The Forgotten Depression, 1920-1921

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Progressivism emerged in the late 1800s in the United States and led to the first major depression in the twentieth century from 1920-1921. Prosperity was restored in 1922 by doing exactly the opposite of what we are doing today. So why haven't we heard of it?

Progressives believe in big government, big social programs, heavy taxation, and especially government control of as much possible. The depression of 1920 was the result of this ideology. Known as the Forgotten Depression of 1920, it resulted from the progressive policies implemented by President Woodrow Wilson from 1913 to 1921. The $14.5 trillion debt today is the result of progressive control of Congress, the White House and the Judiciary since the days of ultra-progressive Franklin D. Roosevelt.

Wilson advocated what later became known as Keynesian economics. Keynesian economics is derived from the economic theories of John Maynard Keynes in the 20th century, who, during Wilson's presidency and WWI, was considered a brilliant economist in the British Treasury. Keynesian economics is the model of choice by progressive Democrats and Republicans alike; including President Barack Obama.

The Keynesian theory argues that private sector decisions sometimes lead to inefficient macroeconomic outcomes and government must take control to ensure economic growth and stability. Intervention comes in the form of government spending and tax breaks in order to stimulate the economy; and government spending cuts and tax hikes in good times, in order to curb inflation. In short, it means government control.

Adherents to this philosophy believe that if the task of running the economy is given to them, they, and they alone can run the government smoothly, increase prosperity and avoid economic downturns that are so painful to society. That was a key justification for the creation of the U.S. Federal Reserve in 1913, also during Woodrow Wilson's presidency.

Keynesian economics does not deliver what it promises. Just like President Obama today, President Wilson attempted to spend his way out of the depression by dramatically increasing federal spending and taxing the rich. Like Obama, he failed. The whiplash effect of Wilson's wild increase in non-defense spending and tax increases resulted in the 1920-1921 depression. In 1913 federal spending was 2.0 percent of the Gross National Product (GNP); about the same as the preceding one hundred years. During the Wilson administration, it jumped to over 7 percent. At the end of Wilson's tenure the *non-defense* federal budget was nearly 20 times higher than when he started. Wilson also raised the income tax rate from ***7 percent to 73 percent*** for the rich to supposedly pay for it.

By 1920 **unemployment** had jumped to nearly **12 percent**,[a] and GNP declined 17 percent – the same general pattern as experienced from 2008-2011. In spite of the Federal Reserve, or because of it, the economy was a disaster.

Warren Harding was elected President in 1921. His very anti-Keynesian methods took the boot off the throat of the American people by slashing taxes from 73% to 25% by 1925. Taxes were cut for lower income brackets starting in 1923. Harding also cut the government's budget nearly in half between 1920 and 1922. The results? The national debt was reduced by one-third. By 1922 unemployment was down to 6.7 percent and by 1923 it had dropped to 2.4 percent. The depression had vanished and The Roaring Twenties were launched.

It is difficult to emulate Harding's success because progressive historians have reduced Harding's miracle to a footnote in history books, if it is mentioned at all. Harding suffered from what is now a well-established strategy employed by progressives; demonize and marginalize anything and anyone who disagrees with the progressive view of reality. Incredibly, progressive historians usually label Harding 'the worst president in history.' Trapped in their own distortions of history, progressives are doomed to repeat the same failed policies over and over again.

When Harding died in office in 1923, Calvin Coolidge continued his free-market policies which fueled the Roaring Twenties. Progressives believe this huge prosperity is what caused the Great Depression of 1929; claiming that it was basically the result of unequal distribution of wealth.[1] This classic progressive anti-capitalist view of the cause of the Great Depression is now entrenched in the history books and has fueled the Keynesian economic theory of progressives since then. Yet, if this were true, we would be in a constant state of depression because most wealth has always been in the hands of the entrepreneurs. In contrast, wealth in communist or totalitarian countries is always in the hands of the ruling elite.

Much of the wealth in prosperous times is in the hands of those who are creating the wealth through increased capital investment and job creation. "In fact," explains economic historian Thomas Woods, "the Great Depression actually came in the midst of a dramatic *upward* trend in the share of national income devoted to wages and salaries in the United States —

[a] Although unemployment in the first half of 2011 hovered around 9 percent, the number did not include those who were no longer on unemployment, or underemployed. The real unemployment in 2011 was around 16 percent.

and a downward trend in the share going to interest, dividends, and entrepreneurial income."

According to Woods, it wasn't the free market in the 1920s that caused the depression as claimed by Keynesian economists; it was government interference distorting the free market – just as it is today. Woods explains; "Artificial credit expansion…at the hands of a government-established central bank [is] the non-market culprit…. When the central bank expands the money supply — for instance, when it buys government securities — it creates the money to do so out of thin air."

Free market economist Murray Rothbard, in his *America's Great Depression*, provides compelling evidence the stock market crash of 1929 was the inevitable outcome of the easy credit policies by U.S. Federal Reserve (Fed) during the latter 1920s that fueled over-speculation.[2] It is also exactly what the Fed did from October of 2008 to June of 2011 with nearly two trillion dollars of Quantitative Easing 1 & 2 (QE1 and QE2).

After Coolidge declined to run for a second term saying he had given enough to his country, Herbert Hoover accepted the Republican nomination in 1928 predicting that "We in America today are nearer to the final triumph over poverty than ever before in the history of any land. The poorhouse is vanishing from among us." The booming economy resulting from low taxes and small government of Harding and Coolidge seemed to put that dream in reach. However, the easy credit policies of the Fed had already hollowed out the economic boom, and in less than eight months after Hoover's inauguration, Wall Street crashed.

However, it wasn't the stock market crash that caused the Great Depression. Coolidge scholars point out that the crash occurred in "October and by December of that year the economy was once again calm and remained so for the next six months…" Ironically, according to economist Milton Friedman, originally a Keynesian economist, who abandoned the theory when he realized it caused high inflation and slow economic growth, blamed the Fed.

The Fed reacted to the stock market crash caused by its easy money policy by immediately contracting the money supply. This led to runs on banks and a catastrophic cascading bank failure, turning a depression into the Great Depression. The money supply shrunk by one-third from 1929-1933.[3] The Fed-caused-the-Great Depression argument is now accepted by most economists, including the Fed's current chairman, Ben Bernanke.

Hoover didn't help. In his efforts to combat the depression, Hoover took the progressive path to failure by increasing federal spending and dramatically increasing taxes, especially on the rich. By 1932 unemployment reached 24.9 percent, businesses and families had defaulted in record numbers, and more than 5,000 banks had failed. Tens of thousands of Americans were homeless.

In desperation, Hoover signed the Emergency Relief and Construction Act which authorized funds for public works; not unlike Obama's "shovel-ready" stimulus plan. To pay for it, Hoover signed the Revenue Act of 1932 which increased taxes across the board, but especially on the rich. After hovering around 25 percent during the Harding/Coolidge years, tax rates for top earners (the rich) skyrocketed back to 63 percent.[4] In 1930 Hoover signed the Smoot-Hawley Tariff Act which imposed a high tax on imports in a desperate effort to create more jobs at home. All it did, however, is cause foreign nations to also raise tariffs on American exports, bringing international trade to a standstill and greatly worsening the depression.[5]

In one of the ironies of history, Hoover's opponent during the 1932 presidential race, Franklin D. Roosevelt attacked Hoover for taxing and spending too much, increasing the national debt, raising tariffs that blocked trade, and placing millions of American's on the government dole. He even attacked Hoover for trying to "center control of everything in Washington."[6] Roosevelt's running mate, John Nance Garner, even accused Hoover of leading the country into socialism.[7] The irony is in the fact that Roosevelt's New Deal actually did everything he accused Hoover of doing, thereby prolonging the depression for years longer than was necessary – just like today. The lesson learned is that this seems to be a hallmark of progressivism; accusing those who oppose them of doing exactly what the progressive is guilty of doing.

It is clear the progressive Democrats and Republicans in Congress have put us into this hole. Harding and Coolidge have shown us the way out, but Congress refuses to do it. Might we suggest that it is time to vote every progressive out of Congress in 2012?

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