Are We Headed Toward Another Great Depression?

A Conversation with Amity Shlaes

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Moderated by Tom Giovanetti

TG: We're delighted you all could join us. My name is Tom Giovanetti. I'm the president of the Institute for Policy Innovation. We're a 33-year-old free-market think tank based in Dallas. I'd like to welcome you all to our Zoom policy briefing today. We've done a number of these over the past couple of months; and while it's not as good as seeing people in person, it is, at least, an adequate substitute.

I would also like to thank our friends at the World Affairs Council of Dallas/Fort Worth for co-sponsoring today's briefing.

Our briefing today is with a longtime friend of IPI's, Amity Shlaes. We're delighted that Amity could be with us today to give us a historian's perspective on our current situation, including the economic crisis caused by the COVID-19 pandemic, but also her perspective on some of the current civil disruptions that we're having as a result of what appears to be a pretty serious abusive situation at the hands of police. Some of Amity's research into the Great Society is relevant to that as well; so it's actually very timely that we have Amity with us today.

Amity is the chair of the Calvin Coolidge Presidential Foundation as well as the author of five books, including three New York Times bestsellers. Among those are her wonderful book on taxes, *The Greedy Hand, How Taxes Drive Americans Crazy and What to Do About It.* Probably her best-known book is *The Forgotten Man, a New History of the Great Depression,* which also exists in graphic format, which is really fascinating just from a publishing experimental standpoint, and it's great fun to read the graphic version if you've not done that already. She's the author of a biography called *Coolidge* and became such an expert on President Calvin Coolidge that, as I mentioned, she became the chair of the Calvin Coolidge Presidential Foundation. And, then, Amity's most recent book is *The Great Society, a New History*, a look back at Lyndon Johnson's Great Society program; and that's the only one of these that I've not yet read, Amity; so that's next on my list.

In fact, last night I got the Kindle version of it, so I plan to dive into that as soon as I possibly can.

Some years ago, more than either Amity or I would care to recall, we had Amity to Dallas to speak at a luncheon when she came out with *The Greedy Hand.* We'd love to get her back to Dallas sometime in the near future; but for now, Zoom will have to do.

So, Amity, we are seeing unemployment numbers that parallel those of the Great Depression, and it's quite a shock to many of us who were enjoying a relatively robust economy to suddenly be seeing numbers and charts that have as their antecedent the Great Depression.

We've talked internally here at IPI about how for the rest of our lifetimes, people will look at some of these economic charts and they'll say, "What on earth was that spike?" Or, "What on earth caused that huge dip and drop?" And it's going to make for some interesting charts in future years.

Of course, the cause of all of this is very different than the cause of the Great Depression; but a lot of us are wondering right now, how quickly will the economy be able to get back on track? Are the actions that the federal government has taken helpful? Are they harmful? Are they adequate? And, of course, your research and writing on the Great Depression is very relevant here, and particularly your insights that government actions tended to extend the Great Depression rather than hasten an economic recovery.

So we're all eager to hear your perspective on that and other things that we're facing right now currently. What the federal government should be doing. The great dangers of the wrong things that the federal government might do and make things even worse.

So, with that, I'm very pleased to turn things over to our dear friend, Amity Shlaes.

AS: Thank you, Tom. I am very grateful to Tom and to IPI for several visits; and, also, I will say to the Bush Library and President Bush, 43, for some time I spent in Dallas working on high school economic debate and other economic projects with the presidential center and library.

I'm very happy to talk to Texas. It's an important place for me, but I would also like to welcome all non-Texans who are appearing on this show, so it'll be great.

We're looking at the numbers, and we're explaining them—what—to our children, ourselves, our grandchildren; and unemployment is well over ten percent. That is a very high number. Anything over ten percent, particularly well over ten percent, recalls the 1930s and the Great Depression. That is—as most of you know, but I'll remind just in case—that is the point when we had double-digit unemployment for a decade. There were a few blips of non-10 percent unemployment, but just about rest of the time, it was 10 percent.

That double-digit unemployment for a decade was what put the word “great” in the phrase the Great Depression. No question about it. But, of course, in the same period, we saw the market go down. The peak of the Dow in 1929 was 381, which was real high for the period. It had been 200 or 100 just a few years before, so the market crashed, as you know, in 1929. What's remarkable is that the market did not come back to that high until well after World War II.

So the younger people on the show today, I think most of us think an ever arising Dow is now our birthright. That was not the case, say, for people born in 1920. They had to wait until they were adults to see the Dow come back to the 29 level.

That was quite disconcerting to see the Dow down that long. So however you write it, the Great Depression was great.

But sticking to the unemployment, as Tom hinted, these are data points; and a few data points do not a Great Depression make, even if they are “Great Depression” level data points. There were many other points in American history we know now, by going back and doing some math retroactively and maybe running some regressions, that there were a number of points in American history when unemployment was over 10 percent, it's important to understand. One would be in the early ′20s, for example. That's the Forgotten Depression, which F. Scott Fitzgerald described in *The Great Gatsby*.

We think of *The Great Gatsby* as describing the 1929 crash. *The Great Gatsby* was, however, published in in 1925. Tell every high schooler that. So it was describing the downturn in the early ′20s. The unemployment then was terrible. It was just brief and probably not publicly known. That's the second point that's important to note.

A number only matters when it's well known and publicized and carefully, publicly quantified. We wouldn't care so much about unemployment if we didn't have the ritual of the Labor Department or the BLS quantifying with great fanfare, say, on Friday mornings. Until recently the government didn't quantify unemployment every week and month. It didn't even quantify unemployment as Roosevelt came into office.

So those previous 20 percent unemployments, which we're pretty sure existed by using other math or by going to look at state data, aren't well known which makes the Great Depression better known, and it makes it seem rarer.

You can find three or four points when unemployment was pretty likely 20 percent in the United States, we just don't know about it because it was never officially quantified in that way, and because it wasn't in the interest, necessarily, of the history book writers to publicize the data retroactively.

So think about that. When you give someone a number you give them an argument.

What was it about the Great Depression that made the Great Depression great? I tend to anthropomorphize. Recoveries are like people. They make choices. And from 1929 to 1940, every year, the recovery took a look at the United States and decided to stay away. All things being equal, the recovery wants to come back, America wants to grow. The recoveries do make choices, and the recovery said, "Not this year. I'll sit it out.”

Why was that? Usually for a different reason every year, always, though, bad policies. So we've had some debates. Tom and I've even had some debates, and I think with Dr.

Savings, for example, about the monetary issues in the early ′30s. Some of us call it “deflation,” some of us call it “a credit crunch,” some of us have other terms to describe what happened in the early ′30s. You can be in the Kindleberger school or you can be in the Barry Eichengreen school or you could be in the Milton Friedman school or you can be in the Austrian school and have a different explanation for why things were bad then, and people had to print their own money. There was printing of money, making up of some script, including in Texas.

Anyway, something was wrong with the money in the banks. There's a lot of general consensus on that. But you cannot explain the Great Depression by monetary. You can explain the first part of it by monetary and banking.

I would argue, say, 32 to 40 other factors mattered more, though monetary always played a role.

I do think—I will emphasize—I think the monetary fight is divisive and obscures from us the real problem.

Other causes of the duration of the Great Depression, of the duration of that unemployment that made the Great Depression great. One was labor price. We were never allowed to argue that in school, but truly the labor price in this period, the cost of employing someone, was too high.

So what will an employer do when he's not in a crunch, and he doesn't get payroll protection money, necessarily, or he gets the wrong kind of payroll protection or forgivable loans (to use the current vocabulary)? Well, a sensible employer who shorts profits, who shorts revenues, who's having lower sales will reduce wages. Right? Because we all like the people we work with, and turnover is very expensive, and retraining people is very expensive, and we don't want to cause heartache.

That was the tradition in the United States up until 1929. That is what happened in recessions. Employers went to employees—and many of you are employers—and said, "Gee, this year I can't pay you quite as much or give you the raise.” Or ,“I'm going to furlough you for a time, and hopefully you'll be back by Christmas.”

In the Great Depression, we had a different philosophy; and, here, the blame and responsibility starts with Herbert Hoover, so it was a bipartisan, different philosophy which relates to what we would call Keynesianism today. We said, "Let's pay everyone as much as we can because then that will stimulate demand," which was then a new concept. It was sort of proto-Keynesian because Keynes hadn't published all his great works by the early ′30s; it was the mid-30s that he did. "Let's pay really high, and let's force or pressure or use moral suasion upon business to make business pay higher wages than otherwise might in this very difficult time.

So Herbert Hoover exhorted business to pay high wages even though business had less money, less money coming in, and signed laws that put upward pressure on labor price such as the Davis-Bacon Act, which you may have heard of. It sounds obscure, but, actually, of course, has an effect on government contractors, who, of course, were proliferating in the New Deal period when there was a lot of government work relative to the past.

Then other laws from Franklin Roosevelt, who was the president from 1933, also put upward pressure on wages. You think, "Oh, Texas is a right-to-work state." In those days, all states were union states. That was before the Taft-Hartley law which created the right-to-work option for states. So every state was a closed-shop union state; and the president backed the unions, and the unions demanded very high wages. So companies were really under stress.

They had to pay high wages or they had violence. (Think of today.) They had actions. They had the sit-down strike. And the administration—that would be the Roosevelt Administration—was on the side of the unions, clearly. The NLRB was a new and powerful thing.

So if you look at a chart of the 1930s, what you see as an employer is that wages were unnaturally high for such a slow economy, tragically high, because that meant people couldn't be rehired. You think of the truisms, "Nice work if you can get it," or you think of what your grandparents said, particularly in the non-agricultural area, "If you had a job, you were alright” for your parents. I heard that over and over again. It was alright in the Great Depression if you had a job. The trouble was getting a job.

That phrase conveys what was real, which is the rigidity in the employment market due to the pressure for high wages. People didn't hire easily. It was a break in history.

And if any of you are really interested in data on that—this is suddenly a controversial thing to say though it's patently true—there are two economists I recommend. One is Lee Ohanian at UCLA. Maybe he's spoken here. And another is Harold Cole. And they chart the whole century and show that the government and the unions, basically, insisted wages be high; and, therefore, the unemployment in the 1930s was that much worse, that much more egregious. So I want to mention that.

A couple other factors, what made the Great Depression great, and we can go into all the detail. One was regulation. And when I say “regulation,” I really mean regulation.

You're in Texas. One of the things I read—and that's in my new book *The Great Society* about Lyndon Johnson—was that there was a lot of plowing under crops in order to curtail supply—quirky economics in order to drive up price, and that the mules of Texas refused to plow under or step on the crops like the mule drivers were hoping they would because the mules had been trained to be very careful about the tender plants, right? Animals learn well, and they knew that they weren't supposed to step on those darn plants.

And if you look up about Lyndon Johnson, you'll see as congressman or head of the National Youth Administration, he was involved in the curtailment of supply, perverse in Texas, of course, at the behest of President Roosevelt and at the AAA within the National Recovery Administration, which was sort of the industrial counterpart, right, the great authority that managed the US economy—if you can imagine they actually had the chutzpah, the hubris, to try to manage the US economy in the name of recovery. There was just very heavy regulation written by suspect parties.

So every interest group got in there and said, "We're creating an institution to bring back recovery. By the way it's going to support our interest.”

What do I mean by that? The supermarkets got control of the poultry regulation, and they rigged the poultry regulation to favor the supermarkets, not the old-fashioned live poultry shops or the little shop where you used to buy your chicken. And that killed the little businesses. Just now, as you see Walmart winning or mail order winning relative to the specialty shops because of the arbitrariness of the COVID culture.

The COVID culture, in fact, really does recall what it was like in the New Deal, in the absurd arbitrariness of it.

And this, too, I will mention, ladies and gentlemen, is deeply controversial for me to say, even though they recognized that at the time and said so in the newspaper.

Last summer, I wrote a piece about chicken regulation in the New Deal, and how they ended. In the name of recovery, the decision was that customers could no longer pick their chicken. No consumer choice. Because consumer choice slowed commerce because the consumer took a long time picking his chicken. (These would be live chickens.) And that's just crazy. As we know today, customers relish choice. It's the basis of the business, Starbucks, right? Whether you have foam on your latte or not is your sovereign right, and that's what drives you into Starbucks.

Anyway, the New Deal laws regulated to the nth how businesses acted, often perversely, and made a lot of rules; and I argued about that, and I got attacked last summer by a Harvard law school professor named Mark Tushnet, who said this just wasn't true, and that I should never say this, and how dare I say this, when evidence, of course, is there right in the testimony of the court cases about the New Deal.

So, even as we've known one another, Tom—and this audience and I have known one another—saying the obvious factual story, repeating the facts that we knew, has become more controversial, including in economics.

The third factor that made the Great Depression great was the uncertainty of a large government. And COVID makes that all so much clearer to us, again. You don't know what they're going to do. Are they going to want masks? Are they going to say masks are useless? Are they going to let us open? Are they not going to let us open? And, of course, business will always freeze. It will freeze because when there's an elephant in the room, like a big regulator for health or economics, that slows recovery as well, in tragic fashion.

There was an economist I love very much named Benjamin Anderson. Anderson wasn't a marginal economist. He was the chief economist of Chase, the bank. And he wrote a wonderful line that applies today. He said, "What caused the Great Depression and made it great? The government decided to play God." It was due to the government's decision to play God, to assume it could do more than it could and demand of its people the authority to do that.

And, then, even better, he said, "When the government saw that playing God didn't yield the recovery that it had promised, it then did not cease to play God. Rather, the government resorted to playing God more vigorously." And that reminds us of 2008 and the multiple rescues or the multiple rescues now vis a vis COVID. When government fails, it doesn't give up playing God; it plays God more vigorously. I like that very much. I think I'm going to make a crossword puzzle out of it or else at least a jigsaw. Play God, and then play God more vigorously.

And, I'll say just one more thing: You know my Great Society book is new. I'm very proud of it. As many of you may know, there's a lot of Texas in it. But the story with the Great Society is the same: The government played God, didn't get the result it sought, so it played God more vigorously. That was the Great Society.

TG: Well, Amity, it's no surprise to me to learn that the mules in Texas were smarter than the policymakers in the federal government. I'm not at all surprised by that, not one bit.

And, you know, so much of what you talk about reminds us of Hayek's knowledge problem, which is government bureaucrats assuming somehow that they have big enough brains, and that they have enough information to manage a system as complex as a national economy with, today, more than 300 million people acting in it; but, back then, certainly, a couple of hundred million people acting in the economy.

And this one of the things that I just love so much about your book about the Great Depression. It would be funny if it weren't so sad, right, some of the stories and some of the anecdotes about things government tried to do to tell virtually every sector of the economy how it ought to be operating. Bureaucrats showing up telling farmers how they should be plowing their fields. And in most cases a bureaucrat who had never plowed a field in his life, but thought his brain was so big and his access to knowledge was so great that he knew better than the farmer what they should be doing.

AS: Well, what's interesting today—I mean, think about COVID and the authority of government. First, government told us not to worry. Then government told us not to wear masks. Then government told us that ventilators were the only answer. Pretty soon it was discovered that the mortality rate on ventilators was terrifying, and if you have any health condition, you've thought about that and whether you're going to let them put you on a ventilator and whether your spouse will be there to fight for you (probably not because you have a contagious disease), and what are you going to do to resist that ventilator because x percent, which is a very high one, die in those darn ventilators.

But this has all been a learning curve, and clearly the government knew nothing at the beginning, the state governments, the hospitals, even the doctors because this was a new disease; and, yet, the government, after so many errors, these governments still claim authority as if it had a perfect, sterling record on this health crisis.

So that was the New Deal. Every time something didn't quite work out or looked very embarrassing, the government would actually strengthen its authority and move on to the next project.

And I hadn't really remembered it so well till this spring when we went through COVID, which reminded me.

TG: You know, it’s interesting to me: If they would simply acknowledge that they didn't know and that they didn't have the answer, I, at least, would have more respect for them; but somehow when you have a bureaucratic title with the government, you're not allowed to do that. You have to always be giving the impression that you have this huge amount of knowledge, and that you're in charge.

The mask thing drives me up the wall; but, you know, one of the original sins in the whole COVID-19 thing was the CDC botching the first round of tests, right? So, we place this enormous amount of trust and reliance in our “betters” in the federal government; and, in fact, it was they who dropped the ball at the very beginning, not the people. It was the specific government agency that was tasked with being able to manage that one bit of competency, and they weren't able to do it.

AS: That’s right. You know, I'm the chairman of the Hayek Book Prize, and there should be twenty Hayek book prizes because he explained—even though he himself was an academic—the fallacy of assuming that you can know everything. Because, essentially, those of us who are in business get feedback from the market all the time. If we have a retail product, we know in one day that the market likes or doesn't like it, and what the market does or doesn't like about that product. So, overnight, we can edit the product and come up with Version 2 tomorrow.

Hayek was essentially saying the government doesn't get much feedback. It gets elections every four years for president, maybe two years for congressmen, six years for senators; and, also, it's insulated because many government politicians only listen to interest groups, so they have a little bit; but they're basically insulated. It's like the government employees now who are going to be the last to be laid off so they don't understand the damage of the layoffs they are causing through shutdowns.

So, yeah, I do think Hayek is our philosopher. He's certainly the philosopher of the Great Society book too. In fact, he's a character in the Great Society book. He was there.

TG: You know, you were talking about ventilators, and I'm thinking about the speed of government. You know, right now, there are bureaucrats right now still issuing contracts for the manufacturing of ventilators. And three years from now, there will still be some company out there making more ventilators than we actually need on a federal contract, even though we've already figured out the lack of ventilators was not the problem. Again, because government doesn't respond to incentives the way private sector businesses do.

AS: Well, and you look at Benjamin Anderson. This the economist I cited about playing God. If you take anything away from this, say Benjamin Anderson. And I want a say a thing about the United States related to that and COVID.

I really fell in love with Benjamin Anderson, who was like Hayek, but from America in the 1930s. His book is called *Economics and the Public Welfare*, and it's a little dense, but it does talk about playing God. And no American economist I knew had ever heard of this guy, even though he was so important and the Chase banker.

One day, my phone rings, and it was a Russian economist working in the Kremlin. And he said, "Amity." But he didn't; he said "Emity" because he had a Russian accent. He said, "Emity. Anderson," and I couldn't understand what he was saying.

Finally, I figured out he was saying "Anderson." He said, "We read Anderson in the Kremlin." America doesn't read Anderson, but it explains everything.

So that goes to show you sometimes we don't know enough about ourselves. It was the same people in the Kremlin who read Hayek and tried to make Putin have a flat tax or whatever free market counseling he got, they read Anderson and Hayek to Putin. It was Andrei Illarionov at the Mont Pelerin Society, in case any of you know him. He's active in the Mont Pelerin Society and, I think, at Cato.

And I couldn't understand. He was saying, "Anderson, Anderson." He had read all about the Great Depression and knew more about it than most tenured professors in the United States.

TG: That is really fascinating. Since you brought that up, I remember, actually, Boris Yeltsin talking about a flat tax during the time that Boris Yeltsin was in place; and I can remember thinking, "You know, there may be some merit to just blowing things up and starting over again if it gives you an opportunity to consider policies like that."

AS: Sometimes outsiders understand the US better than we do. We're provincial.

TG: Yeah. Yeah.

AS: I don't know much about Benjamin Anderson. He died soon after World War II or soon after the Great Depression.

TG: So, we're talking about the Great Depression, but, of course, what we're all thinking about is a current situation. They are very different, as you pointed out. We would not argue that the government caused the Great Depression, I don't think. I think you would argue that it extended it but didn't cause it; whereas, when you look at the current situation, government caused it, right? I mean, government ordered businesses to shut down. Government banned people from getting together and engaging in commerce.

And so, from my standpoint, looking at it through a policy lens, it looked an awful lot like a “takings” to me where the government literally tells businesses they cannot operate. And, so, when programs like the PPP, the Paycheck Protection Act, were proposed and when the Small Business Administration's—I think it was called the EIDL, the Economic Emergency Loan Program, or whatever. When those programs were first put into place, in my view even, though I hate big government spending, and I hate government bailouts, in my view, there was at least some logical justification to that since it was the government that shut things down in the first place. I wonder what are your thoughts and what was your evaluation on those programs, on the PPP program and on the EIDL Program, recognizing, of course, that any time you have a program like that, you are opening the door to fraud, and you're opening the door to people who don't actually need money taking advantage of the program and things like that.

AS: Well, I have the luxury of not sitting at the Fed or the Treasury—and it's so easy to kibbutz from the sidelines, is it not? —and not working for an administration facing an election. But my concern for the future of America is inflation and property rights. Probably property rights even more than inflation because property is what's hurt by inflation.

And the absolute disregard for the importance of property, the meaning of property, and the benefits of property during COVID and after—you know, this week with all the social unrest, it's the same.

What do I mean by that? A forgivable loan. What does that mean, a forgivable loan? What is that? It's a loan that you might get forgiven so you are going to accept a large amount of bureaucracy on the bet that you get to keep the money. That is creepy because it undermines contract. Contract should be clear. It's a loan, or it's a gift. One or the other. Or the conditions are itemized in the contract. “You will be forgiven thus and thus.” It's not quite like that. Those forgivable loans depend on the mood, the whim, of the regulator, do they not?

TG: Well, that's actually a great point because, in fact, they've already modified the terms a couple of times on that program, even in the middle of it. So, literally, there are people who took some of those funds, and then after they received the funds, the terms were changed.

AS: That’s so right, and it's so creepy. At the Coolidge Foundation, we had to decide whether to take support. We're a non-profit, and I was told by many people we’re eligible for support.

Coolidge didn't like government money. We’re not even a library like the Bush libraries in the sense that we don't receive federal funding to help us with our archival and research work. So our board chose not to take the money, and I'm glad because we don't have the staff to manage the bureaucracy of government loans.

I would have to hire a person to manage that. We’re so small. We’re one of those small businesses, right? And many small businesses are in that situation.

So, you know, what you're getting at is—what does this remind you of? This reminds me of the ′70s, Tom, not the ′30s. That is, it's going to be a little bit of time before unemployment goes down to lows because all the protections and payments we've made make it harder to want to go back to work. Employers are paying people who aren't working out of payroll protection money, so they're not very interested in working. Working doesn't look that attractive in some parts of the country. The data suggests that many people are getting more money not working than they did working, which is, you know, a very classically dangerous situation as was true in the United Kingdom in the ′20s when the term “dole” became a pejorative for that reason, a deterrent to work.

So I think of this as more of a spongy period to come like the ′70s, with an assault on property rights because even without the current protesters saying, "Property doesn't matter compared to lives," property rights were already under assault, and property and lives are related. It's not an either/or. When you hurt property, you hurt lives right.

TG: You destroy someone's business, you destroy their livelihood, which is certainly related to their life.

AS: And just because it's not dramatic—there's an asymmetry of result. OK, you see someone die on television; it's the most tragic thing in the world. He died in front of my eyes, right?

You see someone died five years later of alcoholism because his business failed, that's a very slow death. It's not dramatic. But it does happen. So, while we can't ever condone violence, we have to respect the personal damage that came from this situation as really terrible, tragic, and even fatal to some.

Coolidge said personal rights and property rights are the same thing, and I'm tending to believe that. But that's turned out to be a radical thing to say.

TG: It is a good example, though, of the economic principle of that which is seen versus that which is unseen, right? You ran into the same thing with COVID-19, right? So, what everyone's focusing on is that which is seen, which is the number of cases, the number of deaths, and all that sort of thing; but no one's looking at that which is unseen, which is the people who are almost being forced into clinical depression, suicides, long-term health problems that may take decades to play out because of that time period; but everyone's wrapped up in that which is seen, and they're totally ignoring that which is unseen.

Well let me ask you this because I find this fascinating. You and I both have the benefit of—as you said—being on the sideline and sort of, you know, tossing our opinion out from the peanut gallery; but in a situation like the COVID-19 pandemic, what do you think was the proper role for the federal government? I mean, if the government forces businesses to close—I suppose one answer would be don't force businesses to close, right? But if the government thinks that there's a compelling public health reason to force businesses to close, does the government not have an obligation to those same businesses?

AS: I think guidance would have been enough. It’s very hard to watch. You watch Sweden, for example, the country that had the least onerous controls, and there were more deaths. Were there more deaths net, or were there just early deaths in Sweden? We don’t know.

I think the general policy—I mean, supposing, we discern fairly early that vulnerable people, which is to say people our age and older, Tom—

TG: Thank you so much for that, Amity.

AS: —vulnerable people—most of us on the call—that needed special protection, and I think what I would have opted for, were I God (but I never wanted to play God or be God), is to take the $10,000 you give 10 people in payroll protection, and give it all to the super vulnerable, and let the other people work; and help the vulnerable get an extra room in their apartment, get an extra place to stay, get a different office. I would have gone that way. Devote incredible resources to the vulnerable and isolate them in the kindest way from the rest of the population because we hurt young people when we do not allow them to work for six months. No question about it. We hurt young people and create drug addiction or foster drug addiction when we take them out of high school and they don't have anything to do. That's my view. It's controversial, but I don't think the whole society should be hostage to the needs of this group, but I do think the group should get far more resources than it's gotten so far. You know, channel all the resources toward the vulnerable group.

TG: And, of course, the problem with when the government takes top-down action is it sort of precludes any sort of bottom-up—

AS: Tocqueville’s being crucified over and over again, or he’s rolling in his grave, right?

TG: Yeah, that's exactly right.

AS: The America that we know as the strong America is completely disregarded by this process this year.

TG: Yeah, and, again, you do feel like, OK, so it's true that we don't know what we're up against in the early days, right? But then the question becomes are we more likely to figure out quicker with people making real-time decisions from the bottom up, or are we more likely to figure out what's going on with decrees being given to us from the top down by government bureaucrats?

AS: I know. The happiest point for me was I read a University of Chicago study that came out in the middle, and they said we found this alternate way to treat a certain subset of COVID cases. We have hyperbaric chambers and oxygen masks or something like that. Something with oxygen but less pressure than a ventilator. And guess what? Our patients all lived. And I thought, "Thank goodness! Someone's is innovating." He might be wrong, but he's trying.

It's a pretty solid study. And I'm not an epidemiologist; how would I know? But there was a kind of Stalinism to the initial approach.

And I'm from New York. I raised my children in New York. I love New York. I think it's one most wonderful places ever in the history of man. So I will say to Texas, some of New York's troubles had to do with the fact that it was the very dense place and the first place, so sort of the bottom of the learning curve.

So I spend a lot of time with my Republican friends, especially, defending New York—

TG: I'm sorry. In New York you have Republican friends? Are you saying you have Republican friends in New York?

AS: No, no! I mean New York was there first, and they had no idea what to do because it was the first city after Seattle, and some of the other states did have a little bit of benefit of observing what damage density could do in New York. And now I'm making some enemies, so we better move on.

TG: Well, I've never been more grateful to live 35 miles from a major metropolitan city center as I have for the past couple of months, I have to say.

Amity, I want to ask you a question about your new book about the Great Society. You and I talked yesterday in preparation about your new book about the Great Society, and you said that you thought it was your best. So tell us a little bit about your book.

AS: Very briefly. *Great Society* is a new history of the Great Society of Lyndon Johnson. Great Society is the history of the 1960s. I include Kennedy and Nixon, who expanded Johnson's Great Society.

I thought it was my best because I focused on the competition between the public and the private sector. Everyone wanted a Great Society, the only question was, how do you get it, through the public sector or the private sector? We opted for the public sector. We said the government's going to take us from good to great. The private sector was pretty darn impressive, and much of the greatness we got for America in the 60s and subsequent came from the private sector, so I kind of have two dueling forces.

And I'm proud that I was able to study companies. Three companies in the book are GE, which is the old-fashioned company; Fairchild, which became Intel, of course, or at least some of it; and Toyota, the challenger to the auto industry and the auto unions, specifically.

So that was the first time I've been able to really cover business in the way I liked, and I hope you guys take a look at that book. I'm going on the Bohannon show, the radio show, tonight and a couple other radio shows because a lot of *Great Society* is about the riots.

Something very interesting. There's a long portrait of John Connally, if any of you knew him.

TG: Yeah. That's part of what I'm eager to dig into because I think a lot of folks, especially a lot of folks here in Texas, have almost sort of forgotten how influential and important John Connally was and what a player he was going all the way back there, all the way up through his campaign for president against Ronald Reagan for the Republican nomination.

You know, Amity, you made a reference a little earlier that some folks have taken issue with some things you've said. For the left, their narrative about the Great Depression, I mean their New Deal narrative and their Great Society narratives are their great, heroic stories, right? I mean, this the myth making for the left that it was big government, and it was government programs and government agencies that got us out of the Great Depression; and it was big government through the Great Society that that tackled poverty, and that made us a more socially just society.

So if you're going to go back and challenge those narratives, you're challenging the hero stories for the left.

AS: That's right. But, you know, *hope* is not a policy. *Hope* is not a result, more importantly. So because something is inspiring—"The only thing to fear is fear itself"—doesn't mean it's a good policy.

All hope is, when an executive summons people with hope, is the executive hoping for license to do whatever policy occurs to him, really, often.

The part with John Connally is hilarious because I will say some things about John Connally at the risk offending some of you who may have known him better. John Connally was a bully. He was a bright man who did a lot. He helped in education in Texas mightily as governor, and he was amusing and inspiring and scary at many points.

He tangled with the Office of Economic Opportunity, which was the poverty office of Washington in the Great Society, built to stop riots, like the kind of institution we're about to build today. The poverty office had a lot progressive programs, and one of them involved higher wages in Texas. And Connally, as governor, said, basically, "We in Texas can't pay wages that high. We'll lose business." This was after Taft-Hartley. "One of our advantages is that our wages are lower." And Washington could not believe that, that a governor wouldn't advocate for higher wages in his state. What is that? But Connally was absolutely right. I believe he vetoed one of the Great Society programs. Governor's had that right. He offended the authorities in Washington as a, I guess, conservative Democrat; and he wasn't afraid to.

He told Johnson's team that he thought Johnson's make work-projects—because there were plenty of make-work projects in the Great Society, as in the New Deal—were just a “boon dog.” That was the phrase he used. He didn't say “boondoggle;” he said “boon dog,” which is a term I’d never heard, but sounded good to me. A boon dog, by which we all know exactly what he meant, which is to say a make-work project, not one that adds value to the US economy.

So that was funny. And, then, it's curious, right? I mean, first of all, he had a halo, having been wounded when president Kennedy was killed. So it was hard to criticize him. And very attractive as a political candidate and Richard Nixon made him treasury secretary—I didn't remember this—in the hopes that they would have a fusion ticket, Nixon/Connally in ′72. Nixon was a very political animal, and he thought that'd be awesome to have a fusion ticket, and he could win and end the war in Vietnam or whatever. But in order to prove his goodwill to Connally and his willingness to give Connally authority, he put Connally as treasury secretary in charge of the US economy.

And it was Connally who kind of wrote the stage plan for the 1971 Camp David New Economic Plan or Economic Shock as it was called, the Nixon Shock, is what the Japanese call it.

So they came down, and as you many you know, in August 1971, with a new economic plan to get the economy going in time for the election in 1972; and it was one of the world's worst plans because it was so economically redundant, inconsistent, and awful. That was the Wage and Price Controls, the simultaneous severing of the Gold Exchange standard, new tariffs, and also internal supports for automakers through subsidies for car purchases; and you may know more. But was just a bunch of stuff written to appeal to voters that even contradicted itself or was redundant.

And in the book, I write about the policies, of course, and how poor they were, and I suggest they would give us the ′70s, which they did, that economic purgatory. But, also, I spend a lot of energy detailing how John Connally tortured Arthur Burns, the fed chairman, which he did with Nixon's gleeful acquiescence.

History is about people too; and Arthur Burns, the fed chairman, probably didn't want to go along with ending the gold standard, but he went along because John Connally terrified him into it. It’s an amusing story, albeit a tragic one in outcome.

TG: Yeah. Let’s go to some audience questions. Our first question is, “There's a book that makes the point that Roosevelt really failed at everything he tried except politics. Do you agree with that?”

AS: Well, like John Connolly, Franklin Roosevelt was a political animal. I don't even think you need to take down the person or build him up. I tend to go for the policy. Franklin Roosevelt's economic policies were awful. That's because he didn't really care about economics or business. It just wasn't in his nature. He was a pretty good sailor, and he was a Navy president. So there were things he did in World War II many of us could support, but he was a better commander-in-chief than he was president.

So, yes, I you’re speaking of the Burt Folsom book, I think. There's also a good book by Jim Powell.

I really give Roosevelt terrible marks for the most important job he had in the Great Depression, which was getting us out of the Great Depression. But I try to not ever assail people, and just look at the policy. Roosevelt was just unwilling to be aware of how economies work.

TG: The next question is, “Why is it that economists still look at the unemployment rate when, in fact, wage growth would give us more accurate unemployment numbers?”

AS: Well, you know why economists focus on a better number. It's because they want to please the politicians or the companies they work for, right? So they'll always look among U6 or U1 for the right one, and select the one that suits their government.

Not all economists who work for the government are creeps, but there's enormous pressure on them to supply the number that their administration seeks, of course. So they'll go among the numbers and pick the favorable one.

And I do care about labor. I care about productivity too. So you want to look—are people getting a higher real wage? What's getting in the way of that wage? Sometimes it's taxes, you know, take home pay. Sometimes its productivity.

So, I agree with you. There's a kind of tyranny of the unemployment data right now, and often the wrong number is the holy number.

TG: Okay. Thank you. Our next question is, “What would be your projection of how the unemployment rate will become better?”

AS: Oh, gosh. That's why I mentioned the ′70s. I think it's going to be a long time before we get back to the level we had—the astoundingly low level, if you look at one number—just a few months ago because the attractions of work are not that great and because the recovery of companies is not going to come as we imagine.

I think the sort of tragedy of the year that has yet to be written—after COVID and riots and sorrow—is the death of retail, the death of store/shop retail because with the challenge of online shopping, then the challenge of COVID, then now getting their windows broken, a lot of those retailers will never rehire as they did, in patterns they did.

So I'm concerned that unemployment will be ′70s-ish for quite a long time before and after the election.

TG: Amity as someone who came of age in the ′70s, that's a very discouraging thing to hear. I hope you're wrong about that. The ′70s were not a good time.

Our next question is, “Do you think the government has gone too far by closing down businesses in an effort to keep us safe from the pandemic?”

AS: Well, I think both in the current troubles in the cities and also with COVID, the perfect has become the enemy of the good. So the government made a tremendous error when it said it would keep Americans safe. Americans are never safe; they're just in a more risky or a less risky situation, right? Even in your own room with the door barred, you could fall down and break your head. So this idea that we can *ever* be safe is a false idea that we cannot advertise. Life is trade-offs.

There was an interesting article by Eddie Lampert comparing COVID to auto safety. Autos are never safe; they're just less risky or more risky, right? And as a country, we reduce to riskiness of autos over time by better construction, maybe by rules.

But this idea that we could be safe and that government could make us safe if we follow enough rules, that was one of the worst things ever perpetrated upon the American people to try to convince them that if they were good, we would be safe.

And it's sort of the same with the deaths in the cities. Nobody ever wants anyone to die in a police incident. No one. We want fewer such deaths.

But if we say we will never again have such a death—which is really what Black Lives Matters wants—we are deluding ourselves. We can never get to perfect; we can only get to better or good.

So that's why my book is called *Great Society*; it's ironic. Because we aimed for great, we didn't get even good.

So that that's my concern. The assumption is that government can save us. That's what the federal behavior around COVID has been. Government knows the answer. And to teach people that is to do them such a huge disservice.

TG: You know, Amity, your comments touch on one of my pet issues which is that the primary job of government is not to keep us safe; it's to keep us free. Anytime we get those in the wrong order, we end up with wrong policy conclusions. But I do think most people think government's first job is to keep us safe. I think people look to the government to keep us safe, and that's sort of the original sin in this whole area.

Our next question is “When does hyperinflation kick in in the US?”

AS: I don't know, but because I care about Germany, and I spent some time on it, I'm always concerned about high inflation. So I think the monetary crisis will come when the currency is challenged. And if we'd been here thirty years ago, we would have said the dollar can never be challenged. It's so deep. Its sovereign currency. Its currency of reserve. No one could ever make a currency except a government, and so on.

We know very well now that a company and a commodity could get together—maybe with the government maybe not—and make a currency that could challenge the dollar. What is the Bitcoin but the expression of distrust in the dollar?

So I think the currency will be challenged and then the interest rates will go up whether or not we call the devaluation of our currency that attends the rise of the new currency hyperinflation.

TG: It is interesting, Amity, isn't it, that that many of us have been watching the actions of government over the last decade or so and have been thinking, "This has to inevitably lead to inflation." And it's like one of the great mystery is that it hasn't yet, right? I think mortgage rates are actually at historic lows right now.

AS: I have egg all over my face, and I've been consulting with any number of companies where I warned about inflation, and they called me two years later and said, "You were wrong. Give us back our check." Not really. But I've been wrong about this, but maybe because my interest in Germany—I can't give it up.

TG: The next question is, "Can you address low interest rates and the idea of a capital tax and the thinking that that idea is equivalent to zero or negative interest rates."

AS: Well, I'm not educated enough or knowledgeable enough about banking to answer this. But what is clear is that since 2008—and we haven't talked about 2008, but it's a big, big factor—playing with the government has been more important to many banks than playing with commercial borrowers, say, because of a variety of reasons which you're very familiar with. So when the federal government pays interest on reserves, that makes for disinvestment, illogical investment and illogical growth that's suboptimal; therefore, our growth is less good than we think it is. That relates to the previous question. The equity prices are higher than what the companies are worth. Same thing.

So all these distortions are the result of too much playing with the government. That's all I can say. My whole career has been about explaining complicated things to people who normally don't think about economics, and that's very easy to do right now because there's so many examples.

Here's an example I would give: There's a driving school where I am that was shut down, and it's laying off people because it lost revenue. We called the driving school, and we said, "We have a teenager who needs driving lessons.”

And the driving school said, "We can't take you because we have a contract with the high schools, with the government, to teach a hundred public school kids to drive. And we're waiting for the money on that contract, and we're waiting for those kids. So it'll be at least half a year before we can get to private clients.”

We, as a private client, might pay 50 percent more than the state will pay for its high school students; but our little profit, our little extra rent we were giving, could not offset the scale of the clientele of the government. They're not interested in us. They're interested in their one big mega client, the state, and all the counties, and the schools; therefore, the individual client and the individual market opportunity is lost.

That's the best way I can think of explaining how our market is right now. Decisions are not being made for profit, at least not one on one. There they're kind of being made by deal.

In the longer run, the driving school needs people like us; but they're so distracted by the big-government client and maybe the payroll protection and the forgivable loan, we, the regular client are not in the picture. And that's very Soviet.

If you've ever been to a Soviet restaurant, you go in and it's empty, and you say, "Oh, it's empty! I may I sit down?”

And they say, "No, the room is reserved for a tour group, so you can't eat here.”

That is, the small consumer and the obvious economic choice is shut out.

There was a wonderful book by Louis Brandeis called *The Curse of Bigness*. Louis Brandeis came at it from a left, anti-trust perspective, as far as I recall. *The Curse of Bigness.* It's a great title.

But *The Curse of Bigness*, in his case, he believed it was private sector bigness. The problem we're discussing is bigness that exists because of government contractor regulation. Bigness that comes about totally privately, I'm not so concerned about because when a company gets big enough to prosecute for antitrust reasons, it's usually about ready to collapse anyhow because it's being competed with by some innovator. But the bigness of a government rent seeker or a government partner is much harder to undo and therefore more threatening, more pernicious. And, right now, we have an awful lot of government partners in our economy.

What I'm afraid of with the retailers—they're challenged by Amazon, yes—now they're going to have to double their insurance premiums. That's a social policy caused cost. They have a minimum wage in many states that was to be fair to the worker. That's a blow they shouldn't have to absorb. We have arbitrary regulations in situations like COVID; that's a blow.

So I'm concerned about the little retailer, for sure; but I would argue that a lot of the blows to the little retailer are unnecessary. I mean Amazon may, one day, fall down of its own accord. That's what happened with past giants.

A hundred years ago, nobody thought the railroad would ever go down.

TG: You know, Amity, the liability situation is a real concern because there are employers right now who are concerned if they bring their employees back and they get sick, they're going to get sued. And, you know, there's been some talk in D.C. about some sort of a limited liability shield or something like that. What do you think about that?

AS: Personally, I think that's great. I know you've had some legal reform in Texas, am I correct?

TG: Yes, absolutely. We have probably the country's best tort reform here in Texas.

AS: And that tort reform improved business conditions?

TG: Dramatically. Especially in the medical profession. You had doctors moving here from other states because their liability insurance was one-third the cost that it was in other states and things like that.

AS: I have a question for you which is, what is the best way to educate young people? I had the honor to learn this week that Texas A&M made my new book a textbook.

TG: Oh, wonderful!

AS: They acquired a few of them, so I'm lucky. But what can we do for high schoolers and middle schoolers because they have never learned that property or contract is important unless their family is in business.

TG: Well, look, I think you did something really sort of interesting and experimental in this area by doing a graphic version of one of your books. I think an awful lot of young people are not going to sit down and read a 250- or 300-page book on economics; but if it's a story, that's different. So I thought that's what was really sort of unique about doing a graphic version of your book.

So, you tell me. Did you have great anecdotes and stories about the way that the graphic version of your book was more accessible than maybe just the text-only version?

AS: Well, the graphic book, I will say—you know, I really care about our grandchildren. So, I spent a quarter of a million dollars on this book—not all my money; but it was spent. Let's just put it that way—in order to make a cartoon history of the 1930s.

There are eighteen hundred images in. I thought it was awesome! I thought the artist was awesome! I can say it's awesome since mostly I didn't do it; the artist did it. He was great. His name was Paul Rivoche.

It was a bestseller. It was the number one bestseller in graphic novel, which is like a comic, but it's more serious. There have been a few breakthrough books in this category.

I will say most conservatives disapproved of this book because they thought that I was talking baby talk to them, which is not the case at all. I was just trying to reach out to younger people through cartoon. So I wouldn't say the book was a best-seller, even though it did hit number one for a week or two.

So I like this format, but I wouldn't say it's broken through yet; at least, not for econ. There was one about the Iranian Revolution called Persepolis that did breakthrough, and millions of kids learned about the tyranny of the Iranian Revolution through that cartoon book.

But I continue to believe in movies, TV, cartoons. *Keynes v Hayek* was a big success, and I could take suggestions because I think we are really going to have a challenge educating middle schoolers and high schoolers.

TG: Well, you know, we could do another entire hour on the issue of culture preceding politics, but we probably shouldn't take that on right now.

I want to ask you one last question and that is, on some of the immediate civil unrest that we're seeing going on right now in the country, you touched on that a little bit about some of that going on in the ′60s and probably even during the Depression and New Deal era. Do you have any thoughts on what government can do? It certainly seems to me that riots end up occupying the space that would rightfully be held by peaceful protesters, and it certainly seems that you've got to clear away violent riots in order to create space for peaceful protests. But I'd be interested in your thoughts on that.

AS: What I think is there was a phrase called “the long march through the institutions.”

Mao had a long march, right? He marched and marched; and, eventually, he ruled China through communism.

And the European socialists said, "We're not going to win on the battlefield, but we as socialists and social democrats will win by conducting a slow, long march through the institutions. And, eventually, we will be the top teachers, and we will train our country.”

In the ′60s, we had self-proclaimed revolutionaries, and they didn't prevail. Richard Nixon won. But they did undertake a long march through NPR, through the institutions, right? And the reason this happened is that our schools taught kids that property rights don't matter; that America is racist when it largely isn't or at least is less racist than it was in the past; that all police are bad when only some police are bad, a minority; that only blacks are victims of police violence, when that, of course, is not the case either. So, there's very little data out there to go along with the narrative. Who permitted that argument? Teachers, curricula, parents; but teachers.

So in the ′60s when you saw the marches, there were more genuinely poor people at that time, I will say in the North, particularly. Now you get the feeling, looking at the protesters, that they're genuinely angry people. In the ′60s, you could say, "Well, if these people became homeowners, they would act differently." "Homeowners are not home burners" is what was said in the ′60s by Father Kohler in St. Louis. "Homeowners are not home burners." People who own property won't riot.

Now you get the impression—and this just anecdotal, but you get the impression that the people who are causing the trouble are the children of homeowners, or the nephews, right? So, I would then say a lot of this about our own failure to educate Americans about where the value is and where the hope is.

TG: That's terrific, Amity. Thanks so much.

AS: I'd like to give a plug to the Coolidge Foundation where we have high school economic debate which we started in Texas with Texas teachers. So, we give kids briefs for both sides, and they argue the abolition of the capital gains tax and very controversial free-market arguments or Marxist arguments; and we also have a scholarship program for children, and they learn all about Calvin Coolidge, who saved money and was always civil and didn't believe in violence and who cut taxes.

So we concentrate almost entirely on youth at the Coolidge Foundation.

TG: Amity, that's really terrific. We so much appreciate your being with us today. We love you, and we love your work; and you've made a wonderful contribution as a researcher and a historian. So thanks so much, and we look forward to getting you down to Dallas sometime soon.

AS: In real life.

TG: Yeah, when we're able to do those things again. I want to thank everybody who joined us today I want to thank those who made additional donations. That was very kind and we appreciate it so much.

I will wish you all health and safety, and we look forward to seeing you all again as soon as possible. Thanks so much and have a good rest of your day