FDR's Folly:
How Roosevelt and His New Deal Prolonged the Great Depression
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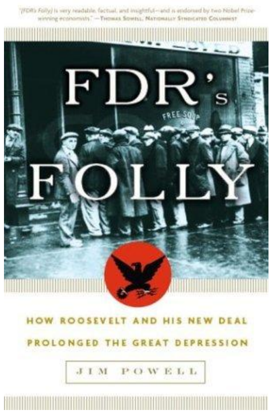
Jim Powell (2003)



Many "progressives" visited the Soviet Union and came away more convinced than ever that a government-run economy, offered the best solution. Stuart Chase wrote *A New Deal* (1932), in which he said that communists didn't need "further incentive than the burning zeal to create a new heaven and a new earth." Chase closed his book by asking, "Why should Russians have all the fun of remaking a world?" (2-3)

FDR, who embraced "progressive ideas," certainly wasn't a thinker. "Roosevelt responded less to principles than to personalities, and these could be presented best in conversation," observed historian George Martin. Indeed, FDR appeared to be utterly ignorant of economics. He seemed willing to try practically anything as long as it involved more government control over the economy. He was apparently unaware that such policies had been tried before in many other countries—and failed. (5)

On June 17, 1930, Hoover signed the Smoot-Hawley tariff, which raised import duties an average of 59 percent on more than 25,000 agricultural commodities and manufactured goods. The U.S. stock market plunged, and more than sixty countries retaliated , with restrictions against whichever products would inflict the worst losses on Americans—typically products very different from those affected by Smoot-Hawley. In this way, the tariff led to random damage to economies everywhere. (43)

The best-documented tax revolt was in Chicago. On a single day, November 29, 1930, some 4,000 taxpayers filed protests with the Board of Review. Tax collections were suspended for two years, but it proved difficult to get people back in the habit of paying. (50)

Title II of FDR's Emergency Banking Act gave considerable discretionary power to the comptroller of the currency, who, as conservator of national banks, could reorganize banks without going through established bankruptcy proceedings. The Emergency Banking Act also authorized the printing of Federal Reserve notes backed not by gold but by government bonds, which meant that the government could print as much money as it wanted and wouldn't be limited by the amount of gold available. In addition, the Emergency Banking Act authorized the Fed to lend banks money against a wider range of bank assets. (54)

FDR was under considerable pressure to pursue inflation, especially from farmers who wanted higher agricultural prices. But inflation was difficult as long as the United States remained on the gold standard. The U.S. Treasury was obligated to give anybody as much gold as they wished at $20.67 per ounce. If the federal government began inflating the supply of paper dollars, people would naturally anticipate devaluation and begin turning in dollars, hoping to get as much gold as possible before the price went up. (66)

In Presidential Proclamation 2039, March 6, 1933, which declared the national "bank holiday," FDR asserted that gold "hoarding" was "unwarranted" and had brought on the "emergency." The proclamation claimed the legal authority of the Trading with the Enemy Act (October 6, 1917), which provided fines of $10,000 or as much as ten years in prison for anyone convicted of doing business with an "enemy" of the United States. A subsection of the Trading with the Enemy Act authorized the president "under such rules and regulations as he may prescribe" to ban "any transactions in foreign exchange, export or earmarkings of gold or silver coin or bullion or currency ... by any person within the United States." Presidential Proclamation 2039 made it against the law until March 9 for any bank to "pay out, export, earmark, or permit the withdrawal or transfer in any manner or by any device whatsoever of any gold." Thus did FDR make outlaws of ordinary citizens whose "crime" was to protect their assets with gold. (66)

Less than -a month later, on April 5, 1933, FDR issued Executive Order 6012, which expropriated privately owned gold. He ordered Americans to surrender their gold to the government by May , 1933. Violators would be subject to a $10,000 fine or as much as ten years in prison. (67)

What about existing contracts that people had voluntarily agreed to, specifying payment in gold? FDR persuaded Congress to overturn those contracts and wipe out the gold clause. (68)

FDR imagined he could fix the world gold price from his bedroom. Morgenthau reported that when he visited FDR on Friday, November 3, he suggested a 10- or 15-cent rise from the previous day, and FDR decided on a 21-cent rise. Morgenthau asked the rationale for 21 cents, and FDR reportedly replied that **"three times seven" is a lucky number**. (71-2)

Even though his gold-buying scheme failed, the government kept all the gold it had taken from private individuals. FDR ranked among history's biggest hoarders, with an estimated 190 million ounces of gold worth $7 billion after the dollar devaluation. FDR undoubtedly hoarded gold for the same reasons that the mercantilist kings of the sixteenth, seventeenth, and eighteenth centuries hoarded it: Gold was the ultimate money, and for a ruler money meant power. (74)

[National Recovery Administration Director Hugh] Johnson, Richberg, and their cohorts occupied offices in the Department of Commerce Building where Herbert Hoover had once worked. Johnson described his quarters as "the worst-planned and least efficient modern office building in the world." It was curious that Johnson didn't wonder how the very same government, which he believed could save the world, couldn't even get a building right. (116-17)

There were some 1,400 NRA compliance enforcers at fifty-four state and branch offices. They were empowered to recommend fines up to $500 and imprisonment up to six months for each violation. On December 11, 1933, for instance, the NRA launched its biggest crackdown, summoning about 150 dry cleaners to Washington for alleged discounting. In April 1934, forty-nine-year-old immigrant Jacob Maged of Jersey City, New Jersey, was jailed for three months and fined for charging 35 cents to press a suit, rather than the 40 cents mandated by the NRA dry cleaning code. (121)

During the 1920s, farmers had tried a number of schemes aimed at raising their incomes. They formed cooperative associations that would control the marketing of their crops in hopes of realizing higher prices than they would expect on their own, but these associations invariably failed. There were always mavericks who could make more money selling outside the associations. What farmers wanted was compulsion, some way of limiting what everybody produced, to force prices above market levels. (130)

[U.S. Supreme Court associate justice James Clark] McReynolds's opinions focused on protecting private property, freedom of contract, and freedom of speech. In *Meyer v the State of Nebraska*, 262 U.S. 390 (1923), he struck down a law that made it illegal to teach a foreign language prior to the ninth grade. In *Farrington v T. Tokushige*, 273 U.S. 284 (1927), McReynolds overturned a law that banned the teaching of the Japanese language. He was horrified at the policies of FDR, whom he called an "utter incompetent." (155)

The next big Supreme Court case involved the Agricultural Adjustment Act, which New Dealers considered as important for reviving agriculture as the National Industrial Recovery Act was thought to be for industry. As noted in chapter 10, the idea was to tax food processors and channel the proceeds to farmers who destroyed crops, thereby reducing supplies and maintaining farm prices. Raising farm prices was viewed as the way to raise farmers' income, much as high wage rates were supposed to raise the incomes of industrial workers. (168-9)

The Roosevelt administration claimed that the tax was just another tax, and taxpayers couldn't refuse to pay because they disagreed with the way it was spent. But Justice Roberts, in his majority opinion, observed, that he sole purpose of this tax was to pay farmers who reduced their cultivated acreage and destroyed crops, which meant it wasn't a legitimate tax: "A tax, in the general uderstanding of the term, and as used in the Constitution, signifies an exaction for the support of the Government. The word has never been thought to connote the expropriation of money from one group for the benefit of another."

Roberts continued, "The question is not what power the Federal Government ought to have, but what powers, in fact, have been given by the people. . . . The federal union is a government of delegated powers. It has only such as are expressly conferred upon it and such as are reasonably to be implied from those granted. In this respect, we differ radically from nations where all legislative power, without restriction or limitation, is vested in a parliament or other legislative body subject to no restrictions except the discretion of its members."

Did the Constitution delegate to the federal government power over agricultural production? Since agricultural production was a local activity, it couldn't be covered by the commerce clause. Nor was such power implied in the clause about enacting taxes for the "common Defense and general Welfare of the United States." The phrase "general welfare" couldn't reasonably be invoked when a tax benefits particular people (like farmers) rather than the general population. Roberts insisted that if "general welfare" were applied to whatever the government wanted to spend money on, it would gain unlimited power, and the primary purpose of the Constitution was to protect liberty by limiting government power. (169-70)

Roberts concluded: "From the accepted doctrine that the United States is a government of delegated powers, it follows that those not expressly granted, or reasonably to be implied from such as are conferred, are reserved to the states, or to the people. To forestall any suggestion to the contrary, the Tenth Amendment was adopted. The same proposition, otherwise stated, is that powers not granted are prohibited. None to regulate agricultural production is given, and therefore legislation by Congress for that purpose is forbidden." (170-71)

[Justice] Cardozo acknowledged that Social Security wasn't legitimate insurance. As he explained in *Steward Machine*, "The proceeds, when collected, go into the Treasury of the United States like internal revenue collections generally. They are not earmarked in any way." In other words, even after an individual has paid Social Secuity taxes for decades, he or she doesn't have a contractual claim to specific benefits. Congress could change the benefits formula at any time, and it has. By contrast, a private insurance policy is a contract specifying what premiums the insured will pay and what benefits the insured or heirs will get. If an insurance company defaults, it can be taken into court for breach of contract. Surely millions of Americans would feel more secure if their Social Security taxes bought a contractual right to collect a specific package of benefits, but they never got this from a Supreme Court that had done so much to trash freedom of contract. This position,. that a taxpayer doesn't have a contractual right to collect specific Social Security benefits, was affirmed by the Supreme Court decades later, in *Flemming v Nestor*, 363 U.S. 603 (1960). (219)

Because a disproportionate number of black workers were in the South, they were the principal losers from this minimum wage law. As George Mason University law professor David E. Bernstein noted, "labor union leaders, who by the late 1930s were an integral part of the New Deal coalition, supported a high, uniform national minimum wage partly out of labor solidarity, but also to limit competition between unskilled nonunionized southern workers and unskilled union members. (229)

Personal income tax rates hit 91 percent, and corporate excess profts taxes hit 95 percent. Meanwhile, on April 27, 1942, FDR issued a message to Congress in which he declared, "No American citizen ought to have a net income, after he has paid his taxes, of more than $25,000 a year." The Treasury Department submitted to the House Ways and Means Committee a memorandum calling for a 100 percent tax on incomes over $25,000. (245)

The idea that the government had the power to set an income limit is disturbing, particularly since the trend has been for high tax rates to affect people with lower and lower incomes. Middle-class people are hit with tax rates originally aimed at the rich, simply because there are far more middle-class people. **<u>The government, like bank robbers</u>**, goes where the money is. (245-6)

Taxes made it almost impossible for living standards to recover from the Great Depression, but there wasn't much to buy anyway. Consumer goods factories had converted to producing war goods, and empty store shelves were commonplace. Practically everything was scarce. Despite the paper shortage, the government printed longer and more complicated tax forms. (246)

Tax withholding would have an unintended consequence: dramatic expansion of the Internal Revenue Service. Commissioner Guy Helvering estimated that to administer withholding for some 30 million wage earners would require hiring an estimated 11,000 more IRS agents, finding more office space, and increasing the IRS budget by about $24 million. He acknowledged, too, that the law would impose substantial costs on employers who did the government's work of collecting and remitting taxes.

The World War II tax regime, supposedly "temporary," remained largely intact afterwards. It continued to be a mass tax—there was no going back to the days when only a few people had to worry about the IRS. Federal income as well as Social Security taxes continued to be withheld from paychecks. While President Truman signed the Revenue Act of 1945, which cut the top federal income tax rate from 94 percent to 86.45 percent, and there were additional modest tax reductions in the Revenue Act of 1948, taxes went up again during the Korean War. Concerned about high levels of Cold War defense spending, President Eisenhower opposed tax cuts. Social Security taxes, which especially hit lower incomes, were increased. (247)

New Deal farm programs have backfired just as Social Security has done, and they have been as tenaciously defended. Washington channeled hundreds of billions of taxpayer dollars to farmers who agreed not to grow certain crops. Marketing orders, authorized by the Agricultural Marketing Agreement Act of 1937 as amended, continue to restrict production and marketing. They are the most blatant type of interference with U.S. agricultural markets, a throwback to medieval times when guilds determined who could work in various trades, how much they could charge, and how much they could produce. (255)

Recalling Henry Wallace's policy of destroying food during the Great Depression, the kind of thing that had outraged novelist John Steinbeck, the Department of Agriculture still enforces orders that ood food be left to rot when officials decide too much has been produced. This sort of thing has been going on so long it isn't news anymore, but *New York Times* reporter Ann Crittenden filed a vivid report about consequences of the New Deal in our time: "Stretching in all directions are millions and millions of navel oranges all abandoned to rot under the California sun. The oranges have been dumped under what is known as a Federal marketing order." (256)

New Deal farm laws, still in effect, continue to benefit big farmers, because the programs are based on the amount of acreage a farmer has or the quantities of crops produced. As investigative reporter James Boyard observed, in a 1989 study, "the USDA gave, in direct payments to the 29,000 largest farms, an average of $46,073—an amount that exceeded the net worth (including the value of house and cars) of over half the families in America." (256-7)

On President Nixon's second inaugural," [New Orleans investor James U.] Blanchard recalled, "we hired a World War I-style biplane to carry a 50-foot sign: LEGALIZE GOLD!" People smuggled gold bars into the United States and displayed these publicly, daring Treasury officials to enforce the relic of law. But times had changed, and President Gerald Ford gave Americans back an important part of their economic liberty by legalizing private gold ownership on December 31, 1974, for the first time in forty years. (262)

The New Deal did plenty to prolong high unemployment. New Deal policies were dubious when considered from the standpoint of their effects. After Americans had suffered through a catastrophic contraction for three years (1929-1933), FDR supported policies like the National Industrial Recovery Act that promoted further contraction. His executive orders helped enforce higher consumer prices when millions of Americans were unemployed and needed bargains. FDR approved the destruction of food when people were hungry. FDR signed into law higher taxes for everybody, so consumers had less money to spend, and employers had less money with which to hire people—during the worst depression in American history. New Deal labor laws empowered the most racist unions to exclude blacks and had the effect of making it illegal for many employers to hire blacks. The power of the Federal Reserve became more centralized, but this meant that the mistakes of a few people (members of the Federal Reserve Board) were likely to harm millions across the United States; and indeed the Fed's mistakes were a major cause of the depression of 1938 as well as the monetary contraction of 1929-1933. After having throttled competition with the National Industrial Recovery Act, Agricultural Adjustment Act, Bituminous Coal Conservation Act, Robinson-Patman Act, Retail Price Maintenance Act, Federal Communications Act, Civil Aeronautics Act, high corporate taxes, and other measures, New Dealers posed as defenders of competition and filed a record number of antitrust lawsuits against private employers, one effect of which was to further discourage investment needed for growth and jobs. (263-4)

Sophisticated New Dealers dismissed as simplistic those who defended individual rights, private property, and economic liberty, yet experience has revealed New Deal policies to be quite simplistic. FDR believed that if the federal government bought all the gold in the United States and as much of the gold as it could get overseas, he could push up farm prices. FDR imagined that government spending programs would end the agony of high unemployment, but he ignored the fact that government spending comes directly or indirectly from taxation, and people taxed have less money to spend or invest, offsetting the effect of spending programs. FDR assumed that taxes could be increased repeatedly without undermining incentives for people to produce, but he was mistaken. New Deal efforts to force wages above market levels made it more expensive for employers to hire people and contributed to chronic high levels of unemployment. Pro-FDR intellectuals assumed that government officials work selflessly for the public good, but as we now know, the self-interest of government officials, particularly their concern to win the next election, had a major impact on New Deal spending. FDR touted the Tennessee Valley Authority as proof that government could work wonders with electric power, ignoring subsidies from the 98 percent of American taxpayers who didn't live in the Tennessee Valley (and, as it turned out, the TVA didn't work wonders, since non-TVA southern states grew faster than TVA states).

New Dealers were naive to assume that dictatorial power would enable them to stabilize the American economy and bring about recovery. FDR was hailed when, in his first inaugural address, he asked for "broad Executive power to wage a war against the emergency, as great as the power that would be given to me if we were in fact invaded by a foreign foe." Hugh S. Johnson, when he headed the National Recovery Administration, exercised unprecedented arbitrary power over American industry. Henry Wallace was virtually the dictator of American agriculture, dispensing subsidies, setting prices, and issuing regulations that favored some interests over others; and he went on to become FDR's running mate in 1940.

Yet what dictator ever brought prosperity by interfering with the economy? History is littered with catastrophes that occurred because dictators couldn't keep their hands off the economy. (265)

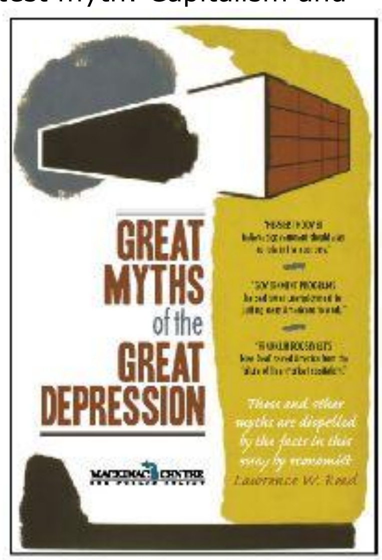
FDR, Louis Brandeis, and other "progressives" liked to talk about their "experiments" with the economy, but these turned out to be the same types of restrictions, like medieval guild regulations, that had blocked progress for ages. More than two centuries ago in *The Wealth of Nations*, the savvy Scotsman Adam Smith had exposed the folly of mercantilists, those who imagined that taxes, trade restrictions, government spending, and government gold hoarding would bring prosperity. Such policies were "experiments" only to the degree that New Dealers were ignorant about what had been tried and failed before. (267)

Why did the smart, well-educated, well-intentioned New Dealers back policies that prolonged the Great Depression? How could they have gone so wrong? Most of the New Dealers, as noted, were lawyers. Few among them, including FDR, had any practical business experience. They certainly seem to have overestimated the importance of their knowledge, as opposed to the knowledge of millions of ordinary people spending their own money and running their businesses. The New Dealers really came to believe that their knowledge, combined with political power, could cure the problems of the world. They thought that by issuing executive orders, passing laws, raising taxes and redistributing money, they could make society better. (270)

Things To Keep In Mind During The Coming Administration's FDR-like "Opportunity"

From Lawrence W. Reed's Great Myths of the Great Depression (**available as a free download**)

"The terror of the Great Crash has been the failure to explain it," writes economist Alan Reynolds. "People were left with the feeling that massive economic contractions could occur at any moment, without warning, without cause. That fear has been exploited ever since as the major justification for virtually unlimited federal intervention in economic affairs."
Old myths never die; they just keep showing up in economics and political science textbooks. With only an occasional exception, will find what may be the twentieth century's greatest myth: Capitalism and the free-market economy were responsible for the Great Depression, and only government intervention brought about America's economic recovery.



According to this simplistic perspective, an important pillar of capitalism, the stock market, crashed and dragged America into depression. President Herbert Hoover, an advocate of "hands-off," or laissezfaire, economic policy, refused to use the power of government and conditions worsened as a result. It was up to Hoover's successor, Franklin Delano Roosevelt, to ride in on the white horse of government intervention and steer the nation toward recovery. The apparent lesson to be drawn is that capitalism cannot be trusted; government needs to take an active role in the economy to save us from inevitable decline.

But those who propagate this version of history might just as well top off their remarks by saying, "And Goldilocks found her way out of the forest, Dorothy made it from Oz back to Kansas, and Little Red Riding Hood won the New York State Lottery." The popular account of the Depression as outlined above belongs in a book of fairy tales and not in a serious discussion of economic history.

The calamity that began in 1929 lasted at least three times longer than any of the country's previous depressions because the government compounded its initial errors with a series of additional and harmful interventions.

Though modern myth claims that the free market "self-destructed" in 1929, government policy was the debacle's principal culprit. If this crash had been like previous ones, the hard times would have ended in two or three years at the most, and likely sooner than that. But unprecedented political bungling instead prolonged the misery for over 10 years.

Smoot-Hawley by itself should lay to rest the myth that Hoover was a free market practitioner, but there is even more to the story of his administration's interventionist mistakes.

Commenting decades later on Hoover's administration, Rexford Guy Tugwell, one of the architects of Franklin Roosevelt's policies of the 1930s, explained, "We didn't admit it at the time, but practically the whole New Deal was extrapolated from programs that Hoover started."

Can any serious scholar observe the Hoover administration's massive economic intervention and, with a straight face, pronounce the inevitably deleterious effects as the fault of free markets?

Franklin Delano Roosevelt won the 1932 presidential election in a landslide, collecting 472 electoral votes to just 59 for the incumbent Herbert Hoover. The platform of the Democratic Party, whose ticket Roosevelt headed, declared, "We believe that a party platform is a covenant with the people to be faithfully kept by the party entrusted with power." It called for a 25-percent reduction in federal spending, a balanced federal budget, a sound gold currency "to be preserved at all hazards," the removal of government from areas that belonged more appropriately to private enterprise, and an end to the "extravagance" of Hoover's farm programs. This is what candidate Roosevelt promised, but it bears no resemblance to what President Roosevelt actually delivered.

Humorist Will Rogers captured the popular feeling toward FDR as he assembled the new administration: **<u>"The whole country is with him, just so he does something."</u>**

Frustrated and angered that Roosevelt had so quickly and thoroughly abandoned the platform on which he was elected, Director of the Bureau of the Budget Lewis W. Douglas resigned after only one year on the job. At Harvard University in May 1935, Douglas made it plain that America was facing a momentous choice:
"Will we choose to subject ourselves—this great country—to the despotism of bureaucracy, controlling our every act, destroying what equality we have attained, reducing us eventually to the condition of impoverished slaves of the state? Or will we cling to the liberties for which man has struggled for more than a thousand years? It is important to understand the magnitude of the issue before us. ... If we do not elect to have a tyrannical, oppressive bureaucracy controlling our lives, destroying progress, depressing the standard of living ... then should it not be the function of the Federal government under a democracy to limit its activities to those which a democracy may adequately deal, such for example as national defense, maintaining law and order, protecting life and property, preventing dishonesty, and ... guarding the public against ... vested special interests?"

Senator Carter Glass put it well when he warned Roosevelt in early 1933: "It's dishonor, sir. This great government, strong in gold, is breaking its promises to pay gold to widows and orphans to whom it has sold government bonds with a pledge to pay gold coin of the present standard of value. It is breaking its promise to redeem its paper money in gold coin of the present standard of value. It's dishonor, sir."

Though he seized the country's gold, Roosevelt did return booze to America's bars and parlor rooms. On his second Sunday in the White House, he remarked at dinner, "I think this would be a good time for beer." That same night, he drafted a message asking Congress to end Prohibition. The House approved a repeal measure on Tuesday, the Senate passed it on Thursday and before the year was out, enough states had ratified it so that the 21st Amendment became part of the Constitution. One observer, commenting on this remarkable turn of events, noted that of two men walking down the street at the start of 1933—one with a gold coin in his pocket and the other with a bottle of whiskey in his coat—the man with the coin would be an upstanding citizen and the man with the whiskey would be the outlaw. A year later, precisely the reverse was true.

Roosevelt secured passage of the Agricultural Adjustment Act, which levied a new tax on agricultural processors and used the revenue to supervise the wholesale destruction of valuable crops and cattle. Federal agents oversaw the ugly spectacle of perfectly good fields of cotton, wheat, and corn being plowed under (the mules had to be convinced to trample the crops; they had been trained, of course, to walk between the rows). Healthy cattle, sheep, and pigs were slaughtered and buried in mass graves. Secretary of Agriculture Henry Wallace personally gave the order to slaughter six million baby pigs before they grew to full size. The administration also paid farmers for the first time for not working at all. Even if the AAA had helped farmers by curtailing supplies and raising prices, it could have done so only by hurting millions of others who had to pay those prices or make do with less to eat.

Some economists have estimated that the NRA boosted the cost of doing business by an average of 40 percent—not something a depressed economy needed for recovery.

The man Roosevelt picked to direct the NRA effort was General Hugh "Iron Pants" Johnson, a profane, red-faced bully and professed admirer of Italian dictator Benito Mussolini.

A New Jersey tailor named Jack Magid was arrested and sent to jail for the "crime" of pressing a suit of clothes for 35 cents rather than the NRA-inspired "Tailor's Code" of 40 cents.

Alphabet commissars spent the public's money like it was so much bilge. They were what influential journalist and social critic Albert Jay Nock had in mind when he described the New Deal as "a nationwide, State-managed mobilization of inane buffoonery and aimless commotion."

With good reason, critics often referred to the WPA as "We Piddle Around."

In Tennessee, WPA workers were fired if they refused to donate two percent of their wages to the incumbent governor.

If a thief goes house to house robbing everybody in the neighborhood, then heads off to a nearby shopping mall to spend his ill-gotten loot, it is not assumed that because his spending "stimulated" the stores at the mall he has thereby performed a national service or provided a general economic benefit. Likewise, when the government hires someone to catalog the many ways of cooking spinach, his tax-supported paycheck cannot be counted as a net increase to the economy because the wealth used to pay him was simply diverted, not created. Economists today must still battle this "magical thinking" every time more government spending is proposed—as if money comes not from productive citizens, but rather from the tooth fairy.

Freed from the worst of the New Deal, the economy showed some signs of life. Unemployment dropped to 18 percent in 1935, 14 percent in 1936, and even lower in 1937. But by 1938, it was back up to nearly 20 percent as the economy slumped again. The stock market crashed nearly 50 percent between August 1937 and March 1938. The "economic stimulus" of Franklin Delano Roosevelt's New Deal had achieved a real "first": a depression within a depression!

Experience has shown time and again that a rollercoaster monetary policy is enough by itself to produce a roller-coaster economy.

Not until both Roosevelt and the war were gone did investors feel confident enough to "set in motion the postwar investment boom that powered the economy's return to sustained prosperity."

The Truman administration that followed Roosevelt was decidedly less eager to berate and bludgeon private investors and as a result, those investors re-entered the economy and fueled a powerful postwar boom. The Great Depression finally ended, but it should linger in our minds today as one of the most colossal and tragic failures of government and public policy in American history.

It was not the free market which produced 12 years of agony; rather, it was political bungling on a grand scale. Those who can survey the events of the 1920s and 1930s and blame free-market capitalism for the economic calamity have their eyes, ears, and minds firmly closed to the facts. Changing the wrong-headed thinking that constitutes much of today's conventional wisdom about this sordid historical episode is vital to reviving faith in free markets and preserving our liberties.

(See also **FDR's Folly: How Roosevelt and His New Deal Prolonged the Great Depression.**