

# GENE SMILEY: RETHINKING THE GREAT DEPRESSION<sup>1,2</sup>

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## Review of the book

The Great Depression was evidently the most damaging crisis of the world economy in its history. The recession in the United States and in the world economy in 2007-2010 is both similar and different in many respects – as for their causes, development and consequences of economic slump. In 2007, the recession in the United States and other countries was induced by instability of the financial system. The causation of the Great Depression was more complex and has been often disputed. The Great Depression was longer and its consequences were more severe for the whole American economy and society (e.g. enormous unemployment, famine, severe poverty, civil disorder). The current economic slump has been weakening but still unsettled in many countries, thus for the time being, comparison is neither suitable, nor precise. There is lack of relevant and reliable data for a detailed analysis.

Gene Smiley's book "*Rethinking the Great Depression: A View of its Causes and Consequences*" (in Czech "*Nový pohled na Velkou hospodářskou krizi – Přehodnocení jejích příčin a následků*") was published in the US in 2002. In the Czech Republic, it was published in 2009 by Wolters Kluwer Czech Republic (in cooperation with Liberální institut). The book was out during the new crisis that led to growing scientific and public interests in this difficult topic.

Gene Smiley is an emeritus professor of economics at Marquette University in Milwaukee (Wisconsin). He is the author of many theoretical articles and the book *The American Economy in the Twentieth Century*, as well. In his second book "Rethinking the Great Depression", Smiley offers new insights and interesting conclusions about the causes and consequences of the Great Depression from the liberal point of view. He challenges many popular beliefs about the Great Depression. The book is intended to be more accessible to nonspecialists (readers without training in economics).

The book is divided into five chapters. Chapter 1 ("Prosperity Gives Way to the Great Depression") gives a chronological overview of the US economic rise and gradual overheating in the 1920s, of the Great Depression and economic instability in the 1930s. Chapter 2 ("What Caused the Great Depression?") examines the causes of the economic slump in detail: inadequate monetary and fiscal policy measures of the American administrations, including strong emphasis on preservation of the Gold Standard and

<sup>1</sup> Smiley, G. (2003), *Rethinking the Great Depression: A New View of its Causes and Consequences*, Ivan R. Dee Publisher, ISBN 1566634717, 192 pages.

<sup>2</sup> Czech translation of the book is Smiley, G. (2009). *Nový pohled na velkou hospodářskou krizi – Přehodnocení jejích příčin a následků*. 1st edition, Prague: Wolters Kluwer Czech Republic, together with Liberální institut, ISBN 978-80-7357-489-5, 180 pages.

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fixed exchange rates. Chapters 3 (“The First New Deal, 1933-1935”) and 4 (“The Recovery Aborted, 1935-1939”) analyse the President Roosevelt’s measures against the crisis (the New Deal Programmes). Author discusses their strong and weak points. Chapter 5 (“The Legacy of the Great Depression”) examines some important consequences of the Great Depression, its connections with the World War II and with the world economy developments after the World War II.

Smiley strongly emphasizes that the crisis was caused by wrong, unreasonable excessive and misplaced governmental policies, especially by strong deflationary monetary policy of the FED (which was followed by many other countries by 1929). These deflationary policies restricted the economic activity and reduced price levels. The economic downturn was notably accelerated by the New York stock market crash (which was not the cause of the Great Depression – on the contrary, it was one of its consequences) and subsequent decline in consumer spending and investments following the crash. According to Smiley, The Great Depression did not start in the United States. By 1929, Germany, Brazil, countries of Southeast Asia and other countries were already experiencing economic depression. Although the Great Depression was relatively mild in some countries (e.g. in Great Britain, France and Japan), it was severe in others, especially in the United States. The real recovery of the American economy lasted from late 1935 until 1937, when a new crisis occurred. Because of the slow and very short recovery, the entire decade of the 1930s in the United States is often described as the Great Depression.

The economic slump in the second half of the 1930s was caused by the premature monetary restriction of the FED and strong growth of wages and labour cost (following the new government measures and increasing bargaining position of the American labour unions). As for the New Deal Programmes, Smiley persuasively argues that they did not help to restore the American economy. On the contrary, they were directly impeding the economic revival (e.g. rising taxes and tariffs, direct control of prices and markets, controlled cartelisation of industry and agriculture, wage control). Smiley also overcomes the presumption that the Great Depression was suppressed only by the World War II. According to the author, the war only gave a boost to the economic recovery after the year of 1946. Smiley calls the Great Depression a “defining moment” in the twentieth-century history of the United States. It definitely transformed the role of the federal government in the economy. The US government started to expand its activity in the economy, to control activities of most businesses, to create social security and unemployment compensation schemes. The Great Depression also changed economic thinking in the United States in favor of the Keynesian view of the economy.

From the formal point of view, the reviewed book misses some (mostly scholarly) essentials: detailed explanation of the methodology in the preface; tables and charts clearly demonstrating certain phenomena explained in the book. Standard footnotes and comments are absent; list of used literature is chaotic and deficient. Of course, Smiley can not be blamed for the poor quality of paperback’s binding.

The book “Rethinking the Great Depression” is very suitable both for students of high schools and universities and for the general public. It is a clearly written summary of the main causes of the Great Depression and its legacy for economic policy.