

THE GREAT DEPRESSION

Could it Happen AGAIN?

Few people remember the hard times of the Thirties. Fewer still understand the root CAUSES of depression — or inflation. Many critical money problems are still with us today! This article explains the seriousness of today's volatile economic situation and the possible consequences for tomorrow.

by Gary Alexander

REMEMBER the Great Depression? Probably not unless you're about fifty years old. "The crash," as it's called, occurred in 1929. That means, if you are 52 years old NOW — you were only a boy of *ten* when it occurred.

Since about half of the population is currently under twenty-seven, it means most people have only read about the crash.

To young people the Great Depression is ancient history. What they do not know is that the *causes* of this long-forgotten "crash" are still with us today. These causes threaten once again to assert themselves, perhaps by a worldwide depression, or possibly by runaway inflation.

It's time we took a critical look at the Depression — at both the causes and the effects — and asked ourselves how vulnerable we are to a new kind of economic shipwreck.

Worldwide Repercussions

The consequences of the 1930's Depression were worldwide. Then, as now, "When America sneezed, the world caught pneumonia."

After the "Crash," world unemployment (in Western industrial countries) shot up from a "near normal" five million in 1929, to a catastrophic total of 20 or 25 million just one year later.

Unemployment was only one tragedy. A worldwide financial calamity spread from America in 1929 in domino fashion. The crunch began in Austria, May 1931, with the bankruptcy of their larg-

est private bank, the Credit-Anstalt. The financial epidemic spread to Germany by July 1931, with the closing of all German banks and credit institutions. At this point Germany ceased to have a banking system.

Next, Britain began to suffer the strain of the Depression. Its first effect was to bring the fall of the Labour Government, followed by devaluation of the pound and the abandonment of gold in September 1931. Like a Death Angel, the Depression passed over country after country, spreading economic downfall.

The Invisible Scar

Perhaps a greater curse than the immediate Depression itself was the long-range effects — the "invisible scars."

Those who lived through the Depression have experienced want, poverty, destitution, frustration, hunger, pain, loneliness, and despair such as the younger three fourths of today's affluent nations cannot imagine — the kind of poverty many of the underdeveloped nations live in today. They suffered poverty not for a *day*, but for up to a *decade*.

One fourth of all American workmen were unemployed, another one fourth severely underemployed (earning perhaps five cents an hour for two or three days a week). The "employed half" who *barely* made ends meet helped to support friends and relatives who were evicted or jobless.

When those who grew up during the Depression became parents, in the for-

ties and fifties, they had a burning desire to give their children the *security* which *they* never knew as children.

One authority made this incisive observation:

"A new generation grew up who knew nothing of depression. All they could see of it was the *quiet anxiety* that seemed to flicker permanently in their parents' eyes: the overwhelming desire for 'security' at almost any price displayed by those who had known the thirties" (Robert Goldston, *The Great Depression*, Fawcett Books, 1968, page 240).

The "oldsters" still live under the shadow of the Depression. The "youngsters," often represented by the growing hippie and near-hippie culture, say, "Our folks want to sell us financial security, but we don't buy it. We want a world of love, not money."

So the generation gap — the worst of the invisible scars — finds deep roots in the Great Depression, the scramble for financial security, the overspoiling of today's leisured youth.

Many such *effects* of the Great Depression are still felt. But even more sobering is the fact that many BASIC CAUSES of the depression are still with us. In fact, the similarities between the 1920's — preceding the Great Depression — and the 1960's are surprising.

So great are these similarities that some have wondered: "Could the Depression happen *again*?"

Since the United States recently suffered its worst stock market decline since 1938, worst unemployment since

1961 (Britain and Canada are experiencing their largest numerical unemployment since 1939), few questions could be more vital than this one to our own immediate future.

Overlooked Similarities

Notice how and why the Roaring Twenties and Soaring Sixties were disturbingly similar.

Severe recessions in 1920-21 and 1960-61 were followed in both cases by eight years of plenty, prosperity, and progress.

In July 1929 and July 1969, industrial production began to decline. In October 1929 and October 1969, stocks began to fall rapidly. Stocks declined a greater percentage in 1929 than in 1969, but in the recent decline *four times* the amount of *money* was lost on the stock market as during the ENTIRE Depression.

During 1930 and 1970, economists predicted that this was only a temporary "adjustment," relief was in sight, and "a severe depression is outside the range of possibility." In 1930, virtually no one classified the slump as a depression. The same was true in 1970.

In June 1930, the famous Hawley-Smoot tariff barriers were erected. In July 1970, the U. S. broke a 37-year policy of free trade to propose tariffs once again — this time against foreign textiles and shoes.

Of course, the similarity of dates is just mere coincidence. But the underlying factors in the United States of the twenties and sixties go much deeper.

"Then As Now"

In an address at Columbia University in June 1965, the former Chairman of the Federal Reserve Board, William McChesney Martin, listed some of the important basic similarities:

"Then, as now, there had been *virtually uninterrupted progress for seven years . . .*

"Then, as now, prosperity had been concentrated in the fully developed countries. . . .

"Then, as now, there was a large *increase in private domestic debt.*" Shockingly, consumer debt in both residential mortgages and installment pur-

chases *has recently been climbing faster than it did in the twenties.*

Former Chairman Martin then listed some technical comparisons, such as money supply, turnover of checks, international trade, and the parities of world currencies.

Continuing, he said: "Then, as now, international indebtedness (balance-of-payments deficits) had risen as fast as domestic debt.

"Then, as now, the payments position of the main reserve center — Britain then and the United States now — was uneasy, to say the least; but again our recent cumulative payments deficits have far exceeded Britain's deficits of the late '20's. . . .

"Then, as now, the most important surplus country, France, had decided to convert its official holdings of foreign exchange into gold, regardless of the effects of its actions on international liquidity.

"Then, as now," he concluded, "many government officials, scholars, and businessmen were *convinced that a new economic era had opened*, an era in which business fluctuations have become a thing of the past, in which poverty was about to be abolished, and in which perennial economic progress and expansion were assured."

Mr. Martin, had he spoken five years later in 1970, could have added a few more startling financial comparisons. For instance, the *prime interest rate* of major banks has reached or surpassed six percent *only three times* this century — once just before the 1920 flash depression, again in August 1929, just before the Great Crash, and a third time in mid-1969, when the prime rate reached the all-time record of 8½%.

Major corporation bond yields are also an obvious comparison. Only two times in the present century did they pass eight percent — in the Bank Crisis of 1931 and in 1969!

A look at nearly any graphic chart of financial matters shows striking similarities between the 1920's and 1960's. However, all these conditions, then as now, are *merely* effects.

Many controls to offset a depression were instituted in the 1930's, 40's and 50's. But these deal only with the EF-

FACTS. The basic CAUSES of the Depression are still with us. The worrisome question is: "HOW will they express themselves economically?"

Society in the 1920's

Look at the Social Order of the 1920's. In it we will find the *underlying cause* of the Great Crash. Noted historians speak of "the *materialistic spirit which pervaded the nation . . .*" (Bining and Klein, *A History of the United States*, Volume II, Scribners, 1951, p. 449).

There is the key! Materialistic concerns were taking up people's time — and also their money! As F. Scott Fitzgerald, a well-known writer of the time, recorded, the new generation had "grown up to find all gods dead, all wars fought, all faiths in men shaken." It was the age of speakeasies, uncontrolled crime, dance marathons, auto-mania, and Freud. It was an age of crass materialism and declining morality. Tragically, the same mentality — but with greater intensity — pervades the thinking of Americans, Britons, Canadians and Australians today.

The hero of the 1920's was Charles Lindbergh. The heroes of the sixties and seventies are the *astronauts*. Then the "earthly" heroes were movie stars, sports heroes, and Hollywood's reigning "It" girl. Today, our heroes remain sports heroes, sex symbols, and movie stars.

Stadium building abounded, crowds of over 50,000 watched Red Grange or Babe Ruth, fan(atic)s paid over a million dollars to see each major Dempsey fight, the World Series was the talk of millions.

One need only look at his television screen to see the similarities.

Like the sixties, the twenties witnessed an initial widespread migration from the farms to the cities. It was an age of fascination with new *gadgets* (the telephone, planes, appliances — and especially the car). Henry Ford and Walter Chrysler were the great success stories in business.

The list of comparisons is endless:

Crime: In 1930, despite the curse of the Depression, President Hoover said, "the overshadowing problem of all problems is crime, which bestrides our

nation like a colossus" (Arthur M. Schlesinger, Jr., *The Crisis of the Old Order, 1919-1933*, p. 177). It was the age of Al Capone, the St. Valentine's Day Massacre, Dutch Schultz, Pretty Boy Floyd, ad infinitum.

Race Riots: "It was during this very period, the years just after World War I, that the first large-scale urban race riots took place" (Snowman, *America Since 1920*, p. 38). The Ku Klux Klan flourished.

Morals: "The decade was also characterized by widespread disregard for law and order, for religious, conventional, and even prudential morality" (p. 40).

Buy, Buy, BUY!

It was an age of living it up on the installment plan. During the decade of the 1920's, automobile sales tripled, largely through the increasing use of *time payment plans!* Over 85 percent of furniture sales, 75 percent of washers, and over half of small items such as radios, sewing machines, or vacuum cleaners were, for the first time, bought on credit.

In the twenties, personal debt increased over fifty percent. All this spending fueled an unprecedented growth of business expansion. Expenditures on plant growth were only \$11 billion in 1922, but \$20 billion — a doubling in seven years — by 1929!

What caused it all? To a large extent, *media* — the burgeoning advertising and motion picture industries. Like *television* in the fifties and sixties, radio and motion pictures (with their advertisements and subtle pressures to buy) were the fad of the twenties.

In motion pictures, "viewers saw their favorite stars *consuming* goods — at parties, on yachts, in plush apartments — but rarely were screen plays written to show *how they earned their money*. Motion picture heroes and heroines were pre-eminently consumers of luxury items, not producers of the necessities of life." (Robert Sobel, *The Great Bull Market*, W. W. Norton, 1968, p. 44). One could hardly expect to see Rudolph Valentino in the role of a poor clerk who struggled to make his mark, or Jean Harlow as an urban housewife, trying to stretch her budget. Instead, both were exquisitely attired, were

chauffeured in expensive cars, and resided in sumptuous surroundings.

"Their fans," continues Robert Sobel, "were often tempted to emulate them. More than books or radio, *the motion pictures set the style for aspiring individuals in the twenties*. Such people could hardly afford the 'good life' on their salaries, but *with the aid of time payments*, they could own some of the items seen in advertisements and movies."

GREED — the Root Cause of the Crash.

The true causes of the Depression are still with us. Burgeoning personal debt, workers demanding higher wages (often without producing any more), business cutting corners, employee theft, and stock market speculation.

The question is: *HOW* will these causes express themselves in the nation's economic picture?

Statistician Roger Babson, who successfully predicted both the 1920 and 1929 crashes, has made this point clear over more than half a century of economic forecasts, and dozens of books on the subject. In essence, he said the technical statistics that economists watch are only *wall thermometers* telling the present "temperature" of today's economy.

If you want to see what the temperature of the future will be, Babson counseled, look at the barometer reading — the *way* people as a whole are dealing with each other and how they live their own lives. In other words, are workers producing more, are employee and shoplifting thefts down, are we borrowing less, is the federal economy in the black?

On such readings of the economy, Babson was virtually the only major economist to foresee the serious crash.

The top economists scoffed when he said, on September 5, 1929, "Sooner or later a crash is coming and it may be terrific . . . factories will shut down . . . men will be thrown out of work . . . the vicious circle will get in full swing and the result will be a serious business *depression*" (John Kenneth Galbraith, *The Great Crash*, Houghton-Mifflin, 1955, pp. 89-90).

Government economists, on the other hand, seemingly clambered over each

other to reassure the many paper-thin speculators that such talk was impossible, unthinkable, perhaps even un-American. "Don't Sell America Short" was a common aphorism in 1929.

The Money Scramble

But had the economists looked at the furnace room — at the basic *social or moral* problems expressing themselves economically — they would have KNOWN some kind of a "crash" was coming. Had the economists based their forecast on the *materialistic* attitude of most Americans, they would have seen the handwriting on the wall.

The root motivation was greed, but the main *specific* cause of the 1929 Depression in particular was "that *private indebtedness* was increasing faster than earning power, that purchasing was not keeping pace with production . . ." (Bining and Klein, *op. cit.*, p. 452).

In other words, people had bought so many items on time payments, that they couldn't afford any more — even on installments! The people were "bought out" while the newly installed assembly lines were producing record numbers of new gadgets.

What then are the chances for a new kind of "depression"?

Today, America and the West still have not learned their lesson. Money madness is still a fixation of a significant sector, especially of the U. S. public.

Which Experts to Believe?

If you ask top economists about the 1970 situation, you will get every spectrum of opinion from "worst financial situation since 1931" to "What recession? This is just an 'adjustment period.'"

Harvard's John Kenneth Galbraith has frequently warned of another economic collapse of the magnitude of the 1929 crash.

Former Federal Reserve Board Chairman William McChesney Martin said in 1968 that the U. S. was "in the midst of the worst financial crisis we've had since 1931." He said unless we reverse the deficits in our budget and balance of payments, we shall face "the greatest

setback this country has faced in my lifetime. It would take us a long time to recover from it."

U. S. Secretary of Commerce Maurice Stans has called the "New Economics" (which is the name adopted for the U. S. Government's system of over-spending used throughout the Sixties) "the biggest economic experiment the world has ever seen." He warned that "if it fails, it . . . may forever shatter the strength of our free democratic system."

Jacques Reuff, De Gaulle's leading economist, said, "The situation today is extremely disturbing because it resembles so closely the situation of the late 20's."

Those are four of the world's top economists. Four equally well-educated and famous economists would label these views as "extremist." Other more conservative government officials and leading European central bankers would be somewhere in the middle.

How can so many experts — having access to the same facts — come to such differing conclusions? The answer is, most are not considering the basic causes of economic woes any more than they did in 1929.

"Orchestrated Optimism"

A prevailing idea exists that if the authorities express optimism in the economic situation, this will ensure stability. Their rosy pronouncements are usually no more than what the *Wall Street Journal* recently called "Orchestrated Optimism." Such rosy statements were even more common in late 1929 and early 1930.

"Then as now," Galbraith writes, "no one supposed such spokesmen knew whether business was sound or unsound" (*The Great Crash*, page 149). In perspective of hindsight, these rosy predictions are often ludicrous. For instance, one of the leading economists of the day said — nine days before the crash of Black Thursday, 1929 — "Stock prices have reached what looks like a permanently high plateau." Despite such rosy predictions, stocks eventually lost *nine tenths* of their par value.

Almost all the great economists of the era predicted a rosy economic future in the 1920's. "In 1929 the leading economists of Harvard, Yale, Princeton, Ohio State, Michigan — one can hardly think of a major institution missing from the list — were enrolled believers in the bull market" (Sobel, *The Great Bull Market*, p. 127).

The highly respected *Harvard Economic Society*, for example, published a widely circulated weekly economics letter. Almost every week during 1930 (after the crash), they issued statements such as "the outlook continues favorable," "the coming Spring recovery," "no depression in sight."

Holding out for recovery being "just around the corner" has ALWAYS been the voice of the economists in trouble. After all, who wants to say, "recovery is *twelve years away*"?

Today, such verbal carrots are still held before the people. Each week an economic forecast predicts a "bottoming out" or recovery "next quarter." Sometimes they are right — sometimes they are wrong. But the point is ECONOMISTS OFTEN DO NOT KNOW.

Why Experts Are Divided

Like generals who study to win the *previous* war, not the *coming* war — economists have studied diligently to prevent "1929."

But the future financial crisis might not be stock-market oriented, but *inflation* oriented (like the German inflation of 1923, when bank accounts and pensions were wiped out by *inflation*, and *billions* of marks couldn't buy "two cents' worth" of goods). Or — the future crisis could be caused by a poor *crop year* (no one has taken care to prevent this type of catastrophe). Or, the next crisis might result from *international* causes: trade war, dollar devaluation, nationalizing of American businesses abroad, or a run on gold.

Today's world economic situation is much different from that in 1930. Presently, inflation, not depression, reigns worldwide.

If a crisis strikes in the 1970's, it will

probably be an "inflationary depression." But regardless of what the effects are, the cause is the same — improper money management, production, and use of resources, motivated by human greed for gain.

Personal greed — with resultant financial effects such as burgeoning personal debt — is *still with us*. These effects are *worse* in most cases *today than before*.

In 1929, consumer debt was only one twentieth of what it is today. Stock speculation has multiplied THIRTY times over. The balance-of-payments deficit has shot from virtually nothing to over \$43 billion. Labor unions have strengthened their monopoly control over wages. Money supply has multiplied ten times over — yet the value of the dollar has declined by nearly 75%.

Therefore, it follows that unless we mend our ways, at some time in the future *some kind of woeful economic crisis IS coming*. Unless our attitude toward money and material things changes, we are in for trouble. Of this there is NO question! One can argue *how* it will come. But come it will.

What can you do about it?

A nation is merely the sum of its people. Therefore if every person were practicing economic and personal morality in HIS life, the nation would be on the road to economic recovery. That is, we must, as individuals, develop and practice sound economic principles and exhibit national morality. One place to help stop inflation is at home!

You personally can begin to practice SOUND financial principles in your own private life.

We offer you a FREE booklet called *Managing Your Personal Finances*. It lays down principles governing the right use of money and material things. Send for your free copy. Find out what these principles are and begin applying them personally — today! □

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