

Depression, War, and Cold War: Studies in Political Economy. *By Robert Higgs.* New York: Oxford University Press, 2006. xv + 221 pp. Figures, tables, appendix, notes, index. Cloth, \$35.00. ISBN: 0-195-18292-7.

Reviewed by Elliot A. Rosen

Whereas New Left and liberal scholars deplore the New Deal's failure to venture beyond ameliorative social and economic measures, recent antistatist critics, including Jim Couch, William Shughart, Gary Dean Best, and Gene Smiley, aver that New Deal policies impeded recovery during the Great Depression. Robert Higgs's book falls in the latter camp. Anchored philosophically in the views of Milton Friedman, Ludwig von Mises, Friedrich Hayek, and James Buchanan, Higgs sources the rise of the modern, intrusive state in the administration of Franklin D. Roosevelt. Echoing Herbert Hoover, he mourns the loss of individualism, deplores bureaucratic mismanagement of economic life, and, in an updated version of 1930s business-confidence theory, asserts that "regime uncertainty" under Roosevelt threatened private-property rights and investment.

Higgs issues a critique of the restrictive Securities Act of 1933, which overlooks the fact that, in the absence of profits, investors were hardly ready to invest, and he also finds fault with the misguided Public Utilities Holding Company Act of 1935 and the Second New Deal's anticorporate views. However, his objections do not end there. In a blanket condemnation of the New Deal program (exemplified by the heading of a table, on page 11, "Selected Acts of Congress Substantially Attenuating or Threatening Private Property Rights, 1933–1940"), Higgs includes the Banking Act of 1933, which provided for insurance of bank deposits and afforded protection against financial panics. Yet, according to Milton Friedman and Anna Jacobson Schwartz, in *A Monetary History of the United States* (1963), this statute induced "the structural change most conducive to monetary stability" since the Civil War (p. 434). The Gold Reserve Act of January 1934, which was responsible for dollar devaluation and was supported by Thomas Lamont and Russell Leffingwell at J. P. Morgan & Co., is offered as another demonstration of stifled private investment, yet this act was largely responsible for the price, wage, and profit

relief so critical to recovery from the impact of the crippling deflation grounded in sterling depreciation that had occurred in 1931.

Roosevelt's policies were not devoid of missteps, and structural problems persisted. Despite the achievement of satisfactory annual average corporate profits in 1936–37 by better integrated, more technologically oriented industries, and a rate of return on total equity of all manufacturing exceeding that of 1926–28, older, labor-intensive industries, such as textiles and coal, were in decline. Consequently, large-scale unemployment persisted through the late 1930s, a situation that could also be explained by new entries into the labor market and productivity growth. Overall, Roosevelt proved correct in affording priority to reflation of depressed values as the best route out of the 1932–33 morass.

Higgs proceeds to reject the claim made by postwar Keynesian economists that massive compensatory public expenditure during the Second World War paved the way to a full employment economy and helped to prevent future depressions with the assertion, based on the work of Simon Kuznets, that government investment in wartime industry produced only intermediate goods. While this observation is debated by economists, the National Income and Product Accounts (NIPA) of the Department of Commerce include government expenditure in the gross domestic product. Higgs also argues that Roosevelt's acceleration of wartime production through government investment crowded out private investment, resulting in a command economy that lowered the trend rate of economic growth.

Waste in defense expenditure, he explains, commenced in 1940, when a limited number of defense contractors enjoyed enormous profits at taxpayer expense due to the government's incestuous relationship with military purchasers, in a process presumably overseen by Congress. While construction of defense plants and the award of contracts to predominantly large corporations guaranteed substantial profits, paid for by tax dollars, Higgs does not account for pressures like the possibility of an Axis victory that impelled mass production of war materiel by experienced producers. Regrettably, he offers no alternative to fixed-fee, cost-plus contracts and other procedures that he deplors; nor does he explain the origin of the problem he describes, namely, Roosevelt's

determination to use location of federal investment in plant and military bases to remediate regional social and economic unbalances.

Having exhausted the subject of the Great Depression, economists recently turned to the sources of postwar recovery. Higgs situates the origin of the economic advances following the conflict in the immediate postwar years, attributing them to the shift from a command to a market economy. He attributes the growth in prosperity to Roosevelt's demise, reversion of the Truman administration to a regime of private property based on lower taxation and profit retention, and the greater tractability of organized labor in response to the passage of Taft-Hartley. He documents his claim, as he did before, by excluding war-related outputs from the gross national product. More significant, it can be argued, were developments like multifactor productivity (availability and utilization of natural resources, capital, and skilled labor; population growth; expansion of research and development; willingness to adapt to new technologies; managerial innovation; and higher education levels) during the years 1929 to 1941, massive wartime public expenditure, subsequent better-informed management of fiscal and monetary policy, and the abandonment of interwar autarchy.

The final, and lengthiest, portion of this work, which is essentially a critique of government's role in shaping the economy, examines cold-war defense expenditure. According to Higgs, military expenditure was bloated thanks to the manipulation of international crises by a national security elite, lobbying by interested parties, contracts made in the absence of competition that yielded inordinate profits, logrolling by legislators determined to allocate defense expenditure to their districts, and defalcation by congressional committees responsible for oversight—hence the “military-industrial-congressional-complex,” or MICC. The result was that “the private sector alone bore the full cost of annual increases in the military share of total output” (p. 132).

Since the author notes at the outset that these essays represent a work in progress, some suggestions seem warranted. Additional historical background will alert scholars to the widespread problem of well-intended government programs eventually outliving their usefulness. Then again, in a modern economy marked by interpenetration of business and government, and more recently by globalization, some may consider it quixotic, however commendable in theory, to wish for a return to individual autonomy. In the event, this

reviewer looks forward to proposed structural reforms designed to remediate the congressional defalcation Higgs deplors.

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