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Separate fact from fiction on New Deal

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Government intervention in the economy and the proposed economic stimulus spending bill is based on a belief that such actions during the Great Depression helped the nation and will again.

The central issue, especially in observing the Federal Reserve, is the mistaken opinion that the Fed's actions created the Great Depression through poor policies at the end of the 1920s and the early 1930s. In reality, the Depression's origin was due to an implosion of global trade.

The stock market collapse began on Oct. 28, 1929, as news spread that the Smoot Hawley Tariff Bill would become law. The New York Times header read: "Leaders Insist Tariff Will Pass." This caused markets to react immediately, as markets discount future earnings. The tariff's passage would amount to a tax on 25,000 imports into the United States. Our trading partners promised to retaliate, and they did. The tariff bill did not become law until June 1930, but its effects were felt eight months prior.

This is important today because it forms the core philosophy of Federal Reserve Chairman Benjamin Bernanke, who said in a March 2004 speech that "The market crash of October 1929 showed if anyone doubted it, that a concentrated effort by the Fed can bring down stock prices."

He later comments, "The finding that leaving the gold standard was the key to recovery of the Great Depression was certainly confirmed by the U.S. experience. ... Between Roosevelt's coming to power in 1933 and the recession from 1937-38, the economy grew strongly."

This was a false recovery. With the collapse of world trade, economic nationalism rose, a root cause of the Second World War. Herbert Hoover's Revenue Act of 1932 raised taxes in an attempt to balance the budget with disastrous effects.

Roosevelt's programs in the New Deal prolonged the Depression. The National Industrial Recovery Act of 1933 established wage and price controls. He torpedoed the London Economic Conference of 1933, which was trying to re-establish currency stability and reopen the trading lanes.

The Wagner Act of 1935 instituted the National Labor Relations Board, violating the due process clause of the 14th amendment.

Roosevelt raised taxes in 1934, 1935 and 1936. His "make work projects" increased the national debt by 60 percent. In 1938, he signed the Fair Labor Standards Act, mandating a minimum wage, which raised costs for employers.

The New Deal is believed to have put most people back to work. In 1933, unemployment stood at 12.8 million. But by 1938, it was 10.3 million or a huge 19 percent jobless rate. The failure of the New Deal can also be viewed by the 60 percent decline in the S&P 500 from March 6, 1937 to April 29, 1942. Leaving the gold standard, borrowing and printing money resulted in an artificial stimulus, which was short lived.

The Dow Jones Industrial Average would not return to its 1929 levels until 1954.

Clearly, this was Roosevelt's depression.

World War Two did not end the depression. In six years of war, nations were destroyed, 50 million died, trade ceased, rationing ensued and half of all goods produced were destroyed. The standard of living dropped, even in the United States. Wars direct capital away from its most highly valued use.

Three events ended the Great Depression.

In 1944, in a small town of Bretton Woods, N.H., the allies met to stabilize the value of the dollar. In 1946, President Harry Truman lifted wage and price controls. And in 1947, the General Agreement on Tariffs and Trade began a process of reopening the trading lanes.

Today' difficulties cannot be solved by injecting trillions of dollars into the economy. The housing crisis continues because of a surplus of houses and a shortage of qualified buyers. Banks can lend, but they are not willing. Consumers are willing to borrow, but are not able.

Banks must use market incentives to work out loans and keep people in their homes. The Securities and Exchange Commission must suspend "mark to market" accounting immediately. It has become a modern Smoot Hawley Tariff to the lending community.

As the Federal Reserve and Treasury dust off their Depression era playbooks for answers, we must look toward solutions that actually end this crisis, rather than prolong it.