Lest We Be Doomed to Repeat It

A Survey of Amity Shlaes's History of the Great Depression

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Author's note: This essay traces the causes of the Great Depression as presented in Amity Shlaes's book, *The Forgotten Man: A New History of the Great Depression* (New York: Harper Perennial, 2008). Citations for the book appear within the article's text for ease of reference.

The presidential candidate argued that government should be "made solvent," that taxes are too high, and that federal economic guidance should be expanded. He complained that the economic crisis arose in an "era of selfishness," caused by a "lack of honor of men in high places." He called for the "more equitable opportunity to share in the distribution of national wealth." This reads like a description of Barack Obama's 2008 campaign. In fact, these words are from Franklin Delano Roosevelt's 1932 presidential campaign, as documented by Amity Shlaes, an economic historian with the Council on Foreign Relations, in her recent book *The Forgotten Man: A New History of the Great Depression* (p. 132).

Obama himself has alluded to the precedent of FDR, invoking the "same spirit that has led previous generations to face down war and depression and fear itself."[1] Various writers and commentators have noted similarities between the two men as well, and some have even called for a new New Deal (which is arguably already underway).[2] But before our nation rushes into another New Deal, we ought to evaluate the results of the old one, along with the root causes of the Great Depression. Thankfully, Shlaes's *The Forgotten Man* does just that. The book details

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how Herbert Hoover's political controls devastated the American economy and how FDR's continued and expanded controls exacerbated many of the problems and hampered economic recovery.

Shlaes offers a compelling history of the Great Depression, filled with surprising details on nearly every page. However, because she provides so much detail over more than four hundred pages of roughly chronological presentation, the most important themes can be difficult to follow. For example, because Shlaes engages in numerous digressions about such peripheral subjects as Alcoholics Anonymous, Father Divine (a religious figure), and Andrew Mellon's art collection, the material more essential to the history at hand—such as the facts pertaining to protectionism, a central element of the Great Depression—is effectively deemphasized.

My purpose in this essay is to draw out of Shlaes's detailed account the essential causes of the Great Depression, to highlight and connect them, and thus to provide a concise account of this pivotal era. Those interested in further details are encouraged to read Shlaes's fascinating and timely book.

Shlaes digs deep into the facts of the Hoover-FDR era, examining the economic causes of the crash, Hoover's exacerbation of the crash, and then FDR's counterproductive attempts to address it. Importantly, by carefully detailing the policies of Hoover, she places the policies of FDR in their proper context. Whereas surface-bound historians argue that relatively lower unemployment and higher productive output under FDR demonstrate the virtues of his policies,[3] Shlaes's penetrating analysis shows otherwise. In the end, she demonstrates something that Americans would do well to grasp: Hoover and FDR, Republican and Democrat, caused similar problems by adopting similar policies.

Hoover's trek toward his years as a central planner began in the private sector. An engineer and businessman, Hoover was skilled at planning and executing complex projects, and he had been phenomenally successful in private industry mining gold, zinc, and copper throughout the world (pp. 28–29). Later, as secretary of Commerce, he had "an opportunity to show the country what it could do if it had a national engineer" (p. 32). And many voters came to believe that if Hoover applied his skills in the capacity of president, he would preside over economic prosperity (p. 46). Hoover thought so, too; however, as president, by treating the government as though it were a private enterprise, he soon drove the country into deep trouble.

Shlaes shows that although Hoover served under Calvin Coolidge before succeeding him, the guiding philosophies of the two men could not have been further apart. Coolidge—who, as vice president in the early 1920s, watched an economic downturn quickly correct itself under a hands-off federal policy—famously said, "The chief business of the American people is business" (pp. 19–20). Hoover—who was inclined toward central political planning well before he entered the office of the presidency—referred to concern for private property as a "fetish" (p. 34).[4]

After spending several years organizing food-relief efforts during World War I, Hoover got his political start rationing food. This, Shlaes suggests, is when he "came to believe that life was like wartime, and that government, therefore, ought to plan more, as if in a war" (pp. 16, 31). As secretary of Commerce, Hoover promoted ambitious public-works projects (pp. 32–33) and organized the government's response to the 1927 flooding of the Mississippi (pp. 15–16), reinforcing his high opinion of central planning. Though known to much of the nation as "The Engineer," Hoover earned from Coolidge the sardonic nickname "Wonder Boy" (pp. 38, 46).

As president, Hoover pursued six main types of political controls that devastated the economy: protectionism, wage controls, interference with the money supply, scapegoating of businessmen, expansion of public works, and increased taxation. (Shlaes's account eviscerates the leftist fantasy that Hoover was a champion of "laissez-faire capitalism.")[5]

The first of Hoover's controls to wreak havoc on the U.S. economy were his protectionist policies. His imposition of tariffs, Shlaes explains, was partly motivated by his desire to help farmers, whose prices "were at painful lows, in part because of production incentive programs advanced by Hoover himself earlier in the decade" (p. 94). The Engineer, having contributed to the creation of one problem with his tinkering, resolved to fix it with more tinkering—this time in the way of tariffs.

Shlaes notes that "on April 15, 1929, well before the autumn siege, the president had as good as promised a new agricultural tariff" (p. 95). This was consistent with Republicanism of the time: In 1928, Republicans declared in their platform that the tariff is a "fundamental and essential principle of the economic life of this nation." Hoover toed this party line, arguing that "such a tariff not only protects the farmer in our domestic market, but also stimulates him to diversify his crop" (p. 95).

By late 1929, the agricultural tariff had morphed into the program that Hoover would sign into law in 1930 as the Smoot-Hawley Tariff Act. Before Hoover signed the bill, more than a thousand economists signed a letter noting that tariffs raise prices, "thus compelling the consumer to subsidize waste and inefficiency in industry. . . . The vast majority of farmers would also lose" through reduced exports

(p. 96). Shlaes notes that General Motors's European director sent Hoover a telegram: "PASSAGE BILL WOULD SPELL ECONOMIC ISOLATION UNITED STATES AND MOST SEVERE DEPRESSION EVER EXPERIENCED" (p. 97). Hoover ignored such warnings, and the nation paid a terrible price as international trade plummeted (p. 112).

The Engineer, however, did not get the clue, so he decided to tinker some more. He tried to stave off the resulting employment problems by forcing up wages. By late 1929, Shlaes notes, Hoover was committed "to keep high wages and keep up employment" (p. 93). If businessmen "wanted to be good citizens, they had to keep their pledge to Hoover and sustain employment and wages" (p. 93).[6] Unfortunately for workers, "many did not keep their jobs, or lost cash by being assigned part-time work" (pp. 93–94).[7]

Nor did the effects of his wage and employment policies convince Hoover of the harmful consequences of his economic tinkering. Although the money supply dropped 4 percent from 1928 to 1930, Hoover encouraged the Federal Reserve to stave off alleged inflation by "selling bonds . . . [thus] soaking up money from the economy" (pp. 90–91). Basic economic theory predicts that wage freezes in a period of monetary deflation necessitate rising unemployment, and, sure enough, as Shlaes points out, unemployment approached 30 percent by the end of Hoover's term (p. 144). (Shlaes does not discuss the Federal Reserve's contributions to a bubble prior to the crash, nor does she examine the Federal Reserve's controls of the banking industry.)

Whether Hoover was unable or unwilling to see that his "socialistic notions" (as Coolidge called them [p. 94]) were devastating the economy, his reaction to the crisis was decisive: He scapegoated investors.

> [I]n December 1929, Hoover railed against the "wave of uncontrolled speculation" that he saw as the cause of the crash. . . . Hoover had attacked a practice—speculative short selling—not a person. Congress was less conceptual. Legislators took the president's signal to mean they were free to turn on Wall Streeters. From the winter of 1929, they made short sellers and speculators generally targets for investigations, prosecutions, ridicule, and shame (pp. 99–101).

And, of course, such persecution only further discouraged the kinds of private efforts that might have helped to turn the economy around.

While wrecking the economy with his controls and robbing millions of Americans of employment, Hoover was determined to create jobs for those suffering from his policies, so he turned his sights toward forced wealth transfers. Promising to be a "pioneer," Hoover "pushed to expand an existing public buildings program by the healthy sum of $423 million on the theory that the spending would boost the economy," while also encouraging state-level public works (pp. 91–92, 94). Worried about the federal tab for such programs, Hoover promoted the Revenue Act of 1932, which dramatically raised the top income-tax rate to 63 percent, further harming the economy (p. 131). The pattern is clear: Each of Hoover's economic controls led to new crises, in response to which he further expanded controls.

Given the complete disaster of Hoover's presidency, the election of FDR surprised few. In addition to facing an opponent who was a gargantuan failure, FDR offered voters several positive reasons to vote for him: He bravely overcame the challenges of polio (pp. 87–88); he sometimes spoke of federal restraint (p. 132); he opposed (and later reduced) Hoover's disastrous tariffs (pp. 8, 127, 315–16); and he opposed Prohibition, albeit inconsistently (pp. 102, 149). Indeed, though Shlaes does not make the point, even free-market icons Ayn Rand and Isabel Paterson voted for FDR in 1932.[8]

Unfortunately, FDR was as much an ideological follower as he was a political leader, and the ideology promoted by the intellectual leaders of his day was socialism.

Shlaes recounts the story of a group of American intellectuals—several of whom ended up directly or indirectly influencing FDR—who traveled to Russia in 1927 and spent several hours talking with Joseph Stalin. Although some in the group expressed notes of concern, their overall evaluation of the revolutionary nation was positive. Rexford Tugwell, for example, who would later join FDR's "brain trust" and work in the Department of Agriculture and the Resettlement Administration (and who by chance missed the meeting with Stalin), praised Russia's "stirring of new life" and proclaimed that "in Russia [prices] are agents of social purpose" (pp. 71, 76, 82).

American intellectuals at the time were interested in the possibilities of greater economic planning in America, and they looked to Russia for guidance. Shlaes notes that magazine articles and books about economic planning and Soviet Russia grew in popularity in the early 1930s. American publishers also translated and sold Russian works such as *The Success of the Five Year Plan*, *Red Villages*, and *New Russia's Primer: The Story of the Five Year Plan* (pp. 116–17). Writing for *The Nation* in November of 1931, Stuart Chase, among those who had visited Russia with Tugwell, started off the series "If I Were Dictator" by criticizing tariffs and Prohibition while calling for unemployment relief, old-age pensions, lavish federal spending, and economic planning boards (pp. 117–18). And in 1932, Chase wrote a book titled *The New Deal*, a phrase that FDR would soon use to describe his own program (pp. 126, 132). The politically planned economy was in vogue; this was the intellectual milieu in which FDR rose to power and implemented his New Deal.

But FDR's New Deal was only partly new. Hoover had started the country down the road of economic planning, and as Tugwell acknowledged, FDR's "new" policies largely extended those of Hoover (p. 149). Like Hoover, FDR imposed wage and price controls, scapegoated businessmen, imposed devastating taxes, and expanded public works.

FDR's wage and price controls kicked off with the 1933 National Recovery Administration (NRA), which forbade price cutting, imposed minimum wages and maximum work hours, set production quotas for oil, micromanaged businesses (from macaroni makers to tailors), and "barred consumers from picking their own chickens" (p. 151). The Agricultural Adjustment Administration (AAA, also established in 1933), propped up agricultural prices by paying farmers *not* to produce, imposing licensure, and "retiring excess acres." In one effort toward raising pork prices, the AAA destroyed six million young pigs, prompting one woman to complain that "we poor people cannot have a piece of bacon" (pp. 154, 168).

After the Supreme Court deemed the NRA unconstitutional and closed it down in 1935, Shlaes explains, FDR pushed for new wage controls in the form of the pro-union Wagner Act (aka the National Labor Relations Act) and Social Security, both of which served (among other ends) to increase the cost of labor (pp. 253–55). In 1937, the Supreme Court upheld a Washington State minimum wage, reversing earlier rulings and paving the way for the Fair Labor Standards Act of 1938, which included a federal minimum wage (pp. 300, 308).

Shlaes suggests that increased unionization played an especially large role in the further economic collapse of 1937 and 1938. From 1936 to 1937, membership in the United Auto Workers expanded tenfold (p. 310), and unions increasingly turned to "sit-down strikes," which various companies correctly identified as "a trespass, a violation of company property rights" (p. 323). The result of this increase in union activity? "In the first six months of 1937 alone, wages rose 11 percent. In the steel industry the rate was higher, 33 percent from October to May" (p. 336). Shlaes makes clear that the union legislation artificially boosted the nominal wages of some, while reducing the wages of others to zero as unemployment climbed higher.

Whereas Hoover merely scapegoated businessmen, FDR unleashed an unprecedented wave of antibusiness persecution. "J. P. Morgan's executives, other Wall

Streeters, and utilities would all be targets," Shlaes writes (p. 189). The administration attacked Sam Insull, the Chicago utilities executive, and Andrew Mellon, the aluminum producer and longtime secretary of the Treasury, with particular vengeance. (Both men were exonerated after lengthy legal battles.) Shlaes reports that Henry Morgenthau Jr., FDR's man at the Treasury, told Robert Jackson, Mellon's prosecutor: "You can't be too tough in this trial to suit me. . . . I consider that Mr. Mellon is not on trial but Democracy and the privileged rich and I want to see who will win" (p. 196).

FDR's war on business went much deeper than Hoover's. When the NRA program was ruled unconstitutional, around five hundred pending cases were dropped (p. 245). FDR found other means of attacking businessmen as well. Shlaes notes that in 1934, the year Mellon's persecution began, "Roosevelt named Joseph Kennedy the SEC [Securities and Exchange Commission] chairman. . . . In the year and a half he was at the helm of the SEC, Kennedy would recommend hundreds of prosecutions" (p. 199). Even though Mellon's aluminum company expanded production and lowered prices, the government charged it with antitrust violations (pp. 25, 194, 311). Other companies were similarly targeted, largely at FDR's discretion (p. 344).

In a further attempt to punish America's producers, FDR's administration blurred the lines between tax evasion and avoidance. "On June 24, 1937, tax commissioner Guy Helvering named sixty-seven 'large wealthy tax payers, who by taking assets out of their personal boxes and transferring them to incorporated pocketbooks have avoided paying their full share of taxes'"—despite the fact that even the Treasury Department deemed such actions to be "perfectly legal" (pp. 313–14).

With FDR's administration waging an all-out assault on business, Harold Ickes, FDR's secretary of the Interior, "gave a radio speech assailing America's wealthy, charging that sixty families who ran the nation were on strike against the rest of the country" (p. 345). Of course, contributing to the shortage of capital being blamed on this alleged capital strike were FDR's disastrous new taxes. When the Supreme Court ruled against the Agricultural Adjustment Act in 1936, the federal government lost a large source of tax revenues, leading Morgenthau to propose an "undistributed profits tax" (p. 269). As a consequence, "Companies that had formerly sought to retain employees through downturns now no longer had the reserves to do so. They had likewise ceased to invest in new equipment, normally a traditional move in slow periods" (p. 334).

What about the public works of the New Deal? Although Shlaes grants that FDR's federal spending created jobs and "enduring structures" (pp. 8, 392), she also points out that such "public works got in the way of allowing productive businesses to expand and pull the rest forward" and that those with "public jobs did their work inefficiently . . . because they were scripted to serve political ends, not economic ones" (p. 392).

(Shlaes inexplicably grants that by 1936 federal "spending was so dramatic that, finally, it functioned as Keynes . . . had hoped it would" to expand employment [pp. 266–67]. What actually accounted for the rise in employment was, as Shlaes observes elsewhere, that the Supreme Court had overturned the NRA and AAA, ending many wage and price controls and curtailing business persecution; that the Federal Reserve had reversed its monetary contractions [pp. 162–65]; and that FDR's administration had reduced Hoover's disastrous tariffs.)

Perhaps the most famous New Deal project is the Tennessee Valley Authority (TVA), which built hydroelectric dams and (allegedly) expanded access to electricity. Less well known, but more important, is a use to which FDR put the TVA. Shlaes explains that FDR used the TVA to drive private utilities out of the marketplace. The main conflict in this saga was between David Lilienthal of the Tennessee Valley Authority and Wendell Willkie of the Commonwealth & Southern Corporation, a producer of electricity. (Willkie would eventually challenge FDR for the presidency in 1940.) Lilienthal wrote, "I have a very strong feeling that if we cannot control our basic industries, and certainly nothing is more basic that the utilities industry, then we have no government in fact, merely a pathetic fiction of government" (p. 178). Private utilities had developed the basic technology while rapidly expanding access to electricity and lowering prices (pp. 22–24, 89, 175). Yet the federal government subsidized public utilities, subsidized cities to use them, taxed private utilities, and, in 1935, passed the Public Utilities Holding Company Act "to kill off all but a few [private] holding companies by 1940"—a measure that Willkie called the "death sentence act" (p. 237). With the rules rigged against him, Willkie was compelled to sell most of his company to the TVA (p. 349).

The Forgotten Man title is drawn from William Graham Sumner's 1883 essay of the same name. Sumner wrote:

> As soon as A observes something which seems to him to be wrong, from which X is suffering, A talks it over with B, and A and B then propose to get a law passed to remedy the evil and help X. Their law always proposes to determine what C shall do for X. . . . [W]hat I want to do is to look up C. I want to show you what manner

> of man he is. I call him the Forgotten Man. . . . He is the man who never is thought of. He is the victim of the reformer, social speculator and philanthropist. . . .[9]

The Forgotten Man is a fitting title for Shlaes's book, as it demonstrates, by recounting Hoover and FDR's "reforms," that the lives of real men—forgotten men—were trampled by politicians pursuing "philanthropic" ends. Hoover and FDR—with their wage and price controls, persecution of businesses, tax hikes, and public works—caused the Great Depression, exacerbated it, thwarted economic recovery, and trampled the lives of countless Americans in the process.

Before America goes any further down the road taken by Hoover and FDR, we would do well to grasp the moral of their sad story: The only thing we have to fear in the marketplace is politicians engaging in social engineering.

Endnotes

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1. *New York Times*, "Obama's Speech on the Economy," January 8, 2009, http://www.nytimes.com/2009/01/08/us/politics/08text-obama.html.
2. Eric Daniels offers several examples in his review of Burton Folsom Jr.'s *New Deal or Raw Deal? How FDR's Economic Legacy Has Damaged America*, in *The Objective Standard*, vol. 3, no. 4, Winter 2008–2009, p. 107.
3. For example, David Sirota, "Did You Hear FDR Prolonged the Great Depression?" *Salon.com*, January 2, 2009, http://www.salon.com/opinion/feature/2009/01/02/sirota_fdr_depression.
4. Hoover used the spelling acceptable in that period: "fetich."
5. For example, "The Re-Incarnation of Neo-Hooverism," February 9, 2009, *Square State*, http://www.squarestate.net/diary/7575/the-reincarnation-of-neohooverism.
6. Shlaes refers here to a businessmen's "pledge" to Hoover, but she does not explain whether this was an official pledge, an implied pledge, or an imagined pledge.
7. Shlaes says little about how Hoover "encouraged" high wages. For an interesting theory on Hoover's use of the tariff as "a weapon to be used in enforcing the high-wage policy," see Richard K. Vedder and Lowell E. Gallaway, *Out of Work: Unemployment and Government in Twentieth-Century America* (New York: Holmes & Meier, 1993), p. 95.
8. Ari Armstrong, "Prohibition Free for 75 Years," *FreeColorado.com*, December 5, 2008, http://www.freecolorado.com/2008/12/prohibition-free-for-75-years.html.
9. William Graham Sumner, *The Forgotten Man and Other Essays* (New Haven: Yale University Press, 1918), edited by Albert Galloway Keller, reproduced online by Liberty Fund at http://tinyurl.com/dhnrhy.