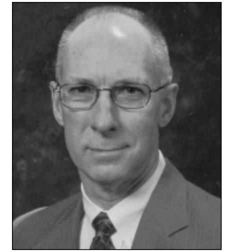

# The Great Duration, 1929–41

BY ROBERT HIGGS

Economists, following the usage of Milton Friedman and Anna Schwartz in their classic *Monetary History of the United States*, call the economic collapse between 1929 and 1933 the Great Contraction. In my own writings, I have added two similar terms to refer to other aspects of the Great Depression—the Great Duration and the Great Escape. The former denotes the depression's exceptional length, from 1929 to 1941 (when the economic adversity did not actually end, but merely changed its form).

The Great Duration is as puzzling as the Great Contraction and in some ways even more so. No previous depression had persisted nearly so long. The second-worst one, in the mid-1890s, lasted less than half as long. Except for France, where political conflicts stymied recovery, no other major industrial country took as long as the United States to escape from the Great Depression; all the others had recovered fully before World War II began. What accounts for the Great Duration?

In brief, the depression's extraordinary length is attributable to the same general cause that explains the Great Contraction's extraordinary severity: a series of ill-chosen government policies. These policies disrupted and distorted the operation of the competitive economy, created paralyzing fear in the minds of its most important investors and businessmen, and gummed the gears of the economy's normal recuperative processes. After some headway had been made toward recovery between 1933 and 1937, new government policies—collecting new taxes, encouraging aggressive labor unionization and, especially, abruptly doubling bank reserve requirements—knocked the economy into a serious "depression within a depression," setting full recovery back by at least another two years.

Nearly all the counterproductive policies adopted from 1933 to 1938 reflected the triumph of Progressive ideology and political self-serving. Regardless of the policy-makers' beliefs or assurances, their policies were not actually in the public interest. Unfortunately, as economic historian Peter Temin observes, the New Dealers "turned away from the market toward a managed economy and democratic socialism." In practice, their commitment to active government intervention in the market was equivalent to the conviction that a bull elephant must play an active role in the China shop.

When Franklin D. Roosevelt took office in March 1933, the economy was in the ditch. Roosevelt's first official act was to issue an executive order to close all the commercial banks in the country, thereby bringing economic activity almost to a complete standstill. By that time, after nearly four years of relentlessly deteriorating economic performance, almost everyone was clamoring for some kind of economic salvation from the federal government.

In this charged atmosphere, politicians found themselves in paradise because they could easily rationalize on grounds of "national emergency" the creation of a host of policies to please or calm down countless organized special-interest groups and then reap the return, whether it took the form of votes in the next election or cash in a plain brown wrapper. "The crisis," historian John Garraty wrote, "justified the casting aside of precedent, the nationalistic mobilization of society, and the removal of traditional restraints on the power of the state, as in war, and it required personal leadership more forceful than that necessary in normal times." In short, as Roosevelt and the Democrats in Congress perceived the situation, it required FDR's New Deal.

Which is what it promptly got—good and hard. No summary can do justice to the astonishing breadth of the legislative outpouring during Roosevelt's first term, especially during the congressional sessions of 1933 and

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1935. Jim Powell wrote an entire book recently to catalog the numerous studies that show, in the words of the book's subtitle, "how Roosevelt and his New Deal prolonged the Great Depression."

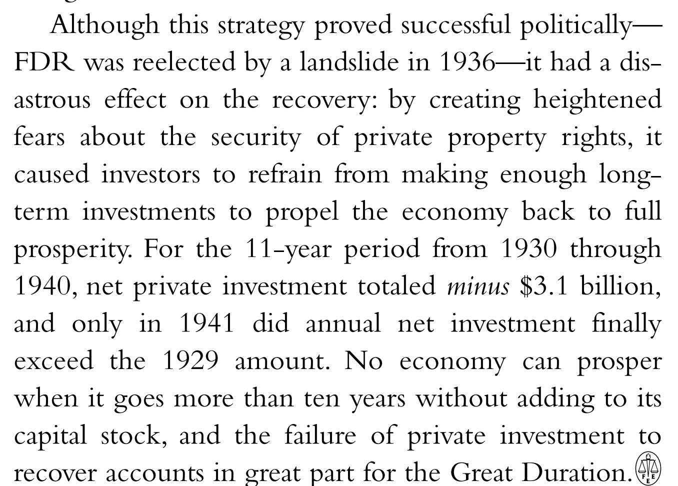
These measures included abandonment of the gold standard, confiscation of everyone's monetary gold, and abrogation of all gold clauses in contracts, including the government's own contracts; breakup of some of the nation's strongest banks by mandating the separation of commercial and investment banking; enactment of a series of soak-the-rich tax laws that discouraged entrepreneurship and capital accumulation and doubled federal taxes as a proportion of GNP between 1933 and 1940; operation of huge make-work programs that served as vote-buying schemes for Democrats and diverted millions of workers from productive private employment; supply reductions and price increases of farm products at a time when millions of poor families were struggling to afford food and clothing; federal government entry into competition with private entrepreneurs in the production and distribution of electricity; establishment of a Ponzi scheme known as Social Security that raised taxes and discouraged private saving; promotion of labor-union monopolies in the sale of labor services, pushing affected wages above competitive market levels and increasing costs for struggling businesses; suppression of competition in a wide range of industries, from petroleum production to coal mining to ordinary retailing, allowing sellers to charge increased prices for a great variety of products, notwithstanding consumers' diminished incomes; and general subversion of private property rights in ways too numerous to specify here.

In sum, the Roosevelt administration taxed, spent, borrowed, regulated, insured, subsidized, and confiscated on a scale never before seen in the United States in peacetime. No wonder the recovery was so slow: the government had placed itself, in effect, in a state of war against the people's productive efforts and arrangements, sanctifying its destructive actions with hot-air claims about the achievement of "relief, recovery, and reform."

## First New Deal

During the first two years of Roosevelt's presidency, which historians call the First New Deal, the administration tried to work with nearly all politically organized special-interest groups, including important business groups such as the Chamber of Commerce and the National Association of Manufacturers. Indeed, the keystone of the First New Deal, the harebrained scheme to cartelize every industry in the country under the terms of the National Industrial Recovery Act, was the brainchild primarily of those business interests.

During the Second New Deal (1935–38), the President, cheered on by a coterie of enthusiastically anticapitalist advisers, frequently lashed out at businessmen and investors, demonizing them as "economic royalists" and blaming them for sabotaging the economy's recovery. "Roosevelt's opinions at this moment," wrote John T. Flynn, "were generally that big business was immoral, that the poor were not getting a fair break and that the depression was the result of the sins of business and that business must be punished for these sins." Pushing such collectivist measures as the Social Security Act and the National Labor Relations Act, the administration embraced what Flynn characterized as "that easy, comfortable potpourri of socialism and capitalism called the Planned Economy which provided its devotees with a wide area in which they might rattle around without being called Red."



Although this strategy proved successful politically—FDR was reelected by a landslide in 1936—it had a disastrous effect on the recovery: by creating heightened fears about the security of private property rights, it caused investors to refrain from making enough long-term investments to propel the economy back to full prosperity. For the 11-year period from 1930 through 1940, net private investment totaled *minus* $3.1 billion, and only in 1941 did annual net investment finally exceed the 1929 amount. No economy can prosper when it goes more than ten years without adding to its capital stock, and the failure of private investment to recover accounts in great part for the Great Duration.