

## Episode 122: The "Mis-Pricing" of Calvin Coolidge

Speaker 1:

Welcome to The Bill Walton Show, featuring conversations with leaders, entrepreneurs, artists, and thinkers. Fresh perspectives on money, culture, politics, and human flourishing. Interesting people, interesting things.

Bill Walton:

Welcome to The Bill Walton Show. I'm Bill Walton. The 1920s are a century distant from us in time, but boy, they seem light years away in terms of culture and politics. If there was one man who could time travel back from then to now to teach us what it means to be American, I believe that would be our 30th president, Calvin Coolidge. He was Ronald Reagan's favorite president for a very good reason. He embodied the best of America's founding principles and the character of the American people. We could all learn essential wisdom from his beliefs and deeds.

Today, I have the enormous pleasure of talking with Amity Shlaes, co-editor of a new edition of The Autobiography of Calvin Coolidge and author of the New York Times bestsellers Coolidge, The Forgotten Man, The Greedy Hand, and The Great Society. She also chairs the board of the Calvin Coolidge Presidential Foundation. I'm a proud owner of all her books and think she's one of our finest thinkers and writers on the topic of freedom and free markets and principles.

Amity, delighted to have you here.

Amity Shlaes:

Honored to be here.

Bill Walton:

What is it that fascinates you about Calvin Coolidge? I've got about 15 pages of notes here that fascinate me. What is it that brought you to him, that makes him so relevant to us right now?

Amity Shlaes:

Well, writing books is a business, just like buying and selling stocks, so you look for that product that's the most mispriced. In the presidential marketplace, the most mispriced president is Calvin Coolidge. That is, the market rates him real low, and he's actually a value that's real high. If you're an entrepreneur of ideas, you look for the dramatic error in the market and you try to correct it.

That's what happened with Coolidge. He's a very low-ranked president. He's practically treated as a seat-warmer between Roosevelts in the books. Actually, Coolidge is a fabulous president. You mentioned President Reagan appreciated that, but most people don't. The GOP doesn't, really.

What is it that made him fabulous? My job is to expose the value in a man who's underrated. Related to that, why is he underrated? Because he underpromised and overdelivered. These days, we tend to overpromise, as if we're selling, I don't know what, a cell phone or a used car, and underdeliver. That's what we tend to do in our culture. There's a terrible cost to our kids in cynicism. They're used to being sold something that's less good than the advertisement for it. That includes, by the way, college education and its price.

Coolidge was the opposite. He underpromised. He said, "Well, I'll help you a little bit," and then he overdelivered, helped people more than they expected, especially with a strong economy. I really like that as an intellectual investment and as a part of our history.

Bill Walton:

The essentials. He was born in 1872, Vermont, in a town called Plymouth Notch, Vermont, which I guess if you travel back there now, looks about like it did then.

Amity Shlaes:

Plymouth Notch has been historically preserved, and we welcome you for a visit there.

Bill Walton:

Well, I plan to get up there anyway. The book here is The Autobiography of Calvin Coolidge, and it's been annotated. The stunning first couple of chapters is the kind of life he led and how he ended up with the principles he had, which made him one of our most principle-based, bedrock presidents in history. I'm a fan of what we call, it's sort of out of favor right now, bourgeois virtue, which is savings and hard work and deferred gratification and economical use of resources and things like that. If there's anybody who epitomized that, it seems like it's Calvin Coolidge.

Amity Shlaes:

Well, he was like a lot of Americans in, generally, a farm culture, where you might have some wealth, some value you've built up, but it's not always liquid. Farmers may have something they build up, but they're usually cash poor. They have land. It's hard to translate that into easy money. They tend to also, just by nature, not to advertise how wealthy they are, if they're at all wealthy.

The Coolidges had a particularly tough row to hoe because where they were was in mountainous Vermont, and you know what, later the Agriculture Department went back and surveyed Coolidge's town and found that scarcely an acre of it was actually technically arable. They say in Vermont they farm rocks. The humorist Will Rogers said that the farms in Vermont don't lay; they hang like hammocks up in the sky. So you're moving rocks. What are you doing? Listeners will know, viewers will know, well, they went to dairy a lot of the time because grazing is easier on rocky, non-arable soil. That was what the Coolidges had.

A lot of their neighbors left and went west, where the land just unrolls like a yellow carpet in front of you after you set it up, acres and acres of wheat before your eyes, 1,000 acres. That wasn't Vermont. They stuck it out. It takes a certain kind of temperament to do that. One reason is they were so engaged civically. There was Carlos Coolidge, apparently a very distant relation, who was governor in Vermont rather early. Coolidge's grandfather and father served in the state legislature. This is kind of a Coolidge tradition; you serve as part of your government. Coolidge's father held just about every office in the town, including sheriff. He'd pick people up in a cart to take them, to confine them somewhere. He had to figure out how to pay the schoolteacher and move the snow in a period without electricity. In that part of the world, it gets dark pretty early, and it's pretty cold in the winter. This makes for tough people.

Bill Walton:

Well, yeah, they're tough, but he was born into politics. I think you mentioned his father and his grandfather combined for 75 years were the chief sheriff... What position did they hold in the county?

Amity Shlaes:

They were sheriff. They were on the town committees.

Bill Walton:

He's an unusual example of somebody who was a lifelong politician yet held every free-market virtue known to man. It's incredible how he-

Amity Shlaes:

Well, I think he understood, too... There's an interesting story in the autobiography about a tax increase. They needed the money, the town, to what? There was a snow tax in the town, for example. But his father was hesitant about voting for it, even though his father could pay for it, his father was the kind of squire of their town, because his father knew so many people who probably couldn't pay that tax.

His father had the store, so he sold on credit. Coolidge remarks in this autobiography that most people did pay their bills eventually. That is, there was essential trust in the town. They all knew each other fairly well. It was bipartisan, even though predominantly Republican in that instance. Coolidge had worked in the kind of politics where the first impression mattered less than an assist. That's lost today in our television era, right?

Bill Walton:

Oh yeah, and the 24/7 Twitter news cycle, cable fest. Absolutely. Well, the thing that's striking, and I want to see whether this is your impression, he talks about his character and his family and his town as if everybody was that way. You mention his father had a store, and he ran the business on trust and giving credit. He'd have people come back years later saying, "I owed you \$4.53, and here it is." There was that level of trust. My take, though, was that while that was peculiar to Vermont, it wasn't really. It was really all of America back in 1875, 1880. Is that what you came to believe? What do you think?

Amity Shlaes:

Well, there were plenty of rogues in that period. You think of all of the rogues who left Vermont when debt became too heavy.

Bill Walton:

Rogues?

Amity Shlaes:

Rogues, yeah, people who ran off on their debt. You think of, I don't know, John Deere, for example, left Vermont, and he did all right in the Midwest. A lot of people left Vermont when they had debt. It was a tough period. Debt was hard. My biography of Coolidge opens with the story of a Coolidge family member who was in jail because of debt. They didn't have debtors' prison, but he couldn't honor a contract because of debt and he went in jail in Woodstock, Vermont.

Bill Walton:

Didn't he owe like \$24.22 or something?

Amity Shlaes:

I think so. What was even the more bitter was it was a family fight. It was Oliver Coolidge. Any info on Oliver Coolidge of Plymouth and Wisconsin, I'm taking from anyone who lives in Wisconsin who knows something. You get the impression hearing about Oliver, Coolidge's great-uncle, that he's going to die in jail. He's old. He had rheumatoid arthritis. He was in jail. Instead, he did a very American thing. He started over and went to Wisconsin, where he had a whole second life, and some of his descendants are still there.

Generally speaking, it wasn't that the people were better than the people are now. It's that they were in a community where people knew each other, and if you let people down, they'd come back and get you. It wasn't this mirror celebrity culture of Twitter where you're encountering people you don't know, and it doesn't matter what your second impression is. These people went to church together. They conducted the church service together. They did business together. They knew each other rather well, so-

Bill Walton:

It's hard for me not to jump in because we need to... Part of the reason this is interesting is we can draw so many lessons for today. One of the lessons is debt is the biggest threat there is, really. Too much debt ruins lives. He was deathly afraid of debt. We'll talk about what he did as president.

The other thing is just the borrower and the lender knowing each other. One of the reasons we had the big blowup in 2008 was the securitization market where the people lending the money and the borrowers had no idea who they were, and it was all done through complicated derivatives and bonds. I was a commercial banker for a while, and one of the key things is know who you're lending to and what their character is.

Amity Shlaes:

That's right. One of the important things about the United States, frankly, is our trust of one another. We know each other, and we kind of trust when we buy something... A good example would be eBay. Last night, I bought a copy of Calvin Coolidge's autobiography, an older edition, on eBay. Well, eBay sort of guarantees this transaction, and they probably fire vendors who rook buyers, but it's essentially a trust event. I send \$30 to this vendor I don't even know and he sends me the book, and I'm pretty sure it's going to happen, so I paid him. That's very American, and it's precious. That remains. But of course, it's better if you know one another.

What many younger transactors in the market don't understand is that when you rook someone else, you don't just hurt that someone else; you hurt the trust culture of the whole market. A culture of no trust is very expensive because you have to insure a lot. We have something precious in the United States, which is we kind of trust one another as individuals, and Coolidge came from that. It's really the America that Alexis de Tocqueville was describing that Coolidge was writing about, little village, no electricity, train did not choose to go there, debt mattered a lot, not an inflated period, really. That was Plymouth.

But I want to add, Plymouth was not naïve. He paints this Grandma Moses picture of his village, "Little village, snow," but it was very tough there. He was also a Republican, and the father of the Republican Party was Lincoln, who likewise was born in a cabin, read law, didn't go to law school. Coolidge read law. That is, he apprenticed to learn the law rather than go to law school. Coolidge was also pointing out to his readership that he was part of the Lincoln tradition, poor guy, good mother, good grandmother, tried hard.

We don't want to be... I don't think there's a bit false in the autobiography, but it's not a fairy-tale place. It's a real place. Even if you live somewhere quite remote and without the internet or

electricity doesn't mean you're not sophisticated. The Coolidges were sophisticated people. His grandfather imported-

Bill Walton:

It was fairy tale in-

Amity Shlaes:

... animals from far away in order to improve productivity and breeding.

Bill Walton:

Well, it seems fairy tale in this sense. He had incredible hardship, which you described, but he didn't let it get him down. He didn't let it defeat him. He saw that as part of life, and I think the character that he demonstrated as he came through that was, to me, I don't know if fairy tale is the right word, but it was certainly a morality tale. I thought he wrote that-

Amity Shlaes:

It also has to do with the sense of service. I couldn't understand why Coolidge... Coolidge used to write his father these letters, which we have. He'd be 25 years old, and he'd write his father, "I need a coat. My wife needs a coat. I need \$400 for a suit," or a few suits in those days. I thought, "This is awful direct. I'm not sure..."

What it was was this. Particularly when Coolidge was in service, that is, going to school or working for government, he was representing the family in service. It would be like a Church of Latter-day Saints young person off in Asia doing their time for the church, "Dear Dad, I need a coat," because you're not just doing something where you are; you're doing something on behalf of your family.

That's a bit the way the Coolidges were. They were pilgrims. They were missionaries in the new world. They weren't actually, technically, missionaries, but they had that attitude, "I am here in Vermont." The Coolidges did not come from Vermont. They came from England via Boston. "I'm out here in the West." If you can imagine, Vermont was the West, Bill. It was the Wild West at the beginning of America. It was the wild, where there are Indians. "I'm out here, and I am representing my people."

Only then do you have an understanding of why someone like Coolidge would write home, "I need this and that." "I'm a servant. I'm a pioneer. I'm a missionary. I'm representing our people and our advancement." Then it begins to make more sense. His father had money and a farm, and Coolidge was being a politician, which didn't pay very well. "I need a coat." But his father was proud of him being a politician, because he was like someone in the military, "I'm just a young lieutenant. My father is a general. Dad, I need a coat," like that.

Bill Walton:

Didn't his father say something when he was... He was vice president, and Warren Harding died, what, 1923, '22. Somebody asked his father, "So do you think Calvin will do well as president?" He said, "Well, he did okay as governor, and I think he'll do okay as president." He just laconically gave him the sendoff, but it wasn't clear when he said that that he'd really been supporting Calvin all this time, or had he been?

Amity Shlaes:

Well, it's not a kind of family where they flop over and tell each other how great they are every morning, but it was a rock family. They were there for one another. You can see that John was there. What did John do, the father? He's sometimes called Colonel John.

Bill Walton:

Colonel John.

Amity Shlaes:

Yeah. Mrs. Coolidge died, the bride of Colonel John, the mother of Calvin. He sent Calvin to boarding school. That must've been hard. He didn't have a new wife. He sent his son to boarding school. It wasn't very far away, it was 10 or 12 miles away, but in those days, to get that far, you had to go in a wagon or walk.

He let his son go. Why did he do that? Because he wanted his son to have an education. I believe Colonel John also went to the same school himself, which was a Northern Baptist school in Ludlow, where the ski resort Okemo is now. Then he sent his son to Amherst, which cost money, hundreds of dollars when you add it up. They didn't have that much money, but he did it, even though at Amherst his son probably wasn't going to learn what you needed to do in Plymouth, which is get the sugar out, sugar [crosstalk 00:19:17]-

Bill Walton:

They had a sugaring season I think for what they called amber syrup, and Calvin had the reputation of being able to get more syrup than anyone else.

Amity Shlaes:

That's right. He knew his father wanted him to work hard, and he did, but he wasn't God's gift to farming. He was a slight kid, and he was a bookish kid, and he was probably a flaky kid, thinking all the time.

His sister was more practical. In that time, you could become a schoolteacher at age 14, and his sister was like, "Get me a job. I want one," to the dad, "and I'll go live somewhere and be a schoolteacher." She was what we would consider a sophomore in high school or something like that, very young. So they grew up fast.

People died all the time, too, so they had more perspective than we do. Americans today don't believe that death happens. That's the problem.

So all this is going on, but they were not unsophisticated.

Bill Walton:

You set up a foundation, a university to teach us about the principles that Calvin Coolidge articulated and believed in. What is that? You've got a university where kids can take classes?

Amity Shlaes:

The principles themselves were tight budgeting. Coolidge's father had a cheese collective, a co-op that made cheese. What's a cheesemaker in a place like Vermont? It's someone who's desperate. He didn't have refrigeration. What keeps when you don't have refrigeration in terms of dairy? Cheese. So his father made cheese.

Coolidge compared budgeting and government restraint to cheese paring, like with one of those knives. Coolidge was a saver. We want people to know that. He actually cut the federal budget, which is quite unusual for a president. He didn't reduce the increase the way we say today. He actually cut the federal budget. He believed in low taxation. That's important. He believed in property rights, which people don't understand now vis-a-vis the current equity conversation. He believed that property rights and personal rights were the same thing.

We try to convey these principles and the virtue of Coolidge's America to younger Americans. How do we do that? We have a debate program where kids debate Coolidge principles, pro and con. We always try to be sure we have both sides. And we have a scholarship that is a prestigious scholarship named after the president, The Coolidge, which is a full ride to any college. That would be about \$300,000 a child. It is worth it because children like that idea. They don't like strings attached. Parents don't like financial aid drama. We have 4,700 kids applying this year for three or four scholarships, The Coolidge.

Bill Walton:

This is a scholarship to any college of your choosing?

Amity Shlaes:

Any college you get into.

Bill Walton:

There are a lot of colleges where they're not going to be taught the same thing that Calvin Coolidge would've taught.

Amity Shlaes:

Well, I have faith in young people that they can make up their own minds. This is a question that's often asked. "If Coolidge was conservative, why aren't all the scholarships going to conservative colleges?" Well, we have faith in young people that they can make up their own minds if they're actually exposed to all the arguments. We don't believe that they're such weaklings that they can be indoctrinated super fast.

Our whole goal is let the young people make up their own minds. All we do is offer Coolidge, offer the traditional explanation for some philosophies which he had, which was the explanation that was commonly accepted in the history of the United States for a very long period. All our aim is to expose people to Coolidge, not to indoctrinate them. Then when they go off to college, they'll have a little bit of perspective because they'll know there's some other views.

Bill Walton:

That's great. Where's your foundation? Are you based in New York-

Amity Shlaes:

I have a lot of respect for young people.

Bill Walton:

Are you based in New York or D.C., or where are you?

Amity Shlaes:

The Coolidge Foundation is based in Plymouth Notch, Vermont. It's pretty much closed right now because it's just about mud season. Coolidge would've been beginning sugaring maybe soon. It's still winter in Vermont. But in the summer, it's glorious. We usually have fireworks on the Fourth of July, which happens to be Calvin Coolidge's birthday too. He was born with the country. As I said, he's a wonderful president.

We also operate in Washington out of Coolidge House on Prospect Street, where we bring our scholars and adults for events. We've been hosting a lot of virtual events from Coolidge House, and I'm sorry about that, but hopefully we'll have some live ones again soon.

Bill Walton:

Yeah. You said it's mud season in Plymouth Notch right now?

Amity Shlaes:

Soon enough. I don't have a video cam, but that's what happens in New England in the spring. It's not great. Your dog's paws get wet. Your car's tires slide. Your shoes get wet, and you need to leave them in the mudroom.

Bill Walton:

You said something. We're jumping around, but I guess it's sort of fun to jump around. You said something that was striking. Coolidge didn't just cut... He cut federal spending in absolute dollars during his five years in office through, I guess, 1928, so went from X billion down to 75% of whatever that number was at the beginning. Has any president ever done that?

Amity Shlaes:

The budget went down slightly.

Bill Walton:

Slightly. Okay.

Amity Shlaes:

It's hard to constrain the federal budget when the population is growing.

Bill Walton:

But he raised the-

Amity Shlaes:

He actually cut the budget... Sorry. He actually cut the budget in real and nominal terms. Particularly, nominal is what matters, because that's so astounding, notwithstanding a growth in the market the government had to serve, which is the American people. We had a population growth in that period. He also cut the debt. The debt was cut dramatically. It was cut by one third. It would've been very difficult to cut the budget by one third when you have population growing.

Bill Walton:

Well, it was a boom time, but he also reduced the federal tax rate from 75% in the top earners down to 25% and-

Amity Shlaes:

He and Harding together did that. You want to give Harding some credit. I hope you have the Harding revisionist on your show soon because he's wonderful, whoever that is-

Bill Walton:

Who's the Harding revisionist? Who is that-

Amity Shlaes:

There are several of them. But in Coolidge's case, he was the one who took the top rate, and we have a picture of that at Coolidge House, down to 25%, which is lower than Ronald Reagan's 28%. Coolidge is just driven on that. He said, "I'm going to bend my energies to a tax cut."

One other thing the pair did, Harding did it, but Coolidge kept it, is they established a capital gains rate, because there was a concern in that period... Remember, the income tax was new. Federal taxation, essentially, was new in the area of income or these kind of transactions. People thought, "Well, maybe capital gains should be taxed just as the income tax is." The income tax is 50%. That's a terribly high capital gains tax.

What Mellon, the treasury secretary, did under Harding, Coolidge's predecessor, but with Coolidge's support, was, together with Congress, they fixed the capital gains tax rate, which is the rate when you buy and sell stocks, for example, at 12.5%. Wall Street was very grateful. America was very grateful. They didn't welcome a new tax, but if the tax was fixed at a low rate, well, then they could operate.

Bill Walton:

What people don't understand about the capital gains tax is it really makes capital sticky. The ideal capital gains tax would be zero because what happens-

Amity Shlaes:

The ideal capital gains tax is zero.

Bill Walton:

People get their capital tied up in this business or that real estate or that venture deal, and they've got a gain. Normally, if you had no tax, they would maybe exit, take the cash, and then invest it in something else that was promising. If you believe in capital formation and the way that money ought to go to the next big thing, capital gains tax is a terrible idea.

Amity Shlaes:

It's a terrible idea. You can argue it's double taxation, and you can even argue-

Bill Walton:

It's that, too, because, well, you've already paid taxes on your capital when you've accumulated it. Yes, it is double taxation. I will make that argument.

Amity Shlaes:

Right. Anyway, there are some more interesting articles coming out about that that you and I could talk about in another show.

But Coolidge understood basically the principles of Adam Smith. What does it take for prosperity to obtain? Absence of war, tolerable administration of justice, and easy taxes. Easy means not too heavy. It doesn't mean no taxes. Coolidge understood if you could get a relatively friendly tax regime, no war, and pretty good administration of justice, America would boom.

In high school right now, they teach the '20s like a joke, like a bubble in Jay Gatsby's champagne glass. The '20s growth was absolutely real, and it improved the lives of most Americans. All high school teachers should have a look at this because I think they'll find evidence that they find compelling.

What am I talking about? We talk a lot about poverty today and coming out of poverty. Young people are concerned about it. In the '20s, people who were formally poor got an automobile. They got electricity, the electricity the Coolidges hadn't had. They got Saturday off because of productivity gains, because just as you said, capital was invested in the right place, which is where there are productivity gains and not just for tax purpose.

Most important, think about today's poverty debate. What is the line that we draw between grinding, awful poverty and working-class? That line is actually indoor plumbing. In the 1920s, America began, the majority, to have indoor plumbing. I rest my case. The '20s were an awesome decade. We got toilets and cars and washing machines, as well as Saturday off. This is the growth that comes from economics, not champagne. It's not all crash city. The '20s need to be taught that way.

Bill Walton:

We also got a revolution in chemicals. We got radio. We got the beginning of TV. Household appliances allowed women a totally different life than they had before the '20s. Real economic growth was about 4% a year for seven or eight years after World War I. The fascinating lesson now in how to deal with depression, recession is after World War I, we had that tremendous depression. Everything went like this. What did Harding do about it? Nothing. Coolidge-

Amity Shlaes:

Oh no, they actually raised the interest rate and cut the budget. That's what he did.

Bill Walton:

Well, even better. Anyway, so then-

Amity Shlaes:

The Fed, which had the treasury in it at the time, raised the interest rate. What do you do when you have a downturn? You double the interest rate. That's so counterintuitive. And you cut the budget. You un-stimulate. You do the opposite. Yet that is the forgotten depression.

I know you must know Jim Grant, and your viewers must know him.

Bill Walton:

Sure. Yeah.

Amity Shlaes:

He wrote a brilliant book about that. I hope he's on the show.

Bill Walton:

I do too. He's amazing.

I think also by 1927, only 2% of Americans were paying federal income tax. They really cut it to something where it was-

Amity Shlaes:

Well, that gets to another point. Sometimes when you cut the rate, the rich people pay a greater share. If you're concerned about distribution, the distribution tables of the '20s are a beautiful thing, because when they cut the rates, the rich people paid more of the taxes, which is kind of counterintuitive. But when you think about it, it isn't, because the rich people had successful businesses. There was more business activity-

Bill Walton:

The much-demonized supply side-

Amity Shlaes:

... and therefore they carried a greater burden. It is.

Bill Walton:

The much-demonized supply side. Yeah. It works.

Amity Shlaes:

It is, and it worked. I recommend to anyone Andrew Mellon's book about this, which is called Taxation: The People's Business, the treasury secretary's book. It's about \$150 or more on eBay because everyone loves the Mellon book. Maybe you'll write a new introduction to it and publish it again, sir.

Bill Walton:

Well, I would love that. I think you wrote that Mellon was treasury secretary and that three presidents worked for Mellon, Harding, Coolidge, and Hoover, because he was such an-

Amity Shlaes:

Yeah. Three presidents served under Mellon.

Bill Walton:

Served under Mellon. Even better.

Let's talk about that contrast between what was really happening with the economy in the '20s and the perception. The perception is guided by what happened to the stock market. As I understand it, Coolidge was very upset about the stock market going from 100 to 200 to 300, almost to 400. By '27, '28, he was very concerned that this was going to be a crash. Then-

Amity Shlaes:

Well, if you study the timing of the market rise, a good share of it, I don't have the chart in front of me, but I believe a good share of it was post-Coolidge, 270, something like that, from when he decided not to run. Anyway, I don't have the chart. But he was concerned when it went from 100 to 200 when he was president because he thought that was too high. Remember, at that time, Washington didn't regulate the stock market. There was no SEC. Even without any SEC, that's important too, the market had always come back.

Coolidge had seen plenty big crashes in his lifetime, including that forgotten depression which Jim Grant describes, any old 10-year depression. What made this different? That's where the debate lies. Some people say, "Well, it's because Coolidge was such a bubble, the bubble was so big that we had to take 10 years to recover." There's not much evidence for that argument besides the emotional.

We had a number of terrible factors in the beginning, some international. If you want to step back and fly up and be a bird at 30,000 feet, the way Benjamin Anderson, the chief economist of Chase in the period, was, the distinction between the '30s and preceding crashes was the government played God. It tried to manage the crash minute to minute. When the government played God, it made a lot of errors, so there was the cascade of errors in the 1930s. They just went on and on.

Recoveries are like people. They have choices. They choose to come back or they choose to stay away. The recovery in the '30s every year took a look at the U.S. regulatory regime, the tax regime, the government, the general environment, and said, "I will stay out one more year." So-

Bill Walton:

You wrote the wonderful book on the Depression, *The Forgotten Man*. You're probably the best person... I've never felt like anybody has quite explained why the Depression was so deep. You say that your book on Coolidge... You call it a prequel, where you covered both the '30s and the '20s. You could see what was leading up to '29. We had the market drop. What did the government do wrong between 1930-

Amity Shlaes:

Every year, a different thing, but there are two areas where the government erred that are underdiscussed. What's overdiscussed is the monetary. That's because some conservatives, Milton Friedman as a free marketeer, lay emphasis on the monetary. Okay, Milton could be right for the first part of the '30s. Milton himself never said the whole Great Depression was caused by monetary. It's hard to find him saying that, by the way.

What were the underdiscussed factors that really mattered? One of them was the labor price. Usually, up until then, the government didn't get involved in wages too much, the federal government. It just didn't. Beginning with Hoover, actually, we began to say, on a Keynesian theory that Keynes was just developing, but anyway, if you pay people more and be sure they have more money, they'll start shopping, and that will revive the economy. It also came from Henry Ford. Pay people a lot, and they'll buy back the car they made.

Anyway, Hoover, unlike Coolidge, began to exhort employers to sustain high wages and passed some legislation that placed an upward pressure on wages, such as the so-called Davis-Bacon Act, which the employers found perverse, because when you're in trouble and profits are down, you certainly don't want to pay more wages. It's too hard for you. So what do you do? You rehire fewer people. It's just as simple as that. If you don't have enough money, you don't rehire people you laid off so quickly.

Bill Walton:

We see that with today's minimum wage argument, that you say you raise the minimum wage to what they call a living wage-

Amity Shlaes:

That was very important. I apologize.

Bill Walton:

What happens is you keep all sorts of people out of the labor market because they're not worth \$15 an hour or whatever the number is.

Amity Shlaes:

Exactly. It's the same as the minimum wage.

Bill Walton:

The big companies, like a Walmart, that can pay \$15, or Amazon or whatever, then start lobbying for a federal minimum wage because they can drive their smaller competitors out of business because they can't afford that wage. It's terrible in terms of helping people get their start in the workforce. It's also terrible in terms of innovating small companies that can't pay those rates. It's bad for innovation. It's bad for competition. It's bad for poor people's lives. Let me see, can we come up with anything good behind regulating wages?

Amity Shlaes:

I don't think it's good. There is an economist named Mark Koyama who pointed out something to me I hadn't thought about. In the '30s, there was deflation. The labor leader goes in and he gets a 20% raise, and he's very proud of that. But it's actually more than a 20% raise by the time it comes to the employer to pay it because of deflation. That is, "I just have less money," says the employer, and therefore unions...

It was a major union law that cemented all this, the Wagner Act of 1935. The unions got even more than they thought they were getting under Roosevelt because of the deflation function. It's just an example of unintended consequences, because even unions, who some people dislike, don't wish all workers would be unemployed, but that was often what they caused, greater unemployment for workers, because of the high wage. That's factor one.

Bill Walton:

In your view, okay, factor one was getting into the wage business and setting what wages should be, and all the other work rules that go along with that. What's factor two?

Amity Shlaes:

Factor two is uncertainty. You think of government as an elephant in the room or a donkey in the room. If the donkey or elephant is relatively predictable, you keep going. As I was saying before with that Adam Smith quote, the environment doesn't have to be perfect for business to thrive; it just has to be not too bad. You look out, you say, "It might rain, but I have my galoshes. It's going to spit. It's not going to pour. I'll go out." Maybe I'll go out and other people won't when the environment is not too bad. What makes the environment worse, a real thunderstorm where you say, "I'm not going out," a dog would not go out, a lot of uncertainty from government.

Roosevelt didn't merely permit uncertainty, President Franklin Roosevelt, he relished uncertainty. He made his official policy bold, persistent experimentation. It was all about him, and it was all about a broad license for the president. Contrast that with Harding's policy, which was normalcy. I used to think normalcy sounded stupid. They want us all to be normal. That's not what Harding and Coolidge meant by normalcy, the 1920 platform item. What they meant by normalcy was a relatively normal environment so businesses can have fun.

Bill Walton:

Well, we had that situation with Obama, where they kept coming up with new regulations. Somebody that invests capital, which I have been in the business of doing, you can work with a regulatory landscape if you know the rules are going to be the rules for your investible horizon, but when you think that might change in a year or two or three, what do you do? You don't do anything. There's all sorts of things that don't get started.

When I was a baby banker at Continental Bank in Chicago, I was in the international lending department for about, I don't know, three days, I didn't really... They were doing government lending, and we did this whole risk matrix on what the risks were in lending to countries. They were, of course, enormous. But the biggest thing was regulatory risk in these countries, or legal risk, or how quickly could things change. Country after country after country that were fashionable to be lent to in that time had enormous regulatory risk.

Amity Shlaes:

Country risk.

Bill Walton:

Country risk. That's what we called it. I'd forgotten.

Amity Shlaes:

The point is we all acknowledge-

Bill Walton:

The United States then, this was in the '70s, was considered to be free from country risk. Now, the last 40 years, we've seen country risk in this... What are we ranked now, number 22 in the Heritage index of freedom?

Amity Shlaes:

I don't know.

Bill Walton:

We seem to have strayed a bit from Coolidge, but we really haven't. This is all-

Amity Shlaes:

No. Coolidge was diminishing country risk. That's a very brilliant way to put it. Guess what, at that time, we weren't the only country in the world. We weren't always and forever primo. There was England. England had struggled in World War I, we had come out on top, but that could be temporary. That was the attitude.

We were in a kind of competition with England to be less risky. England was more risky because England followed the social democratic path, whatever party was in power. They created the dole, which was a relatively expensive unemployment program that ended up becoming unpopular because everyone could see it was deterring people from going back to work. That's how the word dole, D-O-L-E, became a pejorative. The U.S. went on a more common-sense course, relatively conservative, and the U.S. did better than the UK. That solidified our primacy that we take for granted today, and reduced our country risk.

Bill Walton:

A guide to Coolidge thinking then is he understood that if we made the United States less risky, less likely for government to intervene, we'd be more attractive for international capital flows.

Amity Shlaes:

Yes.

Bill Walton:

That was a conscious strategy of his?

Amity Shlaes:

Yes. He also believed in the city on a hill, the U.S. as example. That's important too. You don't always have to intervene everywhere. Sometimes your example is more important to people than your gunboats. Reagan understood that too. For Cuba or Russia, America was important not... The way we convinced Russia was not by convincing Putin's predecessors, Brezhnev. We convinced Russia by convincing the people over the shoulders of their leaders as they observed the empirical success of our system. Coolidge said the best way to lead the world was for us to live by example. He was not a neocon, Calvin Coolidge, not an interventionist.

Bill Walton:

We've got a few minutes left here, not many. Once again, we're wandering into really interesting stuff. We've got to keep talking, but we've got to bring this segment to a close. I'd love to get you back, because I remember reading you at the Wall Street Journal. Gosh, I won't tell you how long ago it was. We were all six years old then. You were brilliant in economics then. You're still brilliant in economics. I think we need to talk about the economics of Calvin Coolidge when we come back, and what works and what doesn't.

In the meantime, you've got this foundation. You're giving scholarships. You've got a curriculum. Is it online? Is it accessible to people?

Amity Shlaes:

Mainly, we try to do things in person. If you sign up to apply for The Coolidge, which 4,700 kids have applied for this year, our full-ride scholarship to college, you may become a Senator, which is one of our finalists. We have 100 Senators. Then we bring you to Washington. You can learn all these things.

As I say, it's a lot of fun because you're with other Senators. It's an academic scholarship, so you're meeting other kids who are as serious as you are, which is pretty rare. You're getting away from your high school. You have fun in Washington. You learn all about Calvin. We don't try to convert you.

We just want you to have fun and open your mind, because it's very often the case that Calvin is not taught in schools.

Bill Walton:

No, that would be true. So you convene. Where are the classes taught, Georgetown?

Amity Shlaes:

They're taught in Georgetown and at Plymouth Notch. This year, we're going to take 10 Senators, that is, 10 of our finalists, for an intensive program, all paid, and they'll be staying at a ski lodge and then they'll be at Plymouth Notch, that is in beautiful Vermont near Dartmouth, and then they'll be in Washington, right in Georgetown, so they can check out the college as well, meeting important people, senators, congressmen, and people such as yourself, and learning also about the importance of business.

Bill Walton:

Well, if I may summarize what I believe, and it sounds like you might believe too, is a good public policy is a result of sound private virtue. The individual private virtues we have as a civil society and the things we believe, if we practice good ones, we bring those into our public policy realm, great things happen.

Amity Shlaes:

Also, good private or public education. Coolidge said you can't have a republic without education. We have to be sure our education covers all the areas.

Bill Walton:

Okay. Well, Amity, thank you.

Amity Shlaes:

No, thank you. Sounds like we could have a lot of fun. Let's just get into the nitty-gritty of the tax and the monetary next time.

Bill Walton:

Oh, I can't wait. We're going to go total wonk, and it's going to be really interesting.

Amity Shlaes:

Really fun.

Bill Walton:

Okay, thanks.

Amity Shlaes:

Thank you so much. I hope everyone gets the-

Bill Walton:

All right. We'll talk soon.

Amity Shlaes:

... Coolidge book for the grandchildren and the children. It's easy to read.

Bill Walton:

Let me do this again here. We've got The Autobiography of Calvin Coolidge. If you want the unabridged version, we have the biography of Coolidge. It's tremendous. Actually, the top hat is one of the best parts here. What an era.

Amity Shlaes:

What a choice. This guy is having fun. Contrary to rumor, he wasn't grim. Thank you.

Bill Walton:

Yeah, thank you. Take care.

Amity Shlaes:

Yeah. Bye.

Bill Walton:

Bye.

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