

*Rethinking the Great Depression: A New View of Its Causes and Consequences.* By Gene Smiley. Chicago: Ivan R. Dee, 2002. xii + 179 pp. Index. Cloth, \$24.95. ISBN 1-566-63472-5.

***Reviewed by Howard Bodenhorn***

When I assign term papers in my U.S. economic history survey course, I find that most students almost instinctively want to write about the Great Depression. I do my best to dissuade them. So much has been written about the era that it is exceedingly difficult to make any sense of it in a short space. Small libraries could be filled with just a fraction of the specialized social, political, and economic analyses of the depression. Those students who persist find it difficult to connect the many disparate strands. Now I have a single, highly readable volume to which to direct them, so they can see a larger picture before selecting a narrower topic. Gene Smiley's aim is to provide an integrated economic story of the Great Depression. He generally succeeds, producing a slender but engaging volume, one approachable by the nonspecialist.

Smiley's libertarian approach is evident from the beginning, but never to the point of distraction. In the preface, he attributes the origin, depth, and persistence of the Great Depression to mistaken, if not blatantly wrongheaded, government policies. "The 1930s economic crisis," writes Smiley, "is tragic testimony to the government interference in market economies" (p. x). I applaud Smiley for laying his cards on the table up front, and while his priors color his interpretations at several points, the book is reasoned rather than dogmatic, fair if not fully balanced. By the book's end, it is clear that Smiley, at least, does not regard Roosevelt's New Dealers as the great saviors that many of my parents' generation believed them to be. But neither, in his treatment, do Roosevelt and his followers embody the great Satan, which was the claim made by others. The New Dealers did, however, fundamentally change the nature of American capitalism—a story Smiley tells with alacrity, wit, and charm.

The first chapter provides the background, telling the story of the go-go 1920s, built on rising incomes, electrification, leisure, and consumer durables, that foreshadowed

the 1990s. Chapter Two notes that manifold problems were lurking beneath this good-time veneer, namely, massive agricultural displacement and unsustainable gold parities, that threatened economies everywhere. Continued prosperity depended critically on the maintenance of the post–World War I gold exchange standard by the principal central banks. Any disruption meant trouble for the global economy. Exchange rates were inconsistent with the existing distribution of gold, trade patterns, or price levels (p. 57). Even while the U.S. economy boomed in 1927–28, other countries were sliding into recession.

The United States followed suit in late 1929, entering a recession that persisted through 1932, when Roosevelt was elected in November. In Chapter Three, Smiley explains how the First New Deal was implemented, and he blames the brevity of the promising recovery that occurred in 1933 on policies pursued by Roosevelt’s administration during the New Deal’s First Hundred Days. Smiley provides an unflattering portrait of FDR, labeling him a privileged, patrician politician without much capacity for deep thinking. His advisors are portrayed as liberal academics, distrustful of markets and diehard believers in the power of planning. Smiley offers a traditional monetary explanation for the Great Depression, which, if accurate, means that all the New Deal’s planning, intervention, and regulation represented no more than a power grab by liberals and progressives, who used the cover of “recovery” policies to accomplish in desperate times what they could not achieve in good times. Few of Roosevelt’s advisors, according to this view, were interested as much in “recovery” as they were in “reform” of the basic economic institutions. By 1935, the New Dealers had intervened, regulated, and reformed to little effect. Unemployment remained above 25 percent, and there were few signs of recovery.

Chapter Four tells how, rebuked by stinging conservative criticisms of his ineffective New Deal policies, Roosevelt turned to reformers who were even more radical and listened more closely to his anti-big-business advisors. The consequence was the so-called Roosevelt recession of 1937–38. What caused the recession within the depression? Smiley attributes it to three sources: mistaken actions by the Federal Reserve; rising labor costs, driven by a wave of post–Wagner Act unionization; and anxiety among business leaders about an increasingly interventionist government, which brought new investment

to a standstill. While some may consider Smiley's interpretation a reach, it is true that the radical New Dealers who took control of the Second New Deal envisioned a new social contract between business, labor, and government that worried many prominent business leaders (see, for example, David Farber's *Sloan Rules* [2002] for Alfred Sloan's fundamental disagreements with New Deal policies). In the aggregate, gross investment dried up, and net investment was negative in 1937 and 1938.

Finally, Chapter Five presents the author's interpretation of the longer-run consequences of the New Deal. We are all familiar with the social programs—federal unemployment, old age, and disability insurance, among others—that arose during the depression. And, although Smiley provides a concise but useful summary of these accomplishments, he is more interested in attacking Keynesianism. He contends that the Keynesians gained the upper hand in post-World War II economic circles largely because they misinterpreted (whether purposely or not, Smiley does not really say) wartime data on prices, production, unemployment, and consumption, none of which represent market-determined outcomes. Smiley does not view the war years as representing the grand Keynesian experiment, because the data do not reflect market transactions made at freely determined market prices.

I do not completely agree with Smiley's contention that the Great Depression was not as much a testimonial to the failure of markets as it was evidence of the failure of government. Nevertheless, he makes a reasoned and reasonable case for such an interpretation, one that many will take issue with and some will work to refute. I look forward to watching the debate as it unfolds.

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