BOOK REVIEWS

Economic Contractions in the United States: A Failure of Government
Charles Rowley and Nathanael Smith
Fairfax, Va.: Locke Institute, 2009, 124 pp.

Charles Rowley and Nathanael Smith have put together a brief, yet extensive, study comparing America's Great Depression and the recent financial crisis. Their focus is on both the economics and the politics behind these events. With both, they demonstrate how each was a failure of government, not of the market. The book concludes with several recommendations for addressing our nation's current economic and fiscal situation. The most original contribution of their work is in bringing a Public Choice framework to evaluating the financial crisis.

After a short introductory chapter, the book's second chapter provides a selective overview of the economics literature on the Great Depression. Topics covered include the role of monetary policy, both in contributing to the stock and real estate bubbles of the 1920s, and in driving the deflation of the 1930s. Also reviewed is Ben Bernanke's well-known research on debt deflation and the financial accelerator. The role of fiscal policy is also evaluated, focusing on Hoover's efforts to balance the budget and its impact on aggregate demand.

Rowley and Smith's analysis of the Great Depression does not stop with a review of the macroeconomic literature but also discusses microeconomic contributions as well as constitutional and legal

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issues related to the New Deal. The well-known research by Harold Cole and Lee Ohanian on the National Industrial Recovery Act, as well as William Shughart's research on the Agricultural Adjustment Act, are briefly discussed here. Additionally this chapter provides an overview of several of the key Supreme Court decisions that allowed the New Deal to proceed. The chapter concludes that the Great Depression was the result of failed government policies, a view that frames the remainder of the book.

Chapter three explores the causes and consequences of the financial crisis. The analysis begins with a description of the 1990s economic boom, and how that boom laid the foundation for the financial turmoil of the 2000s. The Keynesian foundation of the Bush fiscal and monetary polices are exposed as well as linked to the resulting housing bubble. A concise overview of the impact of rising productivity, globalization, and capital flows on restraining consumer price inflation is also presented and linked to the monetary policies of Fed Chairman Greenspan and later Chairman Bernanke. The resulting environment of easy money is then linked to the housing bubble and the surge in household debt. The interaction of easy money and a federal push for expanding homeownership is also shown to have been a major contributor to the financial crisis.

The remainder of chapter three examines the Bush and Obama responses to the financial crisis, as well as that of the Bernanke Fed. Much of this discussion will be familiar to readers who have closely followed the events of the last two years. Rowley and Smith have, however, provided the reader with a useful, brief summary of the major events of the last two years. The original contribution of this chapter is to extend a Public Choice—or, more specifically, a Virginia Political Economy—perspective to the interaction of public debt and business investment. Building upon James Buchanan and Richard Wagner's *Democracy in Deficit*, the authors demonstrate how the expansionary fiscal policies of President George W. Bush contributed to the financial crisis. As few other commentators on the crisis have identified the Bush deficits as a major part of the crisis, this argument alone makes the book a valuable contribution to the debate.

The theme of chapter four is that laissez-faire has not failed, because it was not tried. The chapter begins with distinguishing between laissez-faire capitalism and state capitalism; the latter is seen as more accurately describing economic policy under

Presidents Bush and Obama. While this distinction may seem obvious to most economists, it is well worth emphasizing given the current level of misunderstanding in the popular debates regarding free markets and economic crises. The authors also rehabilitate the efficient capital market hypothesis by modifying it to include Austrian notions of dynamic efficiency, rather than the static efficiency behind much of modern finance theory. Although this discussion constitutes a small portion of the book, I believe the marrying of Austrian insights on market processes with many of the insights of Chicago finance theory holds considerable promise.

Rowley and Smith close with a list of policy recommendations. Without going into their justifications, these recommendations include: easing monetary policy, re-inflating housing demand through immigration reform, suspending all tariff and trade barriers, extending the "right to work," ending conventional fiscal stimulus measures, reforming Social Security, establishing a plan for long-term balanced budgets, using the bankruptcy code to deal with failing corporations, and imposing losses (haircuts) on private debtors in failing institutions.

Rowley and Smith, both associated with George Mason University's Economics Department, have presented a valuable synthesis of the macro, micro, and Public Choice literatures on the Great Depression and extended it to the recent financial crisis. While not inaccessible to a lay audience, the study will be most accessible to professional economists and graduate students. The authors also touch on a variety of intersections in the literature that are ripe for further research.

Mark Calabria
Cato Institute

Plunder! How Public Employee Unions Are Raiding Treasuries, Controlling Our Lives, and Bankrupting the Nation
Steven Greenhut
Santa Ana, Calif.: Forum Press, 2009, 297 pp.

New data from the Bureau of Labor Statistics show that there are more union members in the public sector than in the private sector in the United States. Thirty-nine percent of state and local government workers are members of unions, compared to just 7 percent of