AMERICA’S SECOND GREAT DEPRESSION: A SYMPOSIUM IN MEMORY OF LARRY SECHREST

MARK THORNTON

A symposium was held in San Antonio, Texas at the Southern Economic Association convention in November of 2009. The subject was the current economic crisis. This issue consists largely of papers based on the lectures given at the symposium. We are grateful to the Association and President William F. Shughart for the invitation and to the Society for the Development of Austrian Economics for co-listing the symposium.

Our good friend Larry Sechrest had recently died unexpectedly. Given that San Antonio is practically in Larry’s backyard (by west Texas standards), it was natural to dedicate the symposium to his memory. He was a giant of a man in many respects—from his physical size and deep voice, to the breadth of his scholarship, to his integrity, kindness and sincerity. Larry was a recognized expert on macroeconomics and a critic of central banking. He rightly blamed the Federal Reserve for the stock market crashes of 2000 and 2008.

When the invitation was offered by the Association, the size and scope of the crisis was not readily apparent. The stock market had only suffered its first crash and the unemployment rate was still about 7 percent. There was little talk of depression in the mainstream media or economics profession. At the time, government economists were very confident in the prospects for the economy.

Mark Thornton served as Special Editor of this issue of the Quarterly Journal of Austrian Economics.
The success and timing of the symposium is therefore indicative of the foresight provided by the Austrian business cycle theory.

In contrast to the mainstream, Austrian economists were generally, although not uniformly, of a different and much more pessimistic view. The Federal Reserve had blown up an enormous bubble in the housing market that engulfed the entire real estate sector of the economy. Federal Reserve policy had driven debt levels to astronomic heights and the personal savings rate to all time lows. Spending, particularly on luxury goods, had skyrocketed. From the Austrian perspective, the Federal Reserve’s monetary policy had severely distorted the structure of the economy.

Worse yet, interventionists were in control of public policy. The former Chairman of Goldman Sachs, Henry Paulson, was Secretary of the Treasury and a natural proponent of financial bailouts. Ben Bernanke was chairman of the Federal Reserve. He had famously remarked to Milton Friedman on the occasion of his 90th birthday: “Regarding the Great Depression. You’re right, we did it. We’re very sorry. But thanks to you, we won’t do it again.”1 Unfortunately, Friedman believed the Federal Reserve caused the Great Depression by not creating enough inflation in the 1930s. As a consequence, Bernanke still maintains that inflation is the antidote to economic depression.

In contrast, Rothbard argued that the Federal Reserve caused the Great Depression by creating monetary inflation and an unsustainable boom in the 1920s. Rothbard further pointed out that the interventionist policies of President Hebert Hoover caused the depression to be great. From this perspective, more monetary inflation from the Federal Reserve is not a cure, and only adds to the distortions in the economy. When the symposium was organized, interventionist policies were already at work and so it seemed natural to choose the theme “America’s Second Great Depression.”

Over time mainstream economists have grown increasingly uncomfortable with the terms panic and depression. As a consequence they have introduced new terms such as recession, contraction,

---

correction, and soft landing. As this issue goes to press, not only has the economy failed to recover, the massive interventionist policies are increasingly seen as having made economic conditions worse. With unemployment still at very high levels, the current crisis is arguably the worst economic episode since the Great Depression. Economists have responded to this hard new reality by reviving the term, “Great Recession.”

Watering down terminology does nothing to help the economy. Mainstream economists seem to believe that the business cycle is largely a matter of psychology and that promoting an optimistic attitude can help sustain vigor in the economy. Austrians believe the opposite—changes in the economy create changes in psychology. Furthermore, it is better to be realistic about economic conditions rather than propping up confidence with propaganda. Thus, the existing economic conditions and policy regime reinforced our decision to give the symposium the provocative title “America’s Second Great Depression.”

The papers included in this special issue explore the economic crisis from several perspectives. The papers by Morgan Reynolds and John Cochran explain the realism of Austrian business cycle theory in the context of the current crisis. David Howden and Philipp Bagus’s paper examines how economic crises are generated when the term structures of savings and debts are mismatched. There are two historical papers. The paper by Doug MacKenzie reexamines Rothbard’s critique of Herbert Hoover and shows that industries that succumbed to Hoover’s moral suasion to maintain high wage rates also experienced greater job losses. The paper by Mark Thornton extends Rothbard’s full critique of Hoover to the Bush administration and the current crisis. Lastly, John Cochran reviews Larry Sechrest’s book Free Banking: Theory, History, and a Laissez-Faire Model on the occasion of its reprinting by the Ludwig von Mises Institute.

We would also like to thank Molly Sechrest and Jimmy LaBaume for participating in the symposium. Molly provided extensive remarks on the character and contributions of her husband, as well
as an intimate account of his vision of Austrian economics. Jimmy LaBaume, Larry’s colleague at Sul Ross University, presented extensive remarks about Larry and his contributions. In addition, he provided an analysis of the role of agriculture and resource policy in the Great Depression and the current crisis. We would like to acknowledge Jedidiah Becker for editorial assistance with this special issue. Finally, we would like to take this opportunity to thank the Ludwig von Mises Institute and its donors for their support of the symposium and the publication of this journal. Our hope is that this special issue will draw attention to the contributions of Larry Sechrest and stimulate future research on business cycles in the tradition of Austrian business cycle theory.