

# "The Roaring Twenties and the Depression" Part 3 of 3. Chapter 11 from "Our Country, Then and Now"

"Roosevelt and the New Deal," "US Banks and Investors Role in the German Recovery, Role of Germany's Central Bank," "Disaster Looms"



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Serialization of selections from my book [Our Country, Then and Now](#) continues with cooperation of my publisher, [Clarity Press](#). Today we have the third and final installment Chapter 11: "The Roaring Twenties and the Depression" with sections on "Roosevelt and the New Deal," "US Banks and Investors Role in the German Recovery," "The Role of Germany's Central Bank," and "Disaster Looms."

World War I, the "Great War," ended without Britain achieving its aim of annihilating Germany as a rival European power. Germany had been bled dry by the Allies which were bolstered by US entry into the war. Germany was never invaded but seethed with anger.

The onerously punitive Treaty of Versailles lay the groundwork for a second major war ten years later. Driving the bus was the Bank of England. Meanwhile, Britain's acquisition of the Palestinian Mandate set the stage for the future Jewish state.

But the US was pursuing its own interests after bailing out the Allies on the Western Front. The Republicans were again in charge. The US Senate had rejected the Treaty of Versailles and the League of Nations. President Warren Harding, elected in 1920, promised a "Return to Normalcy."

Fueled by enormous largess in getting their hands on British gold through wartime lending, US banks pumped the stock market into the stratosphere. Life was great, until the Bank of England pulled the plug—in a meeting over lunch!

*After the 1929 crash, the world changed overnight with the onset of the Great Depression. The US dumped the gold standard and embraced Keynesian deficit spending as permanent policy. The New Deal tried but failed to overcome the downturn as bank lending turned abroad. Using British and American loans, Italy and Germany rearmed under the upstarts Mussolini and Hitler. In Germany, the giddiness of the Weimar Republic was over. In the Pacific, Japan began to spread its wings over East Asia.*

*In 1914 it was the "Great War." In 1939 it was the "Good War." Or was it?*

## **Roosevelt and the New Deal**

The US banking industry had failed so badly that in February 1933, after Franklin Roosevelt had been elected president over incumbent Herbert Hoover in 1932 and before he was inaugurated in March, the banking system collapsed altogether. It happened due to runs on the banks by depositors trying to withdraw their savings in gold.

“During the week ending March 1, over \$200 million in gold was withdrawn from Federal Reserve banks, and during the next few days another \$200 million was withdrawn, bringing the gold reserve down almost to the legal minimum.” [\[i\]](#)

With the runs by customers pulling money out of the banks, the banks simply shut down. It was called a “bank holiday.”

On March 4, 1933, Roosevelt was inaugurated. Six days later, by executive order, he took the US off the gold standard. Now, no one, other than a Federal Reserve bank, would even be allowed to hold gold or gold certificates except for up to \$100 for use in the arts or collectibles. [\[ii\]](#)

Those who say the US never defaulted on its debt are wrong in that in 1933 and again in 1971 the US suspended gold convertibility of cash assets held by depositors in the US and abroad. Creditors could get paid by paper or credit transfers but not in hard currency.

The elimination of gold-based currency was another step in depriving the US purchasing power not dependent on borrowing from the banking system. The Federal Reserve then pumped \$200 million in self-generated credit into the system through new loans to the banks, and the run stopped. Roosevelt told the public in his first "Fireside Chat":

"...there is an element in the readjustment of our financial system more important than gold, more important than currency, more important than gold, and that is the confidence of our people. Confidence and courage are the essentials of success in carrying out our plan. You people must have faith; you must not be stampeded by rumors or guesses." [iii]

In his 1932 presidential campaign, Roosevelt:

"...identified those responsible for the current dismal state of affairs: 'The money changers have fled from their high seats in the temple of our civilization. We must restore the temple to the ancient truths. The measure of the restoration lies in the extent to which we apply social values more noble than mere monetary profit.' He called for "strict supervision of all banking and credits and investments and an end to speculation with other people's money." [iv]

Never mind that Roosevelt was of the same social class and had long-standing business, personal, and social relationships with many of the guilty bankers. He attacked the Depression with an alphabet soup of solutions, many quite effective others less so. For instance, the Agriculture Adjustment Administration was criticized for supporting farm prices by ordering the destruction of crops and livestock at a time when rural populations were short on food. Many farmers, including black sharecroppers in the South, were put out of business.

But the point, in part, was simply to spend money which the government raised through borrowing. Roosevelt's policies were influenced by a new financial guru, British economist John Maynard Keynes, who argued that deficit spending and high income taxes would unlock a nation's wealth, boost employment, and generate enough economic growth to pay for the cost of financing an activist government.

This was not entirely new. The US had done something similar during the Civil War and World War I. What was new was to put a nation's economy on a wartime footing when there was not a war. Of course, there was an impact on prices. While the Great Depression was deflationary, pulling out of it generated inflation. So the race war and has been ever since, between price inflation and economic growth, necessitates that growth prevail. If growth faltered, even for two quarters, it was called a "recession."

[But by turning to Keynesian deficit financing, Roosevelt lost the chance to assert government financial independence as Lincoln had done with the Greenbacks. That the government broke loose of dependence on the banks by repudiating the gold standard, but it let the wealthy banking oligarchs back in the door by massive borrowing from them via sale of Treasury bonds.]

Meanwhile, the "business cycle" continued that has fluctuated between expansion and panics throughout US history. The Federal Reserve was created to stop these panics. But in 1932, by pegging interest rates higher than it should have in a deflationary period, the Federal Reserve utterly failed. The Depression worsened.

But President Roosevelt was not relying solely on the Federal Reserve or the business community. His response to the Great Depression was also marked by federal government action based on several worthwhile principles. One was the creation of government lending agencies such as the Reconstruction Finance Corporation, which recognized the concept of *credit as a public utility*.

The creation of the Federal Deposit Insurance Corporation acknowledged the government's responsibility to protect the public's savings; it also was essential to protect member banks against failure. The creation of the Civilian Conservation Corps and Works Progress Administration saw the government as the employer of last resort in roles more constructive than drafting young men without means into the military. Nevertheless, it took the World War II draft to create a full-employment economy.

Via Social Security insurance and Civil Service retirement the government took on the role of a savings bank, creating Trust Funds in ways that had been foreshadowed

earlier experiments in postal savings. Next, federal funding began aiding infrastructure development that formerly devolved mainly on state and local governments. New projects began such as the expansion of the US highway network later becoming the interstate highway system, and infrastructure projects such as the Tennessee Valley Authority or Hoover Dam.

These government programs conceived of public spending for the public good. State and local governments had been doing this for decades, but now it was being done at the federal level. This was where Roosevelt differed from his Republican predecessors which opened him to charges of being a socialist or even a communist.

Of course, private companies serve the public as well by producing goods and services but they also make a profit that goes to managers who guide the enterprise, the capitalists who risk their capital, and banks that provide loans. But through private sector banking, a major segment of the economy had broken away from emphasis on producing goods and services of value by giving priority to *just making money*.

The innovations of the Roosevelt administration obviously required funding. No matter what government does, at any level, the question arises: where is the money going to come from? The common answer is through taxes or credit. With the New Deal, taxes shot up again, reaching a marginal rate for high incomes of 90 percent. And the borrowing was massive.

Roosevelt's New Deal was accomplished through a compliant Congress that was determined to regain at least some of the Constitutional power of money creation through its commandeering of credit through taxation and borrowing. But the Roosevelt administration never went as far as to have the government itself create the national money as the Lincoln government had done with the Greenbacks. Congress now authorized such spending, but Roosevelt didn't use the authority.

Today, "printing money" is viewed as one of the worst things a government can do. A practice that is inflationary to a catastrophic extreme. But this is a misnomer. In actuality, as it presently stands, the US government isn't really "printing money"

really still borrowing from a privately-owned central bank that uses the government credit as reserves.

The Greenbacks are still the only true money printing option ever exercised by the federal government. But again, as Henry Ford and Thomas Edison once asked with respect to the 1920s Muscle Shoals project, why shouldn't the government create its own money instead of borrowing from the banks who were creating their own money "out of thin air"? How to do so was answered by Congressman Dennis Kucinich's proposed 2011 NEED Act. [\[v\]](#) This question should be asked again today—along with the question: why is this not being done, and who/what is preventing it?

## **US Banks and Investors Role in the German Recovery**

No one can say when the Great Depression was over, as unemployment both in the US and Great Britain remained above ten percent through the end of the 1930s. It is not that Roosevelt's New Deal programs aided recovery, that the principle of credit as a public utility was affirmed, and that Social Security began to supply a "social safety net" for older men and women.

It is also clear that by reforming it, Roosevelt's government saved the banking system. Even though bank deposits were no longer redeemable in gold, the yellow metal was still used to settle international bank transfers, and US banks benefited by being regarded as safe havens by foreign investors uneasy about the rising threat of renewed warfare in Europe. What followed was called the "gold avalanche." As with World War I, so was World War II "money in the bank" for the US. Gold that had traveled across the Atlantic to Europe when the Bank of England ignited the Depression was heading west again.

US banks and investors also continued to make huge amounts of money through financing German rearmament. In addition to loans from Morgan and Chase—by now Rockefeller-controlled banks—Germany profited from cash infusions and partnership agreements with IBM, General Motors, the Ford Motor Company, DuPont, and Standard Oil. According to a 2001 research report by the Ford Motor Company, at the start of World War II, 250 American companies owned more than \$450 million worth of German assets. Among these companies were Standard Oil

Woolworth, IT&T, Singer, International Harvester, Eastman Kodak, Gillette, Coca-Cola, Kraft, Westinghouse, United Fruit, Ford, and GM.

There are still people today who sing the praises of the Nazi "economic miracle" bringing Germany back from the Great Depression and providing full employment. But if you look at American loans and industrial investment you get a clearer idea where this "miracle" came from.

## **The Role of Germany's Central Bank**

But the biggest boost for the German economy came from the German central bank lending money against assets that had been foreclosed due to the Depression at low rates to the German government, which in turn funded economic enterprises particularly infrastructure and armaments. Germany *de facto* went off the gold standard and lowered the prime lending rate from 8 to 2.31 percent. Lowering interest rates *always* enhances economic activity.

Germany also fixed consumer prices and left wages relatively low. This allowed profits to be diverted into the arms industries. From 1933-1936, Germany's GNP increased 9.5 percent annually. Half of government outlays were going to the military, [vi] but Germany was out of the Depression.

Unlike Germany, when World War II broke out in 1939, the number of American unemployed was still high, numbering eight million. A huge amount of unused factory capacity was also available. Bank lending abroad continued to be facilitated through restoration of US bank savings. But what finally pulled the US out of the Depression was lending to Great Britain and France under President Roosevelt's Lend-Lease Program, which then enabled the rise of full employment here while allowing Britain and France to fight World War II on credit.

[Hidden were US Lend-Lease shipments to the Soviet Union. The purpose was to allow the Soviets to conceal their war preparations so they would be ready when Britain manipulated Germany into invading the Soviet Union in 1941. The plan was for the Germans and Soviets to annihilate each other with Britain then standing supreme. The plan was negated by the magnitude of Soviet victory on the Eastern Front.

This was the origin of the subsequent Cold War with the Soviet Union, with Russia now the Anglo-American target.]

## **Disaster Looms**

Meanwhile, Britain was playing the same imperialistic games as always. The primary game, whatever happens, is to look for the strongest Continental power and bring them down. In 1914 it was Germany. By the 1920s and 1930s, that power had shifted east to the Soviet Union. In order to stop communism, Britain, with the US, invested in a German upstart named Adolph Hitler. But Hitler would soon be the enemy of the Soviets, allies. As I've said before, it was another old game: "Let's you and him fight." You and him now being Hitler and Stalin.

But the complaisant Americans, who had been giving "isolationism" a try by rejecting the Treaty of Versailles and League of Nations, were increasingly the real industrial power behind the British throne. The US would soon become the enforcer and in many ways the prime beneficiary of Anglo-American hegemony. Stay tuned. The "Good War" is about to begin.

[i] Studenski & Krooss, p. 381.

[ii] It was Roosevelt's discarding of the gold standard that appears to have been the immediate trigger for the attempt by Wall Street plotters to persuade famed Marine Corps Major General Smedley Butler to carry out a coup against Roosevelt in 1933. Butler, the most decorated military officer of the day, reported the plot to a congressional committee, which, acting on Roosevelt's advice, took no action against the conspirators. Among the named plotters was banker Prescott Bush, later a US senator and father of future President George H.W. Bush and grandfather of President George W. Bush. Another was Thomas Lamont, head and future chairman of J.P. Morgan & Co. also with Rockefeller affiliations. During World War II, Lamont was Secretary of the Army and instrumental in establishing the CIA after the war. It was mainly the Morgan banks that were behind the planned Butler coup. By contrast the Rockefellers decided to support Roosevelt's New Deal, thereby becoming the pri-

US banking power. The Morgans ended up selling out to the Rockefellers and disappearing from history.

[iii] *Ibid*, p. 384.

[iv] Stone and Kuznick,, p. 46.

[v] Kucinich's NEED Act is discussed in the Appendix to this book.

[vi] Preparata,, p. 222.

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