

THE NEW DEAL

THE COMING ECONOMIC EARTHQUAKE by Larry Burkett (1994)

A NATIONAL BEST-SELLER

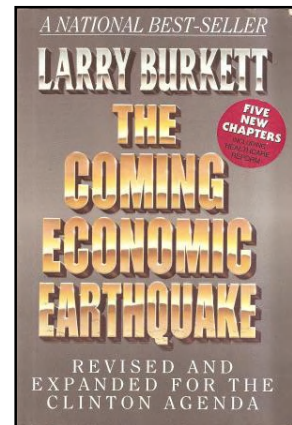
FDR ran on the campaign slogan “A chicken in every pot”. Not a chicken like that from the past, but a government chicken. What’s wrong with any chicken when you’re hungry?

The promise to a desperate America was that the government was going to restore America no matter the cost. The problem was that the government would have to deviate from the powers of the Constitution to do it. Larry describes the condition in brief:

The founding fathers had created a system of checks and balances that ensured that no short-term crisis could undermine the long-term rights of the American citizens, even if the citizens wanted to do so, which clearly the 30’s generation did.

On the agenda for the New Deal designers were:

- Initiate direct transfers of payments (dubbed “entitlements”) to Americans who needed help
- Establish the federal government as an overseer and regulator of American business – particularly banking
- Strengthen the strong central banking system to regulate all monetary policy
- Establish a national depositors’ insurance program.



Of the presidents’ past, Grover Cleveland was cited as being against such policies of “government supporting the citizens”. In his view, taking from some citizens to support others was stealing. During his administration, a quote about democracy arose:

A democracy is not a form of government to survive. For it will only succeed until its citizens discover they can vote themselves money from the Treasury, then they will bankrupt it.

That quote was made from Karl Marx....

Larry makes the important assessment that some of the programs were good. Reform in child labor laws and the creation of the Tennessee Valley Authority are just two examples. Some of the “good” programs were already underway at the time of The New Deal; but much increased programs led to the “entrenched and irrevocable” condition of dependence on the redistribution of taxes.

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Regulation was another growth area for government. Again, the consequence or increased regulation brought both good and bad – both warranted and unwarranted controls. What is generally true of the growth is that, as Larry describes: “...**once the pendulum swings, it usually goes to the opposite extreme, as apparently it now has.**”

In the order of the day (1930's), a parallel existed between the Fascism forced on Germans by might and the increased regulation forced on Americans by monetary leverage.

Another area of increased control was the banking system: the creation of the Federal Reserve System forced the banks to either join or die during this period. A strengthened banking system – through the Federal Reserve Banking system – meant that swings in the economy could be offset by inflating the currency. **The New Deal also dropped the gold standard and made the ownership of gold illegal.** Called a fiat system of money, notes (or dollars) could be manufactured “out of thin air” and multiplied through the use of fractional banking. Banks could lend money well in excess of deposits while depending on the Federal Reserve to ensure the practice...

Guaranteed depositors' insurance plans created another long-term problem: depositors are less concerned about the lending practices of their banks.

Ludwig Von Mises, who coincidentally lived through the Depression in Germany after World War I, was a noted opponent to this system of regulation and banking. In his book, *Money, Method and the Market system*, the economist wrote:

If the central banks did not believe it was their duty to cover-up the consequences of the deposit banks' errors in lending, they could not jeopardize the assets of the prudent bankers.

According to Mr. Burkett, Von Mises proved that:

If the abuses get widespread enough, the central bank (or the FDIC) cannot cover the losses. Ultimately the government will either inflate the currency to pay the bills or it will tax its citizens to do so. Since the government's ability to tax is limited to what the taxpayers will accept, it becomes politically more expedient to inflate the currency through debt accumulation.

Today, the Ludwig Von Mises' institute is located in Auburn, Alabama.

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The consequences of The New Deal are legend; again, the pendulum swing toward increased government control and regulation fostered careless lending and much risky business. Larry continues: “The seeds sown in the New Deal administration are still growing in our economy today. **Once the process is started, it is very difficult to correct!**”