

# Elizabeth Warren's Great Depression Economics, Part 2

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In my first article of this series of four articles, Elizabeth Warren's Great Depression Economics, Part 1, I proposed that we can know and understand future economic results by knowing and understanding past economic patterns and the results they generated. In this article, and the next, I will review economic policies and patterns from the Great Depression which can illustrate similar results today

when similar policies are applied at the general government level. History, and its data, show these basic patterns repeat when we study and review policies from the 1910s/20s (Wilson to Harding/Coolidge), 1920s/30s (Coolidge to Hoover/Roosevelt), 1970s/80s (Carter to Reagan), and 2000s/10s (Bush 2/Obama to Trump). If we would learn and apply these lessons from our history, we would greatly increase our prosperity.

When he came into office, President Herbert Hoover controlled the statist intervention policies which drove the Great Depression; and President Woodrow Wilson created the structure which allowed collectivism to eventually flourish. In fact, "Once elected President, Wilson helped to usher in the first wave of Progressive reforms that would later take full flower under the Administration of Franklin Roosevelt." [1] While the Federal Reserve was not overly aggressive during the 1920s, it did assist with cheaper currency and credit to help facilitate the capital investment during this extensive growth period. But the Wilson administration did coerce the Federal Reserve to act.

Wilson's Secretary of Treasury, William McAdoo, threatened to take over control of the Fed via the Overman Act, if they would not cooperate with funding the war. The Fed capitulated and over the period from January 1915 to November 1918 the money supply increased 67.38 percent and, as a result, the producer prices increased by 99.15 percent. The result of this action by the administration and the Federal Reserve also increased member bank reserves by 108.98 percent. [2] Wilson's progressive administration forced actions which created the disastrous bubble of 1920. When the highly anticipated economic drop post-WWI did not happen nearly to the level expected and the Wilson administration kept the pressure on the reluctant Federal Reserve to continue the easy money policy, Dr. Patrick Newman reports that "The boom time economy swelled production orders and resulted in backlogs in various industries." [3] Hence, this became fertile ground for mal-investments and set the stage for a big fall.

As a result in the 1920s and “[a]bsent the Fed’s easy money policies of the Roaring Twenties, prices would have fallen throughout that decade,”[4] but instead remained generally flat. Although Presidents Harding and Coolidge kept statism at bay during the 1920s, once Coolidge left office and Hoover assumed the Executive Branch, significant change occurred. While the Federal Reserve remained relatively in the background since its inception on December 23, 1913, and was poised to remain relatively quiet; once Hoover opened Pandora’s Box the practices of the Federal Reserve were unleashed:

The Federal Reserve was prepared to let the money markets find its own level, without artificial stimuli that could only prolong the crisis. But in early 1930, the government instituted a massive easy money program....At the end of August, Governor Roy Young of the Federal Reserve Board resigned, and was replaced by a more thoroughgoing inflationist, Eugene Meyer, Jr., who had been so active in government lending to farmers....[the stock market] soon fell back sharply, and production and employment kept falling steadily....The Federal Reserve, in fact, began the inflationist policy on its own. Inflation would have been greater in 1930 had not the stock market boom collapsed in the spring, and if not for the wave of bank failures in late 1930.[5]

Hoover, accused incorrectly of laissez-faire policies, responded by extensively increasing federal spending. The toxic combination of increased federal expenditures and the Federal Reserve’s inflationist actions had devastating results:

The gross national product fell from \$91.1 billion in 1930, to \$76.3 billion in 1931. Gross private product fell from \$85.8 billion to \$70.9 billion; total government deprecations, on the other hand, rose from \$14.1 to \$15.2 billion....but total government expenditures rose sharply, from \$13.9 billion to \$15.2 billion....the dead weight of government rose from 16.4 percent to 21.5 percent of the gross private product (from 18.2 percent to 24.3 percent of net private product). From a modest surplus in 1930, the Federal government thus ran up a huge \$2.2 billion deficit in 1931. And so President Hoover, often considered to be a staunch exponent of laissez-faire, had amassed by far the largest peacetime deficit yet known to American history.[6]

Thomas Sowell explains exactly what happened concisely, “just one page...can undermine or destroy a widely-held belief.”[7] What Dr. Sowell is referencing is Richard Vedder’s and Lowell Gallaway’s study on unemployment and government of 20th century America. Table 5.1 on page 77 of their book, *Out of Work*, lists unemployment rates from every month during the 1930s. It discloses that immediately after the crash of 1929 unemployment rose to 9.0 percent then proceeded to decline on its own to 6.1 percent a year later in October 1930. As President Hoover’s intervention came into play it drastically increased unemployment. In November of 1930, unemployment jumped to 11.6 percent and continued to climb throughout the next two years up to 27.9 percent. It lingered in the double digits for the entire decade as a result of Roosevelt’s massive government intervention. Ten years of devastating unemployment.[8] “What the government [the Hoover administration] decided to do in June 1930 - against the advice of literally a thousand economists, who took out newspaper ads warning against it - was impose higher tariffs, in

order to save American jobs by reducing imported goods.”[9] Vedder and Gallaway vividly illustrated how this proved to be catastrophic.

[1] Ronald J. Pestritto, July 31, 2012, “Woodrow Wilson: Godfather of Liberalism,” *First Principles*, No. 01, (Washington DC: The Heritage Foundation), p. 3.

[2] Patrick Newman, December 5, 2015, “The Depression of 1920-1921: A Credit Induced Boom and a Market Based Recovery?” *Review of Austrian Economics*, Forthcoming, p. 12, also see Figure 1, [[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2624357](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2624357)].

[3] Patrick Newman, December 5, 2015, “The Depression of 1920-1921: A Credit Induced Boom and a Market Based Recovery?” *Review of Austrian Economics*, Forthcoming, p. 16, [[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2624357](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2624357)].

[4] Mark Thornton, January 16, 2013, “Where Is the Inflation?” *Mises Daily*, (Auburn, AL: Ludwig von Mises Institute), [<http://mises.org/daily/6340/Where-Is-the-Inflation>].

[5] Murray N. Rothbard, 2008 (originally published in 1963), *America’s Great Depression*, (Auburn, AL: Ludwig von Mises Institute), pp. 239-240.

[6] Murray N. Rothbard, 2008 (originally published in 1963), *America’s Great Depression*, (Auburn, AL: Ludwig von Mises Institute), pp. 263-264.

[7] Thomas Sowell, June 17, 2010, “A Mind-Changing Page,” *townhall.com*, [[http://townhall.com/columnists/thomassowell/2010/06/17/a\\_mind-changing\\_page/page/full/](http://townhall.com/columnists/thomassowell/2010/06/17/a_mind-changing_page/page/full/)].

[8] Richard K. Vedder and Lowell E. Gallaway, 1997 (originally published 1993), *Out of Work: Unemployment and Government in Twentieth-Century America*, (New York, NY: New York University Press), p. 77, also see footnote 4 on page 105 which cites Vedder and Gallaway’s original research study, “What Caused the Great Depression? A Half Century Reassessment (1985),” which compiled the data in Table 5.1, Estimated Monthly Unemployment Rates, November 1929-December 1939.

[9] Thomas Sowell, June 17, 2010, “A Mind-Changing Page,” *townhall.com*, [[http://townhall.com/columnists/thomassowell/2010/06/17/a\\_mind-changing\\_page/page/full/](http://townhall.com/columnists/thomassowell/2010/06/17/a_mind-changing_page/page/full/)].