Facing A New Depression: A Kink in the American Spirit

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PEOPLE like Stanford biologist Paul Ehrlich have long warned that overpopulation and resource drainage would eventually catch up with the American people, that bad stewardship would result in greatly reduced levels of living. All of a sudden gigantic shortages — from electricity to Wesson Oil for cooking to grass seeds to paint to plastics to meat to gasoline — have hit the American people. The chickens are coming home to roost in ways that are affecting the diet, the activities, the outlook for the future of the individual American.

We have a generation which has spoken in disparaging terms of the values that developed out of the reality of scarcity experienced during the Great Depression. So luxuriously has the contemporary generation been treated that they were freed from primitive wants and necessities to the extent that it came easy to them to become primitive reversions in their opting for socialism and their hatred for the racist, decadent, chauvinist, society that flowed with milk and honey. We might say that now the Japs have the honey, and milk is priced a considerable amount higher than it was a year ago.

The luxury of a college dorm with abundant food and no challenge except to criticize whatever elements of the society have not yet turned to socialism or have not yet submitted to the decrees of positive-rationalists, allowed the student generation to live at such a level of opulence, they had the freedom to criticize because things, being better than ever before, were not yet better still. When one has known only plenty and expansion, freely brought, given, and consumed without thought of from whence it came, nor of the generations of effort it took to make it possible, it becomes easy to denigrate the values based on this set of factors which have not become "irrelevant." When one does not have the gas, cannot procure the food which, indeed, may not be available, thoughts turn to the realistic issues and considerations: survival.

The United States may not be as well situated for survival today should its population face a memorial of the depression of the late 20s-30s as it may have then been. For example, today's "Gold Medallion" home (all electric) was non-existent then, and the deprivation of electricity will thus work a greater hardship for which the population is not prepared, and could not have reasonably expected, far greater than, say the loss of electricity (then a non-possibility) in the 1930s. Other factors include a top-heavy welfare bureaucracy, extensive urbanization, and a decivilization of the minority elements of the population which has turned urban areas into racial cockpits and has made city streets reminiscent of Medieval sewers of the Dark Ages. Furthermore people today are far more interdependent and less self-sufficient, and are less situated to survive independently.

Current prospects, which only a year or so ago seemed as distant as the possibility of a storm next season, have begun to sting the spirit with sledge hammer poundings of the reality reflected in supermarket prices, quests for gasoline, unemployment, and general escalations in prices. Unfortunately, the American population has failed to learn that socialism is a ploy of the rich against the poorer classes; and reaction to the coming shortages and scarcity is likely to result in a call for government protection against the free-enterprisers who are thought responsible for the ailments. Thus, in their remedy, the people will acquiesce to if not demand a remedy which further pushes the American republic toward a repeat of the history of the Roman Empire.

Murray N. Rothbard, in his *America's Great Depression** has noted that a chief impact of the Great Depression on American thought was universal acceptance of the view that "*laissez faire* capitalism" was to blame. The common opinion, Rothbard states, is that capitalism prevailed during the 1920's, and that the tragic depression proved old fashioned *laissez faire* capitalism cannot prosper. Rothbard, by contrast, argues that crises and depressions are *caused,* not by the free market economy of capitalism, but by government intervention in that economy.

Rothbard documents how the Hoover administration violated the tradition of previous American depressions. He shows that *laissez faire* was roughly the traditional policy in American depressions before 1929. Though the *laissez faire* policy was dictated both by sound theory and historical precedent, the

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Hoover administration embarked on a programme marked by extensive governmental planning and intervention, including bolstering of wage rates and

prices, expansion of credit, propping up of weak firms, and increased government spending. Herbert Hoover, Rothbard contends, must be considered the founder of the New Deal in America. As a consequence of his violation of the *laissez faire* canons, Hoover left office with the economy at the depths of an unprecedented depression. The rout of Hoover, the "forward looking" politician, must be set down as a major demonstration of the failure of government planning.

> Hoover, the "Great Engineer," stood . . . armed on many fronts with the mighty weapons and blueprints of a "new economic science." Unfettered by outworn *laissez faire* creeds, he would use his "scientific" weapons boldly, if need be, bring the business cycle under governmental control. . . . Hoover did not fail to employ promptly and vigorously his "modern" political principles, or the tools provided by "modern" economists. And, as a direct consequence, America was brought to her knees as never before. Yet, by an ironic twist of fate, the shamble that Hoover abandoned when he left office was attributed, by Democratic critics, to his devotion to the outworn tenets of *laissez faire.*

As his biographers Myers and Newton declared, "President Hoover was the first President in our history to offer federal leadership in mobilizing the economic resources of the people."

Rothbard charges that "enlightened" government not only created the long depression that began in 1929, but transformed it into a chronic malady of American life. His book rests on the Misesian interpretation of the business cycle. Government, Rothbard states, is inherently inflationary because it has, over the centuries, acquired control of the monetary system. Inflation makes a pleasant substitute for taxation for the government officials and their favoured groups, and is a subtle substitute which the public can easily be encouraged to overlook. The government can also pin the blame of the inevitable consequence of inflation — rising prices — upon some disliked segment of the public. Only the adoption of sound economic doctrine would lead the public to pin the responsibility where it belongs, that is, on the government itself:

> If the government wishes to alleviate, rather than aggravate, its only valid course is *laissez faire,* to leave the economy alone. Only if there is no interference, direct or threatened, with prices, wage rates, and business liquidation will the necessary adjustment proceed with smooth dispatch. . . . Propping up wage rates creates mass unemployment, and bolstering prices perpetuates unsold surpluses. Moreover, a drastic cut in the government budget both in taxes and expenditure will of itself speed adjustment by changing social attitudes towards more saving and investment relative to consumption. For government spending, whatever the label attached to it, is solely consumption. . . . Hence, the proper injunction to government in a depression is to cut the budget and leave the economy strictly alone. Currently fashionable economic thought considers such a dictum hopelessly outdated; instead, it has more substantial backing now in economic law than it did during the nineteenth century.

Rothbard feels that proper government policy during the 1920's to have prevented the crash would have been to liquidate the Federal Reserve System, and to erect a 100 per cent gold reserve money; failing that, it should have liquidated the FRS and left private banks unregulated, but subject to prompt, rigorous bankruptcy upon failure to redeem their notes and deposits. Given the existence of the Federal Reserve System, the government should have exercised full vigilance in not supporting or permitting any inflationary credit expansion.

The actions of the Federal Reserve Board during the 1920's are shown to be a major causative factor. Like much government "help," the unintended, at least in terms of its public pronouncements, occurred. *America's Great Depression* is a scholarly, well researched documentation of the fallacies of a politically run economy. As we are forced to confront the results of our profligacy, we need to make an accurate analysis of the etiology of our ills, and not be frightened by scarecrows which will allow the errors to be compounded.

TOO TRUE TO BE TRUE?

"EVERY government is run by liars, and nothing they say should be believed. That is a *prima facie* assumption unless proven to the contrary."

I. F. Stone, former publisher of *I. F. Stone's weekly,* Washington, D.C.