounting desire for public assistance and favors.” Further, it would also have been inconceivable if there hadn’t been a decline of individual independence and self-reliance coupled with “a burning desire to be free from man’s bondage and to be responsible to God alone.”
While this is a very blistering note for Sennholz to end with, there is a lot of truth packed behind Sennholz’s punch here. If it hadn’t been for changes in economic thought and consequently faulty teachings being taught and endorsed, the policies of both the Great Depression and the Great Recession would never have been passed and supported by the citizens of the United States. The only reason a rational person would adopt a faulty strategy is if he did not realize the strategy’s faultiness which is clearly the case in the Great Depression and the Great Recession.

Due to lack of understanding of the consequences of inflation and how other methods of government intervention hinder the economy, leading up to the stock market crash of 1929, no one (except the Austrians) were predicting a crash. One of the twentieth century’s most celebrated economists, Irving Fisher, declared in the 1920s that the economy was in excellent shape as seen by the stable price levels. Two months before the stock market collapsed, Fisher made the statement,

There may be a recession in stock prices, but not anything in the nature of a crash. Dividend returns on stocks are moving higher. This is not due to receding prices for stocks and will not be hastened by any anticipated crash, the possibility of which I fail to see. (Woods 2009, p.97)

This view came from a misunderstanding of the problems associated with an inflationary boom. Austrian economist Ludwig von Mises on the other hand, disagreed with Fisher and said that a crash was inevitable. Fisher’s opinion, however, was more widely accepted and thus helped bring about the crash in 1929. (Woods 2009, p.97) Sennholz’s opinion is that it is the fault of the professors in the previous age that people blindly followed the disastrous policies.

In similar fashion, other mainstream economists and politicians in the period leading up to the 2008 crash, were making claims that everything was fine. In March
2007, U.S. Treasury Secretary Henry Paulson announced that the global economy was as strong as he had ever seen in his business career and in March of 2008 (7 months before the stock market crash) “Our financial institutions are strong. Our banks are strong. They’re going to be strong for many, many years.” Federal Reserve Chairman Ben Bernanke also echoed this sentiment as the housing market collapsed by saying that he did “not expect significant spillovers from the subprime market to the rest of the economy or to the financial system.” Most economists and business people of today are unaware of the Austrian Business Cycle Theory and consequently fail to realize how the Federal Reserve’s inflationary policies are problematic and unsustainable. As a result, for years there has been “intellectual inertia” that has kept the Federal Reserve open for business. (Woods 2009, p.37, 119)

The evidence of ignorance and misunderstanding does not end there. When President Roosevelt took office, he met with economist John Maynard Keynes who advocated a policy of reckless spending and inflation in order to perpetuate the boom. (Anderson 1979, p.350) As someone who did not quite understand or pay attention in economic classes in college (Folsom Jr 2008, p.25), Roosevelt bought wholeheartedly into this philosophy and complied with Keynes’ advice and many of the other intellectuals of the day followed suit. Similarly, in the Great Recession, Keynes’ philosophy made resurgence in the formation of political and economic philosophies. (Woods 2009, p.70) As can be seen then, the parallel to the Great Recession isn’t so much a similar circumstance but rather a continuation of the teachings in the Great Depression. The vast majority of historians on the New Deal, including distinguished historians such as H.S. Commager and Richard Morris, rank Roosevelt as one of the top
presidents and claim that the New Deal programs were steps in the right direction to solve the Great Depression. Commager and Morris make four points in regards to this thesis.

1) First they say the Republican ascendancy of the 1920s had been “pervasively negative.”

2) The character of the New Deal was overwhelmingly positive.

3) The majority of the U.S. loved Roosevelt as a president, earning him a report few presidents ever achieved.

4) Roosevelt was admirable as a leader with good morals.

(Folsom Jr. 2008, pp.7-12)

When teachings like this are so prevalent in today’s society, it is no wonder that the policies of today’s Great Recession are so similar to those of the Great Depression and New Deal. Please note: nothing in this section is meant to villain-ize leaders and intellectuals both of today and back to the Great Depression. In the words of Henry Morgenthau, Treasury Secretary under Roosevelt:

We have tried spending money. We are spending more than we have ever spend before and it does not work. And I have just one interest, and if I am wrong… somebody else can have my job. I want to see this country prosperous. I want to see people get a job. I want to see people get enough to eat. We have never made good on our promises… I say after eight years of this Administration we have just as much unemployment as when we started… And an enormous debt to boot!

He clearly admits that their policies failed miserably at returning the U.S. to prosperity which is clearly the intention of his comments here. It takes a very calloused individual to intentionally drive a nation into depression. No one doubts that mistakes were made, yet can it be truly said with complete certainty that it was the aim of all those in power to drive the United States, and the rest of the world for that matter, into poverty? Many of the politicians in the Great Depression relied on the economists of the day, as has the
current political leaders. One of the famous quotes of economist John Maynard Keynes (1936, p.383) is:

“The ideas of economists political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else; practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist.”

Ultimately, it is for the individual to decide but it is very unlikely the driving force behind everyone in authority, both in government and in higher education, was to destroy and bring economic demise to the United States, both in the Great Depression and in the current day.

**Conclusion**

The Great Depression and the Great Recession have a lot of similarities and correlations and if the United States is to escape a depression as bad as the Great Depression, it needs to learn the lessons from the Great Depression and correct its current course. Monetary inflation via credit expansion by the Federal Reserve only creates problems, causing crises like the Great Depression and the Great Recession, prolonging and worsening a downturn. On top of that, taxation cripples an economy by extracting wealth from private individuals and reducing incentives to produce. Finally, spending diverts production from efficient and successful ends to less efficient which hinders economic progress. Additionally, when government spends out of a deficit, they only make things worse by kicking the proverbial can down the road, creating an even bigger mess. Since before the Great Depression, misguided intellectuals have taught and brainwashed their students/subjects that the above policies are the keys to wealth, and time and time again, they bring economic malaise. Returning to Sennholz’s question posed in the introduction of this paper, Sennholz has a very succinct answer. He states:
“Inexorable economic law ascertains that it must happen again whenever we repeat the dreadful errors that generated the Great Depression.” It is time for the United States to take massive course corrections in order to end the current economic demise and bring back prosperity to the United States.

**Graphs and Tables**

**Table 1: Government Spending & Debt in Early 1920s**

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<thead>
<tr>
<th>United States Government Expenditures</th>
<th>United States Government Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>232.95</td>
<td>78.62</td>
</tr>
<tr>
<td>70.36</td>
<td>180.57</td>
</tr>
<tr>
<td>498.88</td>
<td>361.02</td>
</tr>
</tbody>
</table>

(St. Louis Federal Reserve)

**Graph 1: Total Money Supply 1994-2011**

(Holcombe 1996)

**Graph 2: Federal Expenditure Per Capita**

(Holcombe 1996)
Table 2: Major Categories of State Spending
(in millions of dollars, adjusted for inflation)

<table>
<thead>
<tr>
<th>Category</th>
<th>1927</th>
<th>1940</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>509.7</td>
<td>1,076</td>
</tr>
<tr>
<td>Highways</td>
<td>710.3</td>
<td>1,176</td>
</tr>
<tr>
<td>Welfare</td>
<td>45.03</td>
<td>947.1</td>
</tr>
<tr>
<td>Aid to local governments</td>
<td>100.3</td>
<td>204.4</td>
</tr>
<tr>
<td>Hospitals and Health</td>
<td>169.9</td>
<td>299.1</td>
</tr>
<tr>
<td>Law Enforcement</td>
<td>71.64</td>
<td>119.6</td>
</tr>
<tr>
<td>Unemployment Compensation</td>
<td>--</td>
<td>493.5</td>
</tr>
<tr>
<td>All Other</td>
<td>438.1</td>
<td>672.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,047</strong></td>
<td><strong>4,985</strong></td>
</tr>
</tbody>
</table>

(Snell 2009)
Graph 4: Federal Government Expenditures (seasonally adjusted)

Table 3: Major Categories of State Spending

<table>
<thead>
<tr>
<th>Category</th>
<th>2008 Spending</th>
<th>2012 Spending (Projected)</th>
<th>Percentage Increase in Great Depression*</th>
<th>Percentage Increase in Great Recession</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>$91,287</td>
<td>$106,172</td>
<td>111.0%</td>
<td>16.0%</td>
</tr>
<tr>
<td>Highways</td>
<td>$77,616</td>
<td>$104,854</td>
<td>65.0%</td>
<td>35.0%</td>
</tr>
<tr>
<td>Medicare</td>
<td>$390,758</td>
<td>$493,316</td>
<td>2000.0%</td>
<td>26.0%</td>
</tr>
<tr>
<td>Aid to Local Governments</td>
<td>$23,952</td>
<td>$25,701</td>
<td>103.7%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Hospitals &amp; Health</td>
<td>$280,599</td>
<td>$373,774</td>
<td>76.0%</td>
<td>33.0%</td>
</tr>
<tr>
<td>Law Enforcement</td>
<td>$47,138</td>
<td>$58,696</td>
<td>67.0%</td>
<td>24.5%</td>
</tr>
<tr>
<td>Unemployment Comp.</td>
<td>$431,313</td>
<td>$554,332</td>
<td>-</td>
<td>28.5%</td>
</tr>
</tbody>
</table>

*Numbers calculated from numbers given by Snell in Table 3

Table 4: Income Tax Rates

<table>
<thead>
<tr>
<th>Income Magnitude</th>
<th>1936 Tax Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,000</td>
<td>0.000%</td>
</tr>
<tr>
<td>$4,000</td>
<td>2.450%</td>
</tr>
<tr>
<td>$8,000</td>
<td>6.350%</td>
</tr>
<tr>
<td>$12,000</td>
<td>9.567%</td>
</tr>
<tr>
<td>$16,000</td>
<td>11.988%</td>
</tr>
<tr>
<td>$20,000</td>
<td>13.915%</td>
</tr>
<tr>
<td>$40,000</td>
<td>21.933%</td>
</tr>
<tr>
<td>$80,000</td>
<td>34.080%</td>
</tr>
<tr>
<td>$100,000</td>
<td>40.063%</td>
</tr>
</tbody>
</table>
$200,000…………  55.469%
$240,000…………  58.537%
$280,000…………  60.942%
$320,000…………  62.934%
$400,000…………  65.947%
$600,000…………  70.948%
$1,000,000……….  75.864%
$2,000,000……….  80.431%
$4,000,000……….  83.215%

(Anderson 1979, p.368)

References


