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Book Review by James Grant

HOLLOW PROMISES

False Dawn: The New Deal and the Promise of Recovery, 1933–1947, by George Selgin.
The University of Chicago Press, 384 pages, \$35



Newspaper cartoon by Lucius "Lute" Pease, c. 1935

THE START OF THE SECOND TRUMP ADMINISTRATION bears a closer resemblance to the Hundred Days of the New Deal than many people could imagine or would care to admit. Donald J. Trump and Franklin D. Roosevelt each set out to reinvent America's economy and the world's money with a cyclonic energy that stunned friend and foe alike.

Put aside their differences in presidential style, rhetoric, and ideological orientation. Overlook, too, the circumstances in which each administration began: depression for one, bull market for the other. Each president, for different reasons, rolled up his sleeves to administer a kind of economic and financial shock therapy to an economy that may or may not have needed it. It can be said of Roosevelt that he shocked only too well. Now the populist 21st-century Republican is retracing more

than a few of the footsteps of his progressive 20th-century Democratic predecessor.

"SUCH ARE THE TIMES," MARVELED Frank Kent, a columnist for *The Baltimore Sun*, on April 15, 1933, "that few people stop to reflect upon where the speed of the new Administration is taking us.... Congress has not stopped even to read the bills sent from the White House, much less understand them. Committees have received vast and complicated measures one day and reported them the next."

Within six weeks of his inauguration, Roosevelt had closed the banks to forestall a coast-to-coast depositors' run and, with the blessing of the federal corps of bank examiners, just as quickly reopened most of them. He had signed the Economy Act (a not wholly convincing gesture toward redeeming

the Democratic Party's campaign pledge of a "budget annually balanced"), created the Civilian Conservation Corps, and taken the first steps to repeal Prohibition. He was well on the way to achieving passage of the Agricultural Adjustment Act, a law intended to lift the prices of farm commodities by curtailing crops and destroying livestock. To achieve a general inflation, Congress presented the White House with the Thomas Amendment to the agriculture act, an invitation to fiddle with the gold dollar at the president's discretion. The law, Edwin W. Kemmerer, an economist known as the "money doctor," told Congress, gave "the President and his appointees a legal authority over the nation's currency that is almost complete. A Stalin or a Hitler could hardly have more."

To the reader long accustomed to paper currency, the "gold dollar" may require a word

of explanation. Its essence was its fixedness. Its value was defined by its weight; an ounce of gold got you \$20.67, and you could make the conversion on demand. The dollar had maintained approximately this value since Alexander Hamilton's time.

Nothing that Donald Trump has yet done with tariffs, nor Elon Musk, his former fiscal trouble-shooter, with the federal payroll, was so disorienting as Roosevelt's 1933 program to cheapen the dollar—calling in the people's gold, buying those coins and ingots at the customary rate and then, on January 1934, marking up the gold price (i.e., marking down the value of the dollar) to \$35 an ounce.

President Trump campaigned on a program of reducing the dollar exchange rate to strengthen American exports. Curiously, candidate Roosevelt, whatever his innermost thoughts, never explicitly veered from the Democratic Party pledge to uphold "a sound currency...at all hazards." There could have been no ambiguity about the meaning of the word "sound"—it meant gold. President Roosevelt, not in the least confused, wanted nothing to do with the government-constraining, monetarily inflexible, inflation-resistant gold standard. He abandoned it within weeks of taking office.

One financial upheaval followed another, some to the purpose of raising prices to lighten the burden of debts, others to regulate—indeed, punish—Wall Street and insure bank deposits, still others to withdraw American cooperation from a European project to stabilize national currencies at fixed exchange rates defined in terms of gold. Not for America, Roosevelt cabled the incredulous delegates to the London Monetary and Economic Conference in June 1933, were the "old fetishes of so-called international bankers." It was, so to speak, America first. The Europeans fumed at the mercurial man in the White House.

AT HOME, PRESIDENT ROOSEVELT WAS here, there, everywhere, and his advisers were where he wasn't. Who, Kent and others demanded, had elected these busy professors—Raymond Moley, Rexford Guy Tugwell, George F. Warren, et al.? Where were they—the president's "Brains Trust"—taking the country in such a hurry?

There wasn't long to wait for an answer. The administration was a fighting, reforming government, committed to a radical overhaul of established Democratic doctrines. It was for the centralization of power, the redistribution of wealth, the shackling of Wall Street, the raising up of organized labor, and the reorga-

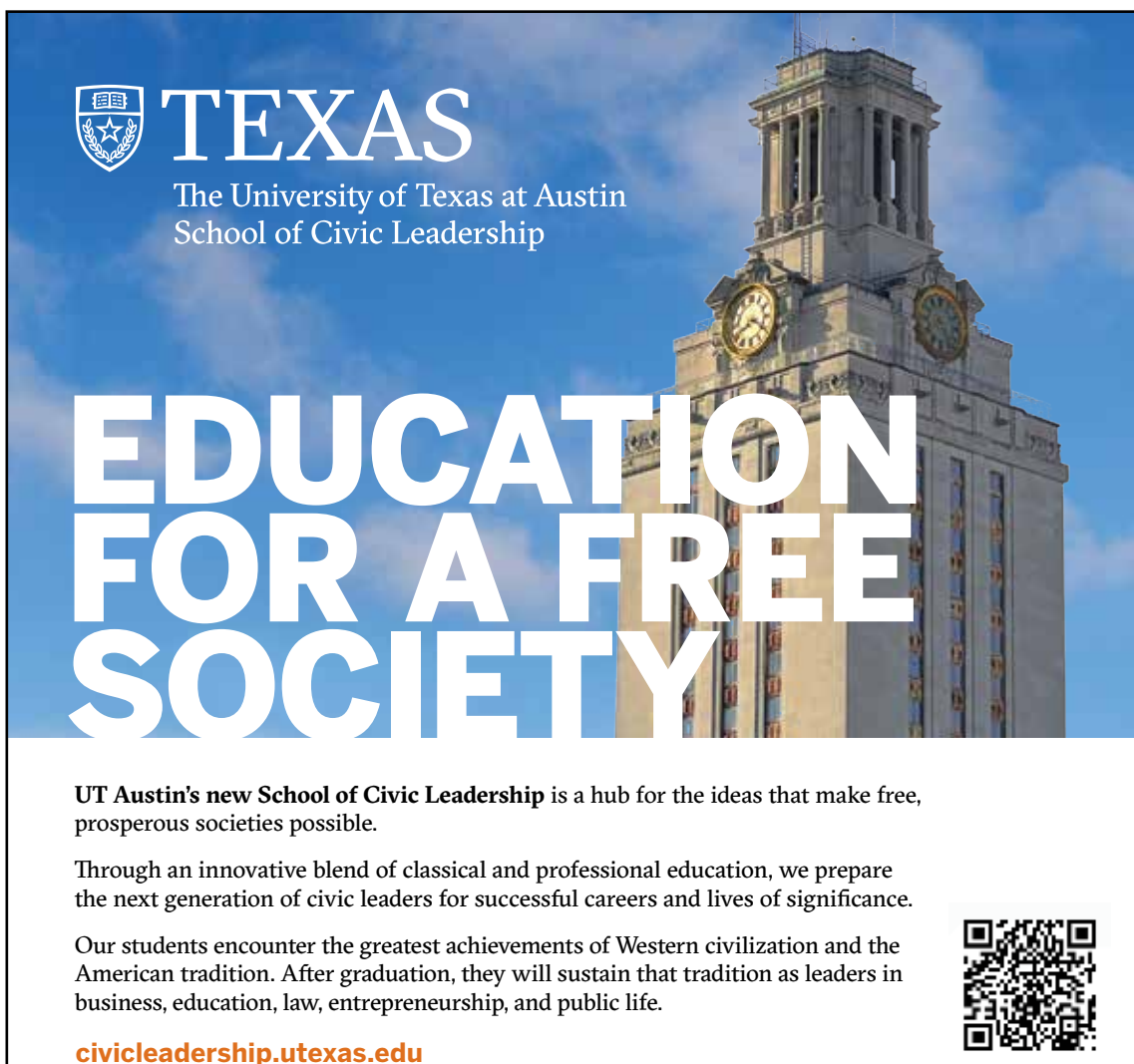
nization of the international monetary system. It would regulate hours of work, sponsor cartels, and lift wages. "There must be a new way," said Secretary of the Interior Harold Ickes, "because the old way is closed."

The timing of the publication of George Selgin's *False Dawn: The New Deal and the Promise of Recovery, 1933–1947* could therefore hardly be better. Arriving at the start of the Trump tumult, the book poses the simple question: did Roosevelt's frenetic energy succeed in ending the depression he had inherited? The title itself answers the question in the negative.

Selgin's history is not a conventional narrative of the Roosevelt years (and a few of the Truman ones) but a kind of battle of the books. Laying no claim to original research, the author ably draws on the mass of historical and economic scholarship to present both sides of the interpretative quarrels that generations of scholars have left unresolved. The eclectic Selgin—an economist and professor emeritus at the University of Georgia whose interests range from 18th-century English coinage to Bitcoin to contemporary monetary matters—arrives at some arresting conclusions about the decade and a half you can be glad you didn't live through (though an undated cover photograph of well-dressed and -hatted men in a soup line constitutes a reminder of how far the nation has sartorially fallen).

THE ROOSEVELT-ORDERED BANK HOLIDAY, March 6-13, 1933, provides a case in point. It was, Selgin contends, "among the greatest achievements, if not the greatest single achievement, of [the president's] first term." To be sure, the week-long closure settled jangled nerves, but why the jangling? Not because ordinary banks or savings banks or building and loan societies were failing, Selgin contends, but because the Federal Reserve itself was.

"It was a run on the dollar—and especially foreigners' part in it—that ultimately led the federal government to shut down the entire US banking system," Selgin writes. In lieu of dollars, foreigners demanded the gold into which dollars were convertible, and the Federal Reserve Bank of New York was the place they went to procure it. The Bank of England, perhaps suspecting that the Fed's cupboard was bare, chose to entrust a \$55 million deposit early in 1933 to the First National Bank of New York, a private institution renowned for its conservatism, rather than to the most important branch of America's central bank. The First's employees discreetly referred to



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this most irregular deposit as the “X” account, which at length was returned to the Fed.

In his quest for economic recovery, Roosevelt was advantaged from the start. The stock market had bottomed out in July 1932, as the outgoing Herbert Hoover was only too happy to remind voters, and the National Bureau of Economic Research would subsequently pinpoint the low ebb of the Depression as March 1933, the very month of FDR’s inauguration.

The unemployment rate registered at 3.2% in 1929, Selgin recounts. It climbed to 25% by 1933, and duly fell, though not by much and never for very long. It declined to slightly less than 17% by 1936, was back to 19% in 1938, and ended the decade at 14.6%. “To put the last figure in perspective,” Selgin observes, “the peak unemployment rate during the Great Recession, reached in October 2009, was less than 11 percent.”

A 21ST-CENTURY FINANCIAL OBSERVER might assume that the Roosevelt-era Federal Reserve, once freed from its gold-standard strictures, would have flooded the country with dollars. Not at all, Selgin shows. Monetary stimulus was rather forthcoming from Hitler, who frightened gold to these shores. Yes, the true-blue international gold standard was dead—Americans could no longer even lawfully own the metal—but foreign gold ingots would find a ready market once landed in New York. “Without Adolph Hitler to spawn a capital flight to the United States,” Selgin approvingly quotes Frank Steindl, one of his innumerable authorities, as saying, “virtually no US recovery would have occurred before 1941.”

One vital element of economic recovery was persistently missing, almost from the start. Capital investment was that tangible missing link, business confidence its reciprocal intangible. “[M]anagers were unwilling to embark upon plans for major improvements or for expansion in substantial volume, and the purchases of capital goods were mainly confined to replacements,” Selgin quotes the economist Sumner Slichter as testifying. By 1937, industrial production had returned to the levels of 1928, but purchases of capital goods by industrial companies were 20% lower than the readings of that pre-Crash year. The disparity was all the more striking “because the long depression had created the need for large replacements.”

TURNING SELGIN’S INFORMATIVE PAGES, one sometimes feels like a spectator at an intellectual tennis match. Whack! goes the historiographical ball as contending authors bat it from one side of the net to the other. Thus, one of Selgin’s favorites, economist Robert Higgs, author of *Against Leviathan* (2004), takes his turn with the racquet: “The outpouring of business-threatening laws, regulations, and court decisions, the oft-stated hostility of President Roosevelt and his lieutenants toward investors as a class, and the character of the antibusiness zealots who composed the strategists and administrators of the New Deal...could hardly have failed to discourage some investors from making fresh long-term commitments.”

Little seemed certain: neither the value of money (John Maynard Keynes, in 1933, called it “the gold standard on the booze”), nor the

ground rules of doing business. All one could count on was Washington’s hostility to enterprise. Roosevelt’s October 31, 1936, speech at Madison Square Garden left no doubt on that point. Trump, a fair hater himself, has rarely, if ever, matched it.

“For twelve years,” FDR told the crowd,

this Nation was afflicted with hear-nothing, see-nothing, do-nothing Government. The Nation looked to Government but the Government looked away. Nine mocking years with the golden calf and three long years of the scourge! Nine crazy years at the ticker and three long years in the breadlines! Nine mad years of mirage and three long years of despair! Powerful influences strive today to restore that kind of government with its doctrine that that Government is best which is most indifferent....

Never before in all our history have these forces been so united against one candidate as they stand today. They are unanimous in their hate for me—and I welcome their hatred.

In the end, New Deal policymaking failed to restore the dynamism of the great American economy, Selgin concludes. Neither did uncertainty and class antagonism prove helpful in the least. Donald J. Trump, please copy.

James Grant is the founder and editor of Grant’s Interest Rate Observer and the author, most recently, of Friends Until the End: Edmund Burke and Charles James Fox in the Age of Revolution (W.W. Norton & Company).

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