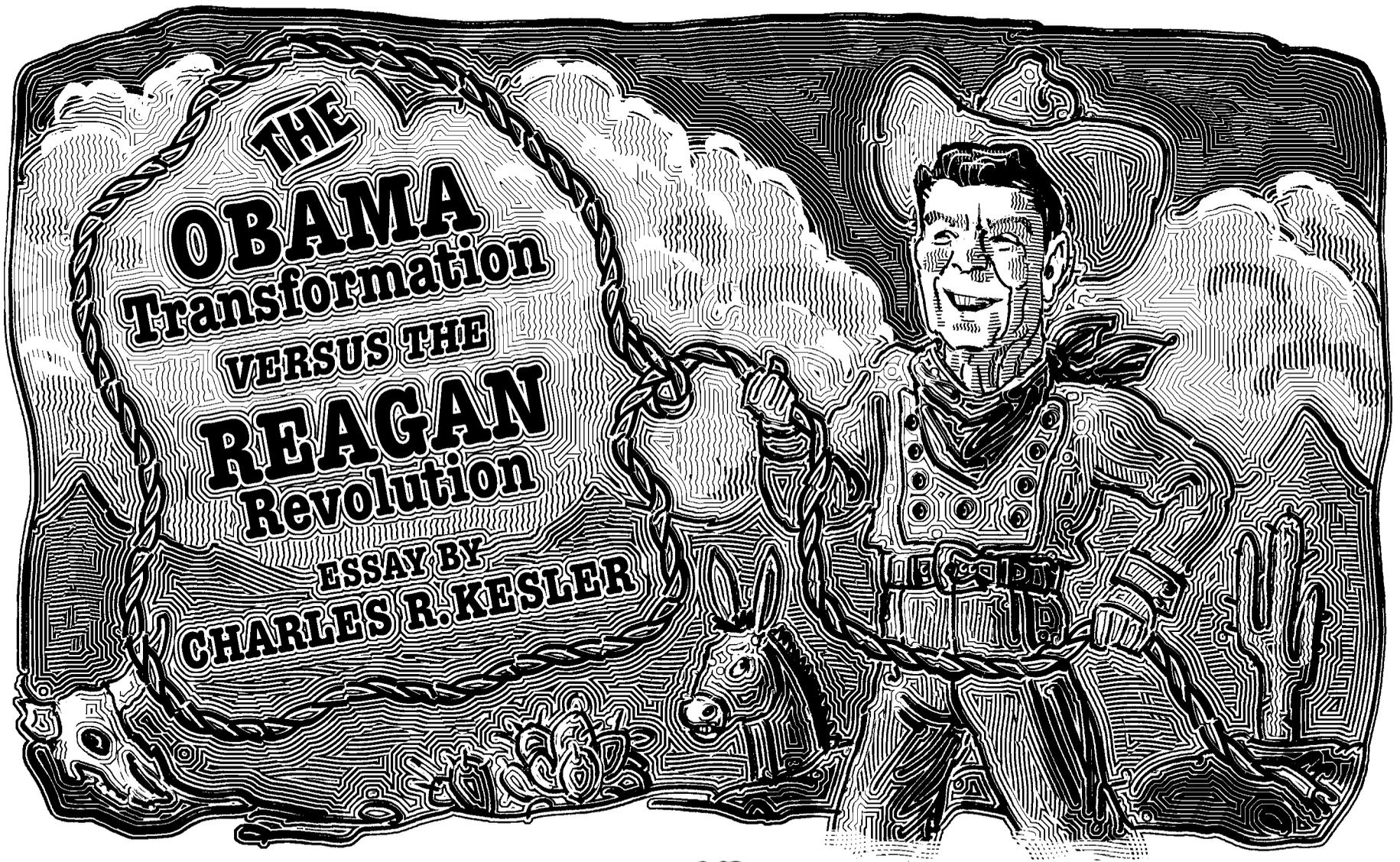


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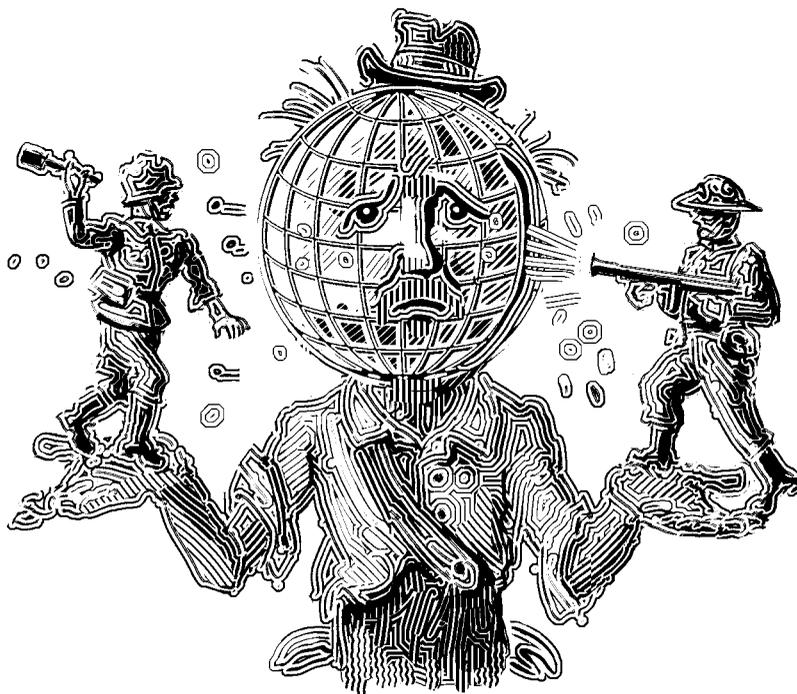
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FROM BAD TO WORSE

The Global Great Depression and the Coming of World War II, by John E. Moser.
Paradigm Publishers, 238 pages, \$150



CITIZENS OF ADVANCED INDUSTRIAL nations living near the end of the Pax Britannica (1815–1914) believed that they lived in a world of increasing peace, prosperity, and civility. Free-market competitive capitalism had brought about an Industrial Revolution that raised living standards and life expectancies while making war's destructive violence more costly. Thus, the 30 years after 1914—punctuated by World War I, the Great Depression, and World War II—were that much more devastating. (One telling fact: according to British economist Angus Maddison, per capita output in Germany rose 1.63% a year between 1871 and 1913, but a minuscule 0.17% between 1913 and 1950.)

Scholars have long agreed that these three events did not occur totally independently of one another. The harsh terms imposed on an embittered Germany after World War I, for example, poisoned relations between European nations, contributing to the rise of Hitler and, ultimately, to World War II. But few scholars have focused on the way the Depression influenced World War II. John Moser's *The Global Great Depression and the Coming of World War II* remedies that deficiency, offering an important contribution to our understanding of the pathologies that sabotaged the

relatively peaceful world and the continuous economic growth that had once prevailed.

The prosperity obtaining between 1815 and 1914 had several sources, including the emergence of a predictable rule of law with strong protection of individual property rights; relatively stable prices, and low levels of taxation and governmental intrusion into private business decisions; a move towards free trade; and a sharp decline in the number and magnitude of destructive wars. This was the ultimate realization of the practical utility promised by the ideas of Enlightenment philosophers like John Locke and Adam Smith; hence Joel Mokyr's fine account of the British Industrial Revolution is called *The Enlightened Economy* (2010).

Although the United States, Britain, Germany, and most of the late 19th century's other emerging nations generally practiced laissez-faire, the preconditions for the modern welfare state were being set. Germany led the way, with Chancellor Otto von Bismarck fostering a social security/pension system designed to mute socialist opposition. In the immediate pre-World War I years Britain began providing unemployment insurance, and the U.S. adopted the federal income tax and new forms of business regulation (e.g., the Interstate Commerce Commission and the Federal Trade Commission).

MOSER, A HISTORY PROFESSOR AT Ashland University, argues that the emergence of the modern welfare state—a Third Way between laissez-faire capitalism and Marxist-style socialism—contributed mightily to the economic nationalist and neo-mercantile policies that made the post-1929 downturn so large, leading to increasing unwillingness on the part of nations to cooperate in facing the threats from Nazi Germany and rising Japanese imperialism. Moser portrays a world in which leading national policymakers believed they lived in a Zero Sum World—gains for my country come only from losses to other nations. For example, Britain's efforts to increase its currency reserves and its ability to meet debt obligations inevitably led to policies causing a deterioration in the reserves of France—rising tariffs on French goods led to less trade and greater resentment. Hostility arose that made it difficult for France and Britain to band together in order to deal with the common emerging threat from Germany. Low tariffs and trade barriers gave way to protectionist policies, most notably imperial preference (tariffs for non-British Empire countries) in Britain and the 1930 Smoot-Hawley Tariff in the United States. Though economists like Charles Kindleberger and Barry

Eichengreen have argued that dysfunctional international financial arrangements largely caused the global Great Depression, they've failed to stress how these arrangements contributed to the inability of nations to ward off World War II.

Moser points out that in this period falling exports combined with rising social and/or defense spending resulted in deficits and other difficulties that prompted countries to pursue short-sighted economic self-sufficiency. Nations sought to reduce imports by exploiting colonies or seeking new territories—the Japanese first in China and then in Southeast Asia; the Germans first through seeking *Lebensraum* by annexing Austria and Czechoslovakia and, ultimately, by invading Poland. Economic and military pressures to prevent prewar imperialism were ineffective precisely because nations would not act in concert with one another. The fact that cyclical downturns varied between countries only made matters worse—while Britain was recovering after 1933, for example, France's economy was weakening.

ALTHOUGH I MUCH ENJOYED *THE GLOBAL Depression and the Coming of World War II*, it is far from the definitive word on the subject for at least two reasons. First, this is a short study based largely on previously published accounts, with no original archival research, and so I suspect it will provide fodder for many doctoral dissertations trying to extend or refute the Moser story. Second, the author—presumably to save space—essentially ignores the causes of the Great Depression and the role they played in causing economic distress. The bibliography includes no references to such classic explanations of the Depression as John Maynard Keynes's *The General Theory of Employment, Interest and Money* (1936) or Milton Friedman and Anna Schwartz's *A Monetary History of the United States* (1963).

This omission is not tangential to Moser's insight. The United States was the world's largest economy, and the 1929 Wall Street stock market crash is virtually universally considered the beginning of the worldwide Great Depression. Yet the financial market shock escalated what should have been a mid-sized recession into something much bigger. Why? Milton Friedman said it was because the Federal Reserve pursued poor monetary policies, allowing the money supply to decline precipitously. Inferentially, Keynes argued that the government did not vigorously stimulate aggregate demand through expansionary fiscal policy. Lowell Gallaway

and I (and others) believe that the high-wage policies of Herbert Hoover and Franklin Roosevelt contributed enormously to the decline. Kindleberger and many others argue that Smoot-Hawley and other protectionist legislation significantly contributed to the collapse, as Moser acknowledges.

Or take Britain. Throughout the 1920s, it had double-digit unemployment, less a consequence of an overvalued pound after the restoration of the gold standard in 1925 than of an excessively generous unemployment insurance scheme (a point made by economists Daniel Benjamin and Levis Kochin decades ago). In Germany, the hyperinflation of 1923 set the stage for much of the disillusionment and anger that permitted Hitler's rise; it is no accident that that was the year of Hitler's unsuccessful Beer Hall Putsch. Printing money almost never has positive economic consequences.

THE POINT I'M MAKING IS THAT A FUNDAMENTAL global misunderstanding of economic behavior and its longer term unintended consequences in the 1920s set the stage for the story that Moser tells so well. The classical liberal policy prescriptions of allowing labor markets to work (instead of using government to inflate wages artificially), maintaining sound money (instead of financing admittedly impossible reparation demands through printing money and other means), and restraining an already overly generous welfare state likely would have prevented 1929's disastrous downturn—and prevented the rise of Hitler and, perhaps less convincingly, Japanese militarists and super-nationalists. The failure to follow classical liberal free trade policies—well discussed by Moser—followed an earlier abandonment of the laissez-faire economics developed in the Anglo-American tradition by Adam Smith and disciples, in the French tradition by J.B. Say and Frédéric Bastiat, and in the Germanic tradition by the Austrian school of Ludwig von Mises and, later, Friedrich von Hayek.

Thus, the decline of free trade that plays a big part in Moser's story of rising economic nationalism is part of an even bigger intellectual drama: the wholesale decline in the primacy of classical liberal ideas of public policy. In the U.S., for example, Hoover and Roosevelt raised top income tax rates from 25% to over 80%, with FDR bashing businessmen as "economic royalists." The truly boneheaded National Industrial Recovery Act of 1933 led to wage increases of 25% or more in many industries at a time when overall unemployment exceeded 20%, stalling the recovery beginning

after March 1933. Policy missteps like these contributed as much as Smoot-Hawley to the Depression and the ensuing geopolitical pathologies it unleashed.

The ineffective pressure put on Hitler as he built his military regime after 1933 can be attributed not only to a lack of cooperation between Britain and France, but also to military weakness that would never have been as acute if the Depression had been squelched early. Neither the French army nor the British navy would have been allowed to deteriorate so much. America might have been more vigorous in opposing Hitler earlier if its economy had had 5% unemployment in 1938 instead of over triple that amount.

THE DECLINING INFLUENCE OF CLASSICAL liberal ideas came in two phases: in the generation before World War I and, then, after a hiatus of a decade, at the beginning of the Depression itself. In the United States, muckraking journalists and heroes of the Progressive era like Ida Tarbell and Lincoln Steffens encouraged economic regulation, while in Britain the Labour Party proceeded almost immediately to weaken the House of Lords and pass social welfare legislation. Although post-World War I presidents Warren Harding and Calvin Coolidge partially returned to small government normalcy, what economist Robert Higgs calls the "ratchet effect"—after a crisis, government never shrinks to its previous size—exerted itself: the top income tax rate in 1914 was 7%; by 1929, even under small government presidents, it was 24%. The classical liberal presidents were followed in 1929 by Hoover, an activist engineer who believed "experts" could turn economies around. In France, by contrast, the young classical liberal economist Jacques Rueff became increasingly influential, leading to France's return to the gold standard at a realistic exchange rate. As the Depression came, however, the classical liberal voices lost ground to the government activists. Thus in England the rhetorically dazzling Keynes bested the relatively market-oriented A.C. Pigou, Hayek, and Lionel Robbins in the battle for public attention as the downturn worsened.

These addendums aside, John Moser nicely demonstrates that the abandonment of time-tested ideas about the power of markets and trade not only deranged the world economy in the short run, but eventually brought to Europe renewed misery, penury, and death. His new book is a great and worthwhile read.

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