



WARREN HARDING AND THE GREAT DEPRESSION THAT WASN'T

If you attended a typical American high school and took a typical course in American history, you no doubt learned the great myths of the Great Depression.ⁱ You were likely taught that this depression was the result of greedy Wall Street speculators, inequality of wealth, and the “do nothing” Presidency of Herbert Hoover. You also learned how a wise and inspiring hero by the name of Franklin D. Roosevelt saved America from this depression with his New Deal and then saved America all over again nearly ten years later (and from the same depression!) by involving the U.S. in World War II.

What you likely never heard about in school was the much shorter depression of 1920. In its initial stages, this depression was every bit as severe as the more famous (or rather infamous) one that would begin nine years later. From 1920 to 1921, the estimated gross national product plunged 24% from \$91.5 billion to \$69.6 billion. During that same period, the number of unemployed people jumped from 2.1 million to 4.9 million or roughly 12% of the workforce.ⁱⁱ Home and farm foreclosures and bank failures spiraled, and calls for federal relief came from every corner of America.

Unlike Herbert Hoover and FDR, however, then-President Warren G. Harding had both the wisdom and the courage to resist these pressures. Harding understood that depressions were the unavoidable result of speculative bubbles created by monetary inflation. As Harding explained, “There will be depression after inflation, just as surely as the tides ebb and flow.”ⁱⁱⁱ The painful liquidation of unsound money and unsound businesses created by Woodrow Wilson’s foolish intervention in World War I was not only unavoidable but necessary if the economy was ever to return to a sustainable path.

Under President Harding, there would be no huge government bailouts to save failing businesses or banks, no grand federal make-work programs to employ the unemployed, no massive regulation of the economy to reign in the markets, stifle investment or impede trade. Most important, there would be no major wars started to stimulate production of useless war materials or to destroy “surplus labor.” Though then-Secretary of Commerce Herbert Hoover urged the President to take drastic action to fight the depression, Harding largely brushed Hoover’s exhortations aside. Though Harding did humor his Commerce Secretary by calling for a White House Conference on Unemployment, Harding cautioned the conferees regarding the use of federal funds declaring, “The excess stimulation from that source is to be reckoned a cause of trouble rather than a source of cure.”^{iv}

Harding was not entirely passive, however. To fight the recession, he called on Congress to dramatically reduce both taxes and spending. Under Harding, federal spending was cut from \$6.3 billion in 1920 to \$5 billion in 1921 and to \$3.2 billion in 1922. Federal taxes were also reduced from \$6.6 billion in 1920 to \$5.5 billion in 1921 and to \$4 billion in 1922 with budget surpluses each year used to reduce the federal debt.^v

The results were astounding. By 1922, GNP had recovered to \$74.6 billion and unemployment fell by nearly 50% to 2.8 million (6.7%). By 1926 with Harding’s Vice President, Calvin Coolidge, in the White House, unemployment had fallen even further to 1.8% (the lowest rate ever recorded in peacetime). Unfortunately, behind the scenes the Federal Reserve was already in the process of inflating yet another monetary bubble. This new bubble would burst (as all bubbles do) in the famous crash of 1929. By this time, Harding was dead and Coolidge in retirement. Having learned nothing from Harding and Coolidge, President Hoover proceeded to raise taxes, increase spending, intervene massively in the economy and the rest is, well, mythology.

ⁱ See Lawrence Reed, “Great Myths of the Great Depression” Available at <http://www.mackinac.org/4013> and also John T. Flynn, *The Roosevelt Myth* (San Francisco, 1948).

ⁱⁱ Jim Powell, “America’s Greatest Depression Fighter” Available at <http://www.lewrockwell.com/orig4/powell-jim4.html>. Accessed 6/4/2010.

ⁱⁱⁱ *Ibid.*

^{iv} Murray N. Rothbard, *America’s Great Depression* 4th ed. (New York, 1983) 172.

^v Powell, *loc. cit.*