The quick deterioration in the economic fortunes of western countries seems to have taken many by surprise.

The latest federal government budget expects real GDP growth at -0.5 per cent for 2009–10, after predicting three per cent growth in the budget released a year ago. If Treasury officials had their remuneration determined by the accuracy of their forecasts, they’d receive a hefty pay cut by now.

Naturally, this turnaround has spawned a flood of research interest by academics and commentators in an effort to uncover its chief causes, and seeking answers about what to do about it.

When the state of the world’s economies looked particularly ugly late last year, commentators were openly talking about a re run of the 1930s Great Depression. Walk into any major bookstore even today and one can see a proliferation of books variously titled Depression Economics, Back to the Depression, and How to Survive the New Great Depression.

With so many pundits likening current economic conditions with the Great Depression, it is of no surprise that serious treatments about this particular episode in history have emerged in recent times.

One of the more heralded analyses of the Great Depression in the United States was the work by economic historian Amity Shlaes titled The Forgotten Man: A New History of The Great Depression.

At the centre of Shlaes’ account of the decade long Depression is the competing conceptions of the ‘forgotten man’ narrative, and how this played out in terms of actual policies during that era.

Prior to his inauguration as US President in 1933, Franklin Delano Roosevelt said in a radio address that he would act in the name of ‘the forgotten man at the bottom of the economic pyramid.’ In the view of FDR, it was for the sake of this individual that the government should spend, tax and regulate.

This notion of the forgotten man stood in stark contrast to that offered by the American classical liberal William Graham Sumner. In his 1876 book, The Forgotten Man and Other Essays, Sumner wrote:

As soon as A observes something which seems to him to be wrong, from which X is suffering, A talks it over with B, and A and B then propose to get a law passed to remedy the evil and help X. Their law always proposes to determine what C shall do for X or, in the better case, what A, B and C shall do for X... what I want to do is look up C... I call him the Forgotten Man... He is the man who is never thought of. He is the victim of the reformer.

Inspired by collectivist economic models overseas and advised by staffers, some of whom met Stalin in 1927, FDR established a new wave of government interventions in the US economy.

These included the National Recovery Administration, which set prescriptive ‘codes of fair competition’ for industry and employee minimum wages, and the Agricultural Adjustment Administration that gave taxpayers’ dollars for farmers to reduce cropping.

FDR went even further, showing a penchant for make work programs such as the Works Progress Administration. He also established the Tennessee Valley Authority that built dams and generated electricity covering up to seven states, but also crowded out existing private sector utilities.

He also secured for himself a reputation for experimenting with the economy, adjusting gold prices on a whim and ordering citizens to hand in their stocks of the precious metal to the Treasury under the infamous Executive Order 6102.

As the opening of each chapter of Shlaes’ book illustrates, the outcomes of FDR’s intrusions were underwhelming with the unemployment rate remaining at least ten percentage points above experienced during the prosperous 1920s.

Julie Novak looks back at the book that has everybody suddenly talking about the Great Depression.

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FDR was playing havoc with Sumner’s forgotten men—the entrepreneur and the taxpayer—with little to show by way of tangible benefit for the President’s own forgotten men.

Does Shlaes’ account of America’s Great Depression some seven decades ago have anything to do with modern Australia? Yes, plenty.

In its attempt to avoid the political fallout of two consecutive quarters of negative economic growth, the Rudd government has embarked on a Rooseveltian spending spree unlike any other seen in modern Australian history.

This spending made a major contribution to the expected federal budget deficit result for 2009–10 in the order of $58 billion. In similar vein Roosevelt, who went to lengths proclaiming himself as a fiscal conservative prior to his first term in office, also presided over massive deficits because of New Deal expenditure.

Not prepared to slug taxpayers amidst a slowing economy, the government has also shown a preparedness to claim revenues from future generations of taxpayers courtesy of its $315 billion debt splurge. Watch out, future forgotten people!

The lack of policy consistency by the Rudd government since November 2007—from fiscal conservative to fiscal Keynesian, from inflation genie to economic cyclone—was also seen by many as a defining feature of FDR’s economic strategy.

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A former FDR confidant, Ray Moley, wrote that the puzzle that was the President arose chiefly from the wonder that one man could have been so flexible as to permit himself to believe so many things in so short a time. But to look upon these policies as the result of a unified plan was to believe that the accumulation of stuffed snakes, baseball pictures, school flags, old tennis shoes, carpenter’s tools, geometry books and chemistry sets in a boy’s bedroom could have been put there by an interior decorator.

The tendency of both leaders to be seen to ‘do something’ on the economy seems to spring from what Bryan Caplan has labelled an ‘anti-market bias,’ or a tendency to underestimate the benefits of free markets. This interpretation of the economy views people as victims, rather than beneficiaries, of markets, and depicts corporations as greedy, money hungry profiteers at the expense of consumers.

At the Democratic National Convention in July 1932, Roosevelt launched a withering attack against ‘an era of selfishness’ driven by ‘the profits of speculation, the easy road without toil.’ For FDR, ‘to return to higher standards we must abandon the false prophets.’

Short of seventy-seven years later, Kevin Rudd wrote his infamous essay in The Monthly in which he castigated ‘extreme capitalism and excessive greed which became the economic orthodoxy of our time.’

This bias manifested itself in a number of ways. For FDR, this included regulation to prevent alleged ‘price gouging’ by the private sector and intimidatory (but unsuccessful) legal sanctions against high profile entrepreneurs right through to small business owners such as the poultry farming Schechter brothers.

In modern Australia, the federal government has in mind a similar regulatory fix for those apparently evil corporations including in the areas of executive remuneration, business acquisitions and bank lending practices to name a few.

FDR and Rudd also appear to share a ‘pessimistic bias,’ or a tendency to underestimate the past, present and future performance of the economy.

In his July 1932 speech, Roosevelt said that the US had grown too fast in the previous decade: ‘for ten years we expanded on the theory of repairing the wastes of the War, but actually expanding far beyond that, and also beyond our natural and normal growth.’

As Shlaes noted in her book, the repetitious lowering of economic expectations by FDR led to many Americans believing that the prosperous 1920s were an aberration. This played into the hands of an administration willing to use its policy levers to ‘distribute scarcity’ favouring FDR’s forgotten man on the bottom rung.

Contrast this pessimism with the words of Andrew Mellon, former US treasury secretary, entrepreneur and philanthropist, who stated in 1934 that ‘present conditions, however distressing, especially in terms of human suffering, reflect on a passing phase in our history.’

To Mellon, the Great Depression was simply a ‘bad quarter of an hour.’

A similar pattern of low expectations runs through the economic narrative of the federal government.

In February 2009, Prime Minister Rudd said ‘the global economic recession is the equivalent of an economic cyclone spreading from continent to continent, leaving wreckage in its wake, devastating economies, devastating jobs and crushing the dreams and the livelihoods of families across the world.’

The almost celebratory mood of the government in response to an anaemic 0.4 per cent GDP growth during the March quarter 2009 underlined its underwhelming economic aspirations.

Even prior to the last election there was a distinct pessimist optimist divide between the two major parties. The former opposition stressed the impermanence of Australia’s good economic fortune by (incorrectly) suggesting that growth was fully attributable to a mining boom.

In a March 2007 speech at the Melbourne Town Hall, Kevin Rudd stated ‘while the mining boom has delivered our current prosperity, we won’t always be as lucky.’ Similar sentiments were shared by other key opposition figures such as Wayne Swan and Lindsay Tanner.

While leading figures in the former Coalition government, such as Treasurer Peter Costello, belled the cat on the looming financial difficulties in the United States the election slogan ‘Go for Growth’ exuded an optimistic tone devoid of pessimistic bias.

Amity Shlaes’ The Forgotten Man reveals much about an American past of interventionist Presidents, staffers sympathetic to economic collectivism, entrepreneurs hounded by government and ordinary people doing it hard.

However, the value of her work is in highlighting a general principle applicable to modern times and for all countries. That is, the best stance of policy should be to provide a sound, stable framework for promoting the economic liberties of the forgotten—the entrepreneurs and taxpayers who want nothing more than to just get on with their businesses and lives respectively.