

# The Family Heritage Series

A weekly discussion of Americanist truths and traditions for those "heirs of all the ages" who will have to preserve that most important inheritance of all — freedom. Produced by the Movement To Restore Decency.



Volume II

Lesson Ninety-Nine

## Depressions

### LESSON IDEA

To show that free enterprise is an extraordinary mechanism with built-in correcting devices, that depressions are normal "illnesses" of the system which, if allowed to run their course, speed recovery, and that "doctoring" the system, as Herbert Hoover did in 1929, makes the depression worse.

\* \* \*

**D**O YOU REMEMBER the times in your life when you have been sick? Perhaps it was because you stuffed yourself with chocolate cake, or sugar cookies, or turkey, or green apples. Or because you had mumps, or measles, or chicken pox. Do you remember how uncomfortable you were?

Do you think it would be possible to live your whole life and never be sick? You might escape colds, coughs, stomach aches, and measles if you lived in Heaven or in the Garden of Eden, but not while you live on lumpy, imperfect Earth. The amazing thing is that you are equipped for earth living with such a wonderful mechanism as your body, which can fight off sickness with the quickness of a karate expert. When you gorge yourself on chocolate cake, for example, your stomach automatically throws the overload up and out. No need to call in a committee of chocolate cake experts to study the problem and advise your stomach of the probable consequences and relationships of various types of meaningful alternatives. Your mistreated stomach short-circuits all bureaucratic committee meddling by simple, direct action: *up and out*.

The action is just as automatic when a virus, or "bug," invades your blood stream and begins to pollute it. Immediately an army of white cells, loyal to you, rushes to meet the enemy and do battle. No doctor or committee of doctors tries to stop the cell army or to tell it that its swift counterattack is old-fashioned. Only the viruses, or their manufacturers, would want to discourage the cell army.

Suppose for a minute, however, that a committee of scoundrels were conspiring to make their fortunes by manufacturing viruses and peddling disease; and suppose this committee decided its best strategy was to demoralize the cell army by circulating lies about it. The fact that viruses keep coming back year after year, these deceivers would say, proves that the cell army system is a failure; perhaps it was good in the olden days, but today's complexities demand something new: an anti-virus virus. If your cell army believes this double-talk and stops fighting, what will happen? If doctors are persuaded to add more viruses, even though they are called "anti-virus viruses," to your already virus-plagued blood-stream, will you get better or worse? [*Encourage discussion. Be sure family members understand that an "anti-virus virus" is nevertheless a virus. Giving it an "anti" name does not change its nature — or its effect on someone who is ill.*]

The wonder machine in which your mind and soul are housed is truly magnificent. Just think of all the different parts — nerves, muscles, blood, bones, and skin — and how they work

together. No inventor has yet created a more complicated machine, or one that has so many self-correcting devices. And if there is a breakdown in this extraordinary piece of equipment, you take it to an expert who has studied the system for years and can be trusted to tinker with its parts. You would be foolish to take it to a know-nothing, or a quack, or someone who has more interest in your illness than in your good health. The same logic applies to our nation and its money machinery.

**D**ID YOU KNOW that when our country was still in rompers our money machinery was in better health than it is today? We called that machinery free enterprise — not because money was free but because everyone was free to use his ingenuity to earn as much money as he could, so long as he did not interfere with the rights of others. And free enterprise, like the wonder machine called a body, dealt directly and swiftly with those who tried to abuse it. Suppose, for example, you were a butter-maker, and you decided that in the interest of making yourself a millionaire, you would price your butter at ten dollars a pound instead of one dollar like other butter-makers. How long do you think you would be in the business? [*Emphasize the importance of competition in price setting.*]

Free enterprise did not need to call in a committee of experts to advise you of the probable consequences and relationships of various types of meaningful alternatives to your greed. Its reaction was simple and direct; it said to your greediness just what your stomach said to your gorging with chocolate cake: *up and out.*

Let's take another example. Suppose all the butter-makers got together and decided that, in the interest of making all of them millionaires, they would price butter at ten dollars a pound. This would be a greed conspiracy — sometimes called a monopoly — against all the butter-eaters. Anyone who wanted to eat butter would have to pay ten dollars a pound because the butter-makers would be conspiring against the butter-eaters instead of competing for their dimes and dollars as customers. Would free enterprise send a committee of experts to study the problem and reason with the butter-makers? Why wouldn't this help? [*Discuss the likelihood of being able to talk conspirators out of being*

*conspirators by appealing to their better instincts. If they had better instincts, would they be conspirators?]*

In less time than it takes to appoint a committee, free enterprise would have broken up the greed conspiracy of butter-makers by simply offering a butter substitute — like margarine — at a lower price than butter. If the substitute was not already available before the butter conspiracy began, some deprived but ingenious butter-eater would surely originate the idea rather than pay the outrageous price of ten dollars a pound for butter.

So you see that free enterprise, like the human body, had many self-correcting devices that countered the designs of those who tried to abuse it. But occasionally, an overpowering virus marched into the bloodstream of our money system and began to pollute it. Like mumps, measles, or chicken pox, the disease seemed to be having its way for a time and the patient lost all his "get-up" and sometimes even his "sit-up." When this happens to an individual, we call it an illness; when it happens to our free enterprise system, we call it a depression. And even though an army of resistance is fighting the viruses almost from the moment of invasion, the future looks hopeless to the sufferer. There's Molly the mumps victim, for example, who wonders if she will ever get rid of her discomfort and her funny chipmunk cheeks. "Give it a week," says the doctor.

A week or two passes, the mumps "bugs" are surrounded and defeated by the army of cells designed for that purpose, and Molly is once again a happy and healthy young lady — until she gets the chicken pox or a sore throat — or eats too much chocolate cake.

**I**N THIS IMPERFECT world, the same thing has happened to our free enterprise system from time to time. The first illness, or depression, came on in 1819. Others followed in 1873, in 1893, in 1907, and in 1920. Sometimes the invading viruses were rather weak, and recovery was quick; sometimes they were stronger, and it took longer for free enterprise to recover. But each time, the system's own healing powers were allowed to operate freely. No doctor or committee of doctors tried to stop the natural processes of this wonderful self-correcting machine, though several quacks in some of the state govern-

ments did sometimes interfere; but in spite of these minor errors in treatment, the recovery period was usually limited to one or two years. It was not until 1929 that this extraordinary system languished in the sick room of depression and ultimately became an invalid — and then only because the experts who tried to doctor it interfered with the natural healing processes and injected more and more viruses into its ailing bloodstream, always on the pretext of hastening recovery.

**T**HE “DOCTOR” who initiated this wrong-headed treatment was Herbert Clark Hoover, thirty-first president of the United States. Hoover liked to think he was “forward-looking” and that his diagnoses and remedies were new and ingenious. Actually they were old and dull — perhaps because Hoover had spent so much time in Europe, where socialists and communists were busy giving new names to the old idea of establishing dictatorships with themselves as dictators.

These socialists and communists knew that in order to make people obedient to their dictatorships they had to control the amount of money everyone had and the way it was spent. No such control could have been possible under free enterprise where people were free to make as much money as they could and to spend it as they wished. Which is the reason would-be dictators hated the system and did everything in their power to destroy it. They seldom said so directly, however. Usually they tried to demoralize free enterprise’s friends by telling lies about the system. The fact that there are depressions, these deceivers said (they are still saying it), proves that the system is inefficient and primitive; perhaps it was good in the olden days, but modern complexities demand something more sophisticated: for example, a planned system of buying and selling to eliminate waste and error. Can you guess who would do the “planning” in this “new” system? [*Power-seeking politicians, of course.*] Can you think of another word for “planning”? How about “control”? Or “dictate”?

Americans began to hear about government “planning” and “control” when Herbert Hoover was appointed Secretary of Commerce by President Warren G. Harding in 1921. In September of that year, Hoover called 300 experts together to discuss

the problems of unemployment. Harding, who understood the self-correcting powers of free enterprise, told the experts to leave the system to its natural healing processes; but the experts, under Hoover’s leadership, thought that this proven method for curing depressions was inefficient and primitive. They decided that free enterprise should no longer be allowed to have its illnesses and recovery periods. It must be “doctored” by the experts. It must be programmed and planned and directed — by “forward-looking” politicians, of course. Most specifically, men who were out of work must be put to work on jobs created by the political planner’s magic wand. These magic jobs were to be called “public works,” and they were to include everything from digging ditches in swamps to building sidewalks alongside dirt roads. The ditchdiggers and sidewalk-makers were to be paid with money borrowed by government from the Federal Reserve.

Do you remember from past lessons how banks loaned money they didn’t have by issuing extra gold storage tickets and gambling that all the gold owners would not want to take their money out of the bank at the same time? Do you remember why and how bank loans can make prices go up? [*Remind family members of the auction principle: When many loans are made and there are many storage tickets for people to use as money, there are normally more bids on things offered for sale, and prices go up. When there are fewer storage tickets available, or fewer loans made, there are fewer bids and prices normally drop.*]

Fortunately, during the illness of the free enterprise system in 1920 and 1921, President Harding and his Cabinet did not follow the advice of the experts who wanted to “doctor” free enterprise with ditch-digging jobs and bank loans, and the illness the system suffered soon passed. Hoover and his plan, however, did not. In fact, he began peddling another magic potion: the idea that the secret of America’s success was not her free enterprise system, but her high wages. (This is like saying that the secret of a basketball star’s success is not his ability and training, but his high scores.) Senseless as it seems, Hoover and many others believed in the magic of high wages. He still believed in these worthless depression remedies when he became President in 1928; and he clung to them while he helped free enterprise’s enemies stuff the system with

paper currency and other poisonous viruses that only made it sicker than it had been before.

The crisis came on October 24, 1929, when a panic in the stock market started prices sliding downhill as if on sleds. Free enterprise was regurgitating all the paper currency and inflationary bank loans that had been forced down its throat. Had nature been allowed to take its course, recovery would have followed the cleansing; but Hoover, the "forward-looking" politician, stepped in at this point with his medicine bag.

What this patient needs, he said, is a healthy dose of paper currency and inflationary bank loans. With his magic wand he created thousands of ditch-digging jobs in the name of "public works," then rushed off to make bank loans in the name of the taxpayers to pay the ditchdiggers' wages. At the the same time he demanded that businessmen keep paying their employees the same high wages they had paid when prices were high. (Normally, the bloated wages would have fallen in the price slide, then both would have leveled off together.) Businessmen who could not afford to take in little and pay out much were forced to take out bank loans to stay in business. To Hoover, the idea of propping up things that wanted to fall seemed so good that he decided to try the same trick with prices, especially on farm products like wheat. Once again, in the name of the taxpayers, the government borrowed money — this time to pay the farmers a higher than normal price for such things as wheat.

Anyone who questioned Hoover's doctoring methods was assured that they were new and ingenious; in fact, he had discovered, he said, an anti-virus virus which was sure to cure all the ills of free enterprise. In 1930 few people seemed to notice that an anti-virus virus was, nevertheless, a virus; calling it an "anti" did not change its nature. By 1931, however, it was easy to see that Hoover's anti-virus virus was making the patient worse, not better. Yet he persisted in spooning in more and more. If it hasn't worked, he seemed to be saying, it's only because the doses have been too small. Give the patient more! Can you guess what happened?

Yes, you're right: Free enterprise got much sicker instead of better. But it is only fair to mention that Hoover was not alone in advocating this wrong-headed doctoring. All the enemies of free enterprise — the socialists, the communists, and the monopo-

lists — cheered the President's remedies. So did many well-meaning but woolly-minded businessmen, educators, politicians, and labor leaders who did not understand free enterprise and its extraordinary self-correcting devices.

By 1932, however, most Americans could see that something was drastically wrong. Taxes were higher; jobs were fewer (twelve million men were out of work); and government was borrowing more and more money and throwing it away on extravagant purchases, bad loans, and welfare handouts.

What Americans wanted in 1932 was an end to Hoover's remedies, and that is exactly what Franklin D. Roosevelt, governor of New York, promised and why he was elected. It is not, however, what he delivered when he became President. More about that story in the next lesson.

### DURING THE WEEK

Hold an auction during the week using common household objects, favorite foods or snacks, or valued possessions. Give each family member ten dollars of play money to use in the bidding. Keep a record of the prices paid. The following evening re-auction the same items, but give each family member one hundred dollars for the bidding. Record the prices and compare with those from the first auction, showing how prices tend to rise when the money supply is increased. Review lesson 97 on the Federal Reserve; give special emphasis to the explanation of how an increase in bank loans increases the money supply and creates inflation.

### FOR SERIOUS STUDENTS

For a step-by-step analysis of the 1929 depression and Hoover's reaction to it, we recommend *America's Great Depression* by Murray N. Rothbard, available at most public libraries. Another excellent source of detailed information is *Understanding The Dollar Crisis* by Percy L. Greaves, Jr. (hardbound, \$7.00), available from most American Opinion Bookstores or from American Opinion, Belmont, Massachusetts 02178.

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### The Family Heritage Series

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