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Economy will correct itself, Bloomberg columnist says

BLOOMBERG COLUMNIST AMITY SHLAES talks to students at the Huntsman School of Business about economics in the 1930s and how this information is relevant to current economics. *CARL WILSON photo*

By CATHERINE MEIDELL
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If government will back out of the current economic downturn, the economy will correct itself like it did during the recession of the 1920s, Amity Shlaes said in her lecture, "What Threatens the American Economy Today," given Friday.

Shlaes was the final speaker in a three-part lecture series funded by the Apgar Foundation and sponsored by The Project on Liberty and American Constitutionalism. In the lecture, Shlaes explains how American government has too much power in the economy and shows this by relating circumstances from the Great Depression in the 1930s to the current recession.

"Private markets and free markets are self correcting," said political science professor Anthony Peacock on Shlaes' remarks regarding government involvement in the economy. "These big banks and entities that are too big should fail because they don't work efficiently."

Peacock uses Shlaes' New York Times best-selling book "The Forgotten Man: A New History of the Great Depression," in his political science class and Shlaes takes her lecture topics from this publication's main themes.

The forgotten man she refers to is the man who is expected to "pay for everyone else's good intentions" during the economic crisis of the Great Depression, Peacock said. During the Great Depression, President Franklin D. Roosevelt wanted to help the lower class, however, money was taken out of the middle class workers' and the wealthy's paychecks without a consultation, he said. Peacock said this "forgotten man" picked up the tab for the New Deal welfare state.

Shlaes said that in the 1930s, the New Deal was a necessary step, but was prolonged rather than abridged by the depression. Economic historians believe the New Deal was a successful act to take during that time period, Shlaes said.

Shlaes said millionaire businessman and banker Marriner S. Eccles was an important player in Utah's recovery from the Great Depression.

According to www.history.utah.gov, Eccles "helped convince President Franklin Roosevelt to use government funds to put idle people, materials and money to work."

He had a lot of control in how Utah's banking entities operated and was successful in managing them during a difficult financial period, Shlaes said.

Shlaes compared the economy to Monopoly, a board game that became popular in 1935 and is known as "The Game of Real Estate." She said that when playing a game of monopoly, each player is willing to deal with risk as long as the risk is knowable. Others play the game ruthlessly or to enjoy the company of others who play ruthlessly, she said jokingly. She said when the player controlling the bank is unpredictable and not trustworthy, other players walk away from the game until someone honest steps up to play banker. She said this can be related to the cause and effect of large banks in the economy today. The American economy will struggle if banks harness too much power, she said.

Shlaes said that during the Great Depression, the mind-set was that "big firms are too big to fail because they have an economy of scale." She said big companies were romanticized in this way.

She said one of the biggest reasons the Great Depression lasted for a long period of time was because of the 1935 Wager Act, which allowed workers to demand high wages and unionize.

Peacock said the Wagner Act is an example of how the government claimed to create jobs, but in truth were killing them. He said the idea that governments can create jobs is false. Those who had jobs were given higher wages and the forgotten man was left to suffer, Peacock said.

Shlaes said, "It's a good job if you can get it. The Wagner Act is a tiger of a law, but we've neutered it and now it's a kitten."

In the economy today, everyone can expect a property tax increase and inflation, which is "already baked in the cake this year," Shlaes said.

If the federal government will separate itself from the banks, it will be a shorter economic downfall and will correct itself like it did in the 1920s, she said.

Shlaes is a senior fellow in economic history at the Council on Foreign Relations as well as a columnist for Bloomberg. She has been published in The Wall Street Journal, The Financial Times, The New Yorker, Fortune, National Review, and The New Republic and Foreign Affairs. Also, she has been a guest on "Good Morning America," "The Daily Show," "Charlie Rose" and other television programs.

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