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How politicians make economic crises longer and worse

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In 1939, in the throes of a Great Depression which at the time was stretching over eight years, with unemployment rates reaching 21%, US Secretary of the Treasury Henry Morgenthau bitterly complained: “We have tried spending money. We are spending more than we have ever spent before and it does not work… We have never made good on our promises. After eight years of this Administration we have just as much unemployment as we had when we started…and an enormous debt to boot!” Although much time has passed, it would seem that that specimen known as the universal standard politician never learns the lesson. In fact, he appears to remain mysteriously untouched by evolution theory: he still forgets his promises and keeps squandering taxpayers’ money dragging the country down to unimaginable levels of indebtedness. Lastly, watching stunned how his recipes fail to achieve the desired outcome, her ushes to search for a convenient scapegoat to blame.

Let’s learn from History. What turned a recession into the long and deep Great Depression was not the free market, but rather State interventionism – a temptation never resisted by politicians, which pleasure they enjoy all by themselves, but which atonement is suffered by the rest of us. When the lax monetary policy pursued by the Federal Reserve in the 20s changed and monetary supply contracted, the bubble the Fed itself had nourished burst, as all bubbles eventually do (that’s why they’re called bubbles in the first place). Banks went under and unemployment went crazy. In such an environment of despair, after a campaign teeming with encouraging but false promises, Franklin D. Roosevelt (FDR) won the Presidency and launched a series of hugely interventionist policies gathered under the New Deal.The diagnosis of the Roosevelt administration was that the recession had been the ultimate proof of the shortcomings of capitalism. This gave rise to a very hostile rhetoric aimed at “the rich”, scapegoat group par excellence which politicians always seem to hold close at hand in case difficult political situations arise. While FDR amicably called the genocidal Josef Stalin “Uncle Joe”, he scorned businessmen as the “privileged princes of these new economic dynasties, thirsting for power…”, those same businessmen who had brought a revolution to North American industry by creating hundreds of thousands of jobs and making products such as the automobile, previously reserved to a few, widely accessible to all. In order to divert the electorate’s attention from a brutal raise in taxes that would double the tax bill in no more than eight years, FDR increased the top income tax rate to a confiscatory 79% in 1939. This robber taxation, together with the legal uncertainty caused by constant changes in tax legislation (1932, 1934, 1935, 1936) and a steady trickle of new, absurd regulations implemented by an omnipresent bureaucracy, led to a standstill in that unique wealth-creating tool called private investment, with businessmen weary of an Administration which did nothing but harass them. At the same time, the Administration declared war on deflation in the belief that it was not the effect but rather the cause of the economic depression, and made its objective to artificially create inflation by any means, including compulsory price and salary increases. These price-fixing policies spread throughout the economy creating – as usual – shortages and increased poverty. Meanwhile, the Administration raised minimum wages, which led to nothing but dooming underqualified workers to unemployment, since their productivity did not justify salaries artificially decided by people who were completely ignorant of the immutable laws of the economy (people who seem to always end up in politics).

The worst was yet to come. In the quest for a foreign scapegoat, a protectionist rhetoric was launched, and action soon followed suit: a feverish race of competitive devaluations started, customs duties were increased and restrictions to the free movement of capital were implemented. The response to any given country's action was immediate reprisal by other countries, leading to great levels of diplomatic tensions and to a dramatic fall in international trade. In fact, the Great Depression culminated in a World War. As power-holders throughout History know very well, the only thing better than a domestic scapegoat for distracting an impoverished people is… a foreign scapegoat. Witness how effective it is: President Roosevelt was reelected four times.

It really is disturbing to find today so many parallels, so many policies which seem to be too similar to those which led to the Great Depression. Surely we cannot make the same mistakes all over again. Or can we? After the explosion of the financial bubble of 2008, fed by monetary interventionism (fed by the Fed!), it didn't take long for politicians to blame capitalism and thus justify more interventionism and more regulation, that is, more power for themselves. Public expenditure and public debt have risen and tax hikes have been the norm everywhere (specially for "the rich", of course, the same old smokescreen). Also, competitive devaluations are taking place again, whereas worrying protectionist messages are being heard at both sides of the Atlantic. On the other hand, what are central banks' current reckless monetary policies but a monster price-fixing experiment meant to spark inflation again? Lastly, the demagoguery used in the last decades by all parties within Welfare States (that beautifully worded fraud that is slowly bringing in totalitarian democracies through the back door) has been the perfect launching pad for populists who are again blaming the minorities, "the rich" and foreign countries of all evils. An electorate scared by a sudden impoverishment which cause it does not understand is easy prey to propaganda: first it will be manipulated to turn its fear into anger, and then to steer that anger against the poor devils cynically presented as the guilty party, in the belief that all that needs to be done to immediately solve all problems is to lynch them.

Let me guess what you are thinking, gentle reader: are not Western economies finally growing? Allow me to respond by raising another question: were Western economies not growing during the years prior to the bursting of the bubble? Was that solid growth or rather a fleeting mirage? Behind the veil of an artificial economic growth promoted by zero-level interest rates, new asset bubbles, ever increasing debt and a circumstantial tailwind in the fall in oil prices, an unsolved crisis, caused by the simple truth that we've lived for decades beyond our means, still rears its ugly face. What is debt but a symptom of this economic, social, and even moral disease? Shortsighted, irresponsible kick-the-can-down-the-road policies are only lengthening and deepening the crisis instead of solving it, as happened in the Great Depression. However, it is materially impossible to hide from reality, so we are left with only two options: either we face reality head-on, standing firm on our feet, armed with the old values of truth, sobriety, effort and sacrifice, or reality will furiously hit us from behind while we are still fleeing in panic and denial. And then, it will take no prisoners.

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