



## An Austere President

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It's a well-worn cliché that those who do not learn the lessons from history are doomed to repeat its mistakes. If the wrong lessons are drawn from previous events, then such mistakes are a certainty. It is therefore regrettable for us all that events since 2007 have proven that previously received wisdom on the Great Depression was largely false. Western economies are currently paying the price for these errors; errors which could have been avoided had we paid more attention to the career of Calvin Coolidge, the thirtieth president of the United States (1923-29).

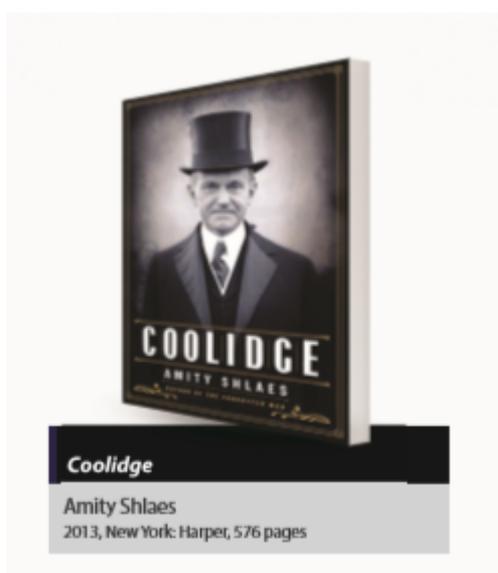
That Coolidge is probably the most unrecognisable president of the 20th century helps to largely explain why latter-day history has sadly forgotten both his achievements and his mistakes. His unassuming demeanour and unexpected ascent to the presidency certainly didn't help his legacy, though he has nonetheless been the unfair victim of those seeking to apportion blame for the Depression years.

Received wisdom is that the laissez faire policies he pursued as president were the primary cause of the 1929 Crash. The existence of this mythology is displayed in numerous polls conducted in the US over many decades. FDR is revered by all Americans (even conservatives) whilst Coolidge is regularly ranked below non-entities and outright disasters like Chester Arthur, George W. Bush and even Hoover himself. *Coolidge* by Amity Shlaes aims to redress this wrong.

This book has been eagerly anticipated. Shlaes, who is a financial journalist at Bloomberg and the Wall Street Journal, was responsible for the surprise 2007 bestseller *The Forgotten Man* that caused us to rethink the Depression. We now know that, contrary to popular myth, Herbert Hoover actually pursued an incredibly Keynesian economic policy. Franklin D. Roosevelt was no hero either and made the slump even worse (it's often forgotten that US unemployment peaked in 1936). FDR bizarrely sent farmers to jail for selling chickens too cheaply, amongst his many other ill-conceived New Deal policies.

*Coolidge* is the prequel to this important revision of history. It is very well-researched and easy to read. It is a must for all who enjoy American politics or economic history. *Coolidge* provides a real world example of the practical success of supply side economics.

Shlaes is careful not to overstate the impact of Coolidge's presidency. He may not deserve to be bracketed with the unfortunate William Harrison and James Garfield, but neither does he belong in the 'hall of fame' with Ronald Reagan and Abraham Lincoln. He would be long forgotten by all had he not inherited the job upon the death of Warren Harding. Coolidge was no military general, Hollywood actor or Kennebunkport patrician. He didn't have the gravitas to win nomination on his own terms; though he made up for this with a humility and honesty that was (and still is) all too rare amongst politicians. He gave the oath of office to his father by the light of a kerosene lamp. There were no crowds, no press and no marching bands.



It was however his commitment to fiscal austerity that stands him out from the crowd for

attention— particularly in light of events since 2008.



President Woodrow Wilson, left and  
President Warren Harding, right.

Born to a Vermont dairy farmer and shopkeeper in 1872, his family was comfortable, though not wealthy, and he endured the hardships that accompanied both his mother and sister dying when he was a teenager and he never forgot the painful memories of relatives who spent time in debtors' prisons. These experiences taught Coolidge the value of thrift (he preferred the word 'economy') and hard work as the antidote to all problems. His austere character was so marked that he was later famously described as 'looking like he was weaned on a pickle.'

After moving to neighbouring Massachusetts to practice law, Coolidge spent over two decades working his way through the various political ranks and offices at local and state levels until he became Governor of Massachusetts in 1918. His great strength, and the reason such a quiet, plain man was able to progress so far, was that from early on he had a very clear philosophy about the role of government (it should be limited) that he doggedly pursued and eloquently enunciated.

Becoming governor provided him with his big break. Many Western nations were at the time in the grip of a post-war Bolshevik scare. Coolidge stood up to a general strike by the Boston police that was threatening to set a nationwide precedent. By winning this fight, Coolidge came to national prominence in juxtaposition to the socialist sympathies of the Democrats and President Woodrow Wilson.

Warren Harding successfully campaigned for president in 1920 on the promise of a departure from the policies of Wilson (the slogan was a 'return to normalcy'). Coolidge was an obvious candidate to reinforce this message by being his running mate. That Coolidge never partook in the 'game' of politics highlights how deep his strength of principle and resolve must have been to rise to this level. Harding was notoriously corrupt yet the Party still wanted an unimpeachable character like Coolidge by his side (or perhaps in spite of him). Coolidge was always the dutiful Protestant family man. There was never a hint of scandal about him.



As vice president, Coolidge was determined to apply his personal principles to the nation. 'If an individual ought to avoid excessive indebtedness, then why not a government?' is paraphrasing the motto. Harding inherited a deep recession and a huge public debt from Wilson. GDP sank by seven per cent between 1919 and 1921, unemployment rose by to 11.9 per cent and the Dow Jones bottomed out at 47 per cent below its post-war peak. As a point of reference, the 2008-10 crisis saw a 5.1 per cent contraction, unemployment peaked at 10 per cent and the Dow Jones bottomed out 54 per cent below its 2007 high. The parallels are worth noting.

Once again, Coolidge was the right man for the right problem. Inspired by Coolidge and Treasury Secretary, Andrew Mellon, Harding's response to the crisis could not have been different from that taken by the Fed and Treasury in 2008. Harding commenced a program of swingeing budget cuts—the like of which had never been seen before or since. Within two years, Federal expenditures had been halved, which allowed Coolidge and Mellon to commence their goal of tax reform. By the time Coolidge had finished his opus in 1928, only two per cent of Americans paid any federal income tax and the top marginal rate had come down from 73 per cent to 25 per cent.

It's worth taking time to just absorb the magnitude of those cuts. We live in an era where we are told by the usual rent-seekers that life will be a misery if we cut public expenditure by a few billion dollars. In inflation adjusted figures, Coolidge and Harding enacted \$2.5 trillion worth of cuts in just two budgets. It was a breathtaking achievement.

The proof that austerity works comes from what followed. The US economy grew by an average four per cent annually between 1921 and 1929, unemployment was down to three per cent by 1923 and US Treasury receipts were higher than when tax rates were at Soviet-style levels. For a man supposedly weaned on a pickle, it's ironic that the 'Roaring Twenties' were basically conceived and borne by Coolidge. Jay Gatsby arguably owes his existence as much to Coolidge as he does to F. Scott Fitzgerald.

The economist Paul Krugman has tried to distinguish this period of history by pointing out that US Federal Reserve interest rates peaked at seven per cent in 1919 and were back down to four per cent by 1922. In his opinion, the recovery came as a consequence of the expansion in the money supply that this looser monetary policy enabled. Nice theory, except it doesn't stack up when one considers that interest rates between 1929 and 1931 fell from five per cent to 1.5 per cent, yet the Depression dragged on for almost a decade as the money supply continued to contract. Shlaes shows us that the price of credit was not the deciding factor in either crisis.

After Harding's death, Coolidge stayed the course and continued to lead by small government principles. He repeatedly vetoed bills to increase agricultural subsidies (despite his rural background) and he initially refused to believe that government had any role to play in relation to the disaster wreaked by the 1927 Mississippi River flood. Though he later relented under pressure from Hoover, a Keynesian, Coolidge's gut instinct was that those affected ought to pay for the levees themselves.

Small government proved electorally popular too. At the 1924 election, Coolidge received a similar



majority to Harding, despite the fact that he lacked the charisma of his predecessor. In fact, Coolidge did so well that he remains the last Republican presidential candidate to have carried New York City.

Though he declined to run in 1928, by reason that convention limited him to two terms (a convention soon to be flouted by FDR), his success and popularity were the major contributors to Hoover's victory. It shows how badly the electorate has become addicted to welfare in the 21st century that politicians are scared to pursue austerity policies that worked well and were once wildly popular.

Coolidge of course had his faults and these are acknowledged by Shlaes. Coolidge opposed non-western European immigration on racial grounds, though he claimed to have American-Indian blood and he did much to counteract the influence of the KKK in the South. His foreign policy was muddled and this almost certainly contributed to the eventual failure of the League of Nations.

Shlaes' main mistake however is in downplaying that Coolidge's biggest errors were his omissions. His indifference to protectionism made the 1931 Smoot-Hawley Act possible; he did nothing to reform Wilson's Federal Reserve Act of 1913 (the legislation that precipitated the mass banking collapse after 1929 that was the major cause of the Depression) and he provided continued public support for Hoover, despite his personal disdain for the man. Coolidge may have inherited these problems from his predecessors and, neither were they necessarily foreseeable, but they happened on his watch and he therefore bears ultimate responsibility for them.

But for all his faults, Coolidge remains the last president to have never presided over a budget deficit. Compare this to Barack Obama, who will never preside over a budget surplus. Who deserves to be more forgotten by history?