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The Depression That Never Was: What If The Government Didn't Intervene?

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"But we HAD to bail out the banks in 2009… otherwise we'd have gone into a depression."

How often have you heard this or similar?

Thing is: it's nonsense.

The decisions taken back in 2009 were not made to protect the system and create long-term prosperity.

No. The course of action taken after the last financial crisis was designed to protect the political and financial elite.

It was, in my opinion, immaterial to the decision-makers – AKA governments and central bankers – whether or not the rest of us prospered.

Their own survival was paramount.

We'll look at why I say that in a moment. First, we need to go back to the US depression of 1920-21 to see what happens when governments DON'T intervene…

The depression that never was

Hang on.

The 1920-21 depression?

I thought the great US depression was in the 1930s?

I didn't know there was a depression in 1920-21?

Exactly.

So, let's go back and revisit history…

It's the end of the First World War and with men now returning home from Europe, US manufacturers believe demand for their goods will soar.

So, naturally, they ramp up production.

But there's a problem…

Demand <u>doesn't</u> soar.

Instead, the amount of unsold goods soars and therefore prices plummet.

As a result, the economy goes into a tailspin.

Job losses ensue. Rapidly, 4% unemployment jumps to 12%.

By some accounts the gross national product (GNP) of the US fell over 20%.

It's a huge depression.

Having suffered two debilitating strokes, the then president, Woodrow Wilson, does little to intervene.

So now Warren G. Harding, his successor, has his cabinet screaming for him to do something: *"We must help. We must invest. We must bail companies out".*

But here's what Harding actually did:

He did <u>NOT</u> bail out the failing businesses.

Instead he REDUCED government spending, balanced the budget and actually REDUCED government debt.

At the same time, the US Federal Reserve did <u>NOT</u> slash interest rates.

In other words, matters were left to the market. Capitalism was allowed to happen.

And to be clear, we're talking real free market capitalism here – *without* government intervention.

What do you think happened next?

Well, by the end of 1921 the US was back to full employment.

And then came 'The Roaring Twenties' – a time of huge prosperity.

All good.

However, by the end of the decade things got overheated and there was a crash in the stock market.

This time, though, instead of leaving the market to fix itself, as proven successful a decade previously, the powers that be did something different:

They introduced The New Deal. They banned the private holding of gold (apart from coins and jewellery). They borrowed massively. They spent big on huge government works. They introduced minimum wages.

On top of that, the Fed finally got to do what it had been aching to do for many years: it slashed interest rates as part of a grand experiment.

The result?

The biggest depression the US has ever seen.

Thanks government intervention, your help is appreciated.

Don't blame Capitalism

These days, mainstream thinking and the financial elite want you to believe that the great depression of the 1930s was a result of capitalism.

It wasn't.

Intervening politicians and central bankers are the real culprits.

If capitalism had been allowed to run its course… if the failed businesses had been allowed to go bust… if the Budget had been balanced… if private enterprise had been allowed to bring down their prices to sell their wares and stay in business…

The US dollar would have soared. Import costs would have plummeted. Business and living costs would have fallen. Standards of living would have soared, in turn creating huge investment and consumer demand.

Ultimately, the economy would have missed the depression and would have created vast prosperity.

But you never hear about that. Instead you're told that intervention is necessary… that banks and business must be bailed out or else everything will collapse.

Don't be so sure.

Indeed, we come back to my initial idea: that the decisions taken in 2009 after the great financial crisis were NOT done in the best interests of you or me, but to protect the financial and political elite.

Here's what I believe should have happened…

The alternative: let capitalism do its thing

When you look back to Warren G. Harding's decision not to intervene, it's pretty clear what should have happened in 2009…

The alternative was to let the banks fail, to NOT borrow unimaginable amounts of money from our children (and their children) and to NOT slash interest rates.

Don't get me wrong: the result would have been a shock to the system.

But it would have been a short and sharp one.

Reckless lenders and borrowers would have gone bust. More businesses would have gone bust than did so.

However, the pound would have soared. Import costs would have plummeted. And the cost of living would have fallen too.

We could have restarted the economy and enjoyed a new era of prosperity.

But this was not allowed to happen.

Instead, bankers, who collapsed the system, received vast bonuses then and still do now. The top 0.1% of society has done unbelievably well. The top 1% has done extremely well. And the top 10% has done very well.

But the rest of us have stagnated – at best.

The economy has had lacklustre growth averaging 1% a year for nearly a decade.

The debt situation is even worse than it was back in 2008.

And we ARE in depression, as defined as low or no growth for an extended period.

Truth is: government intervention often CAUSES the problem.

So, next time someone tells you the elites HAD to bail out the banks or that the ONLY way to sort out the current mess we're facing and avoid depression is for the government to intervene… think again.

Above all else, remember to protect yourself and those you care for… because the government certainly won't.