Fiscal Policy in the Great Depression

Evidence from Huey Long's Louisiana

Long's Spending Program

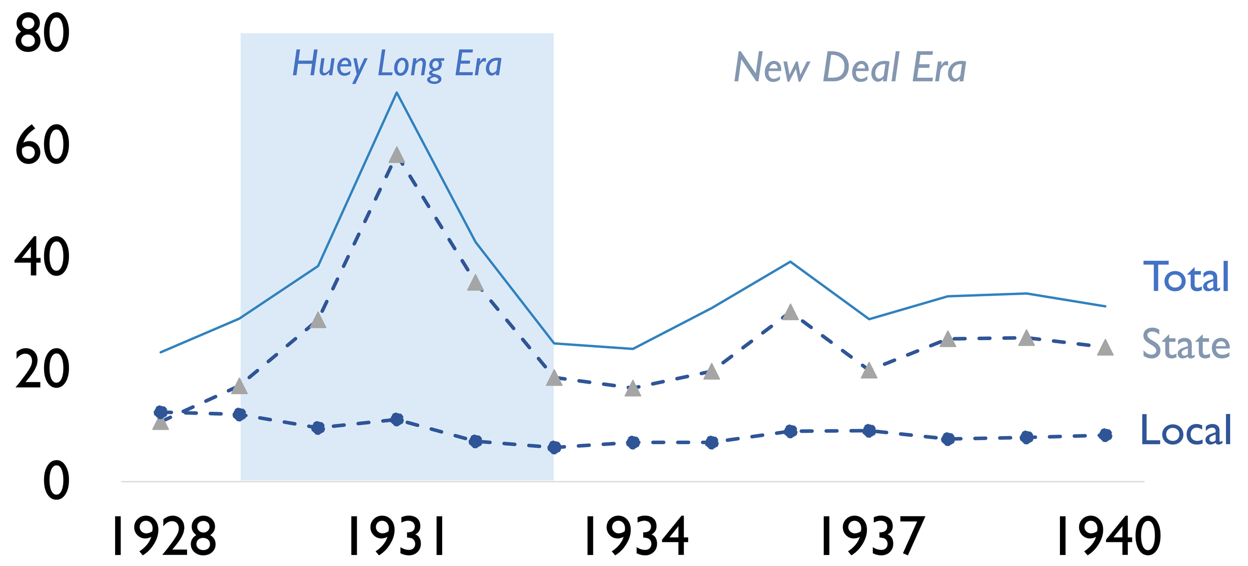
Populist Governor

- Huey Long served as Louisiana's Governor (1929-32) and Senator (1932-35)
- Ran on a populist platform of getting a better deal for the common man
- Undertook large spending program focused on highway building and education during the Great Contraction (1929-1933)

Effects of Fiscal Policy

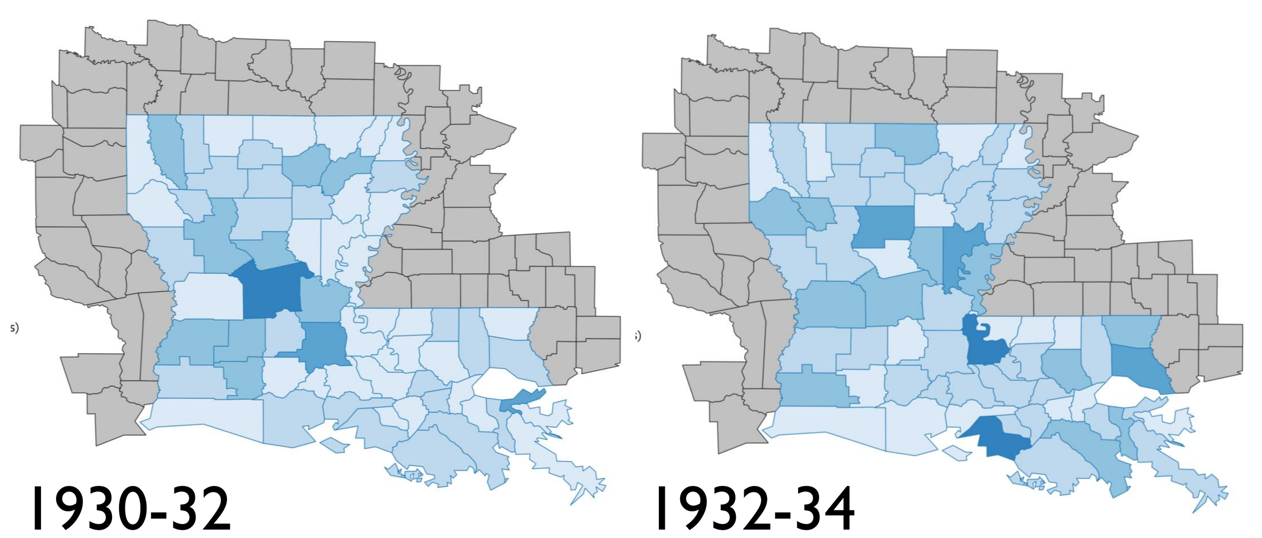
- Fiscal policy is largely passive during this period → **state-level fiscal policy effects** using rest of USA as control

Highway Expenditures ($ mill.)



- Built segments of highways in all parishes (counties) to gain broad political support
- This variation at the parish level for both programs allows for **parish-level analysis**

Road Spending by Parish



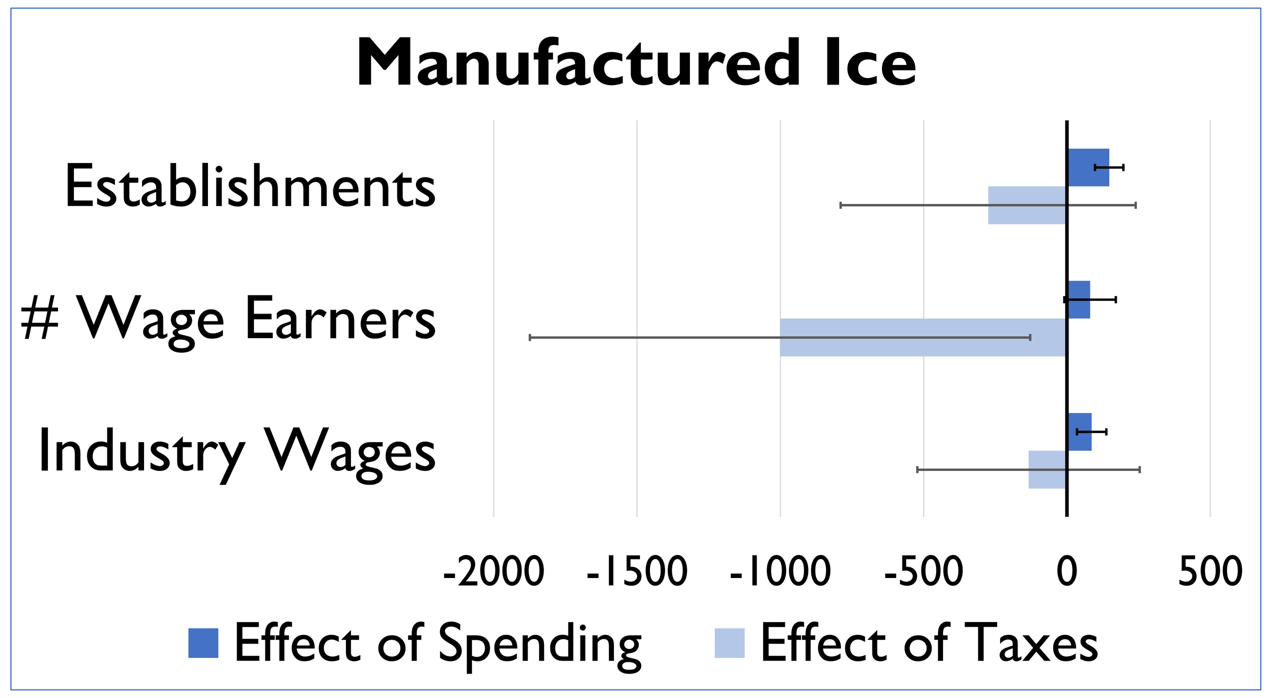
Louisiana State-Level Results

Louisiana: A Small Open Economy in a Currency Union

- Since most spending goes out of the state, analysis of effect of Long's fiscal spending decomposed into effect on non-tradeables and tradeables

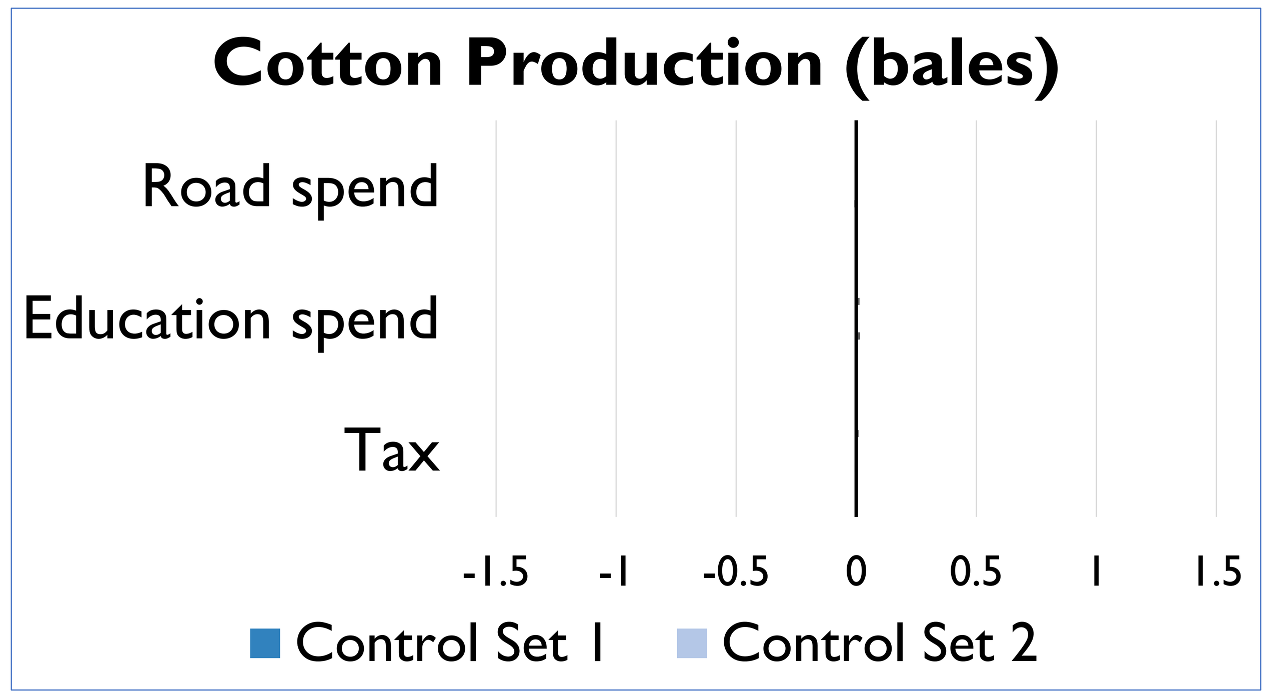
Economically Significant Effect on Non-Tradeables Industry

- 'Manufactured ice' production used as proxy for non-tradeable goods
- Effect of spending on demand will reflect in local production, wages and employment
- Industry data from the Census of Manufactures



- State spending has a **positive and significant impact,** while taxation has a **negative effect** on non-tradeable industries

Zero Effect on Tradeables Industry



- Cotton industry used as proxy for tradeable goods
- No cotton textile production in Louisiana → all demand came from outside the state
- **Precisely estimated zero** as LA stimulus does not affect cotton demand

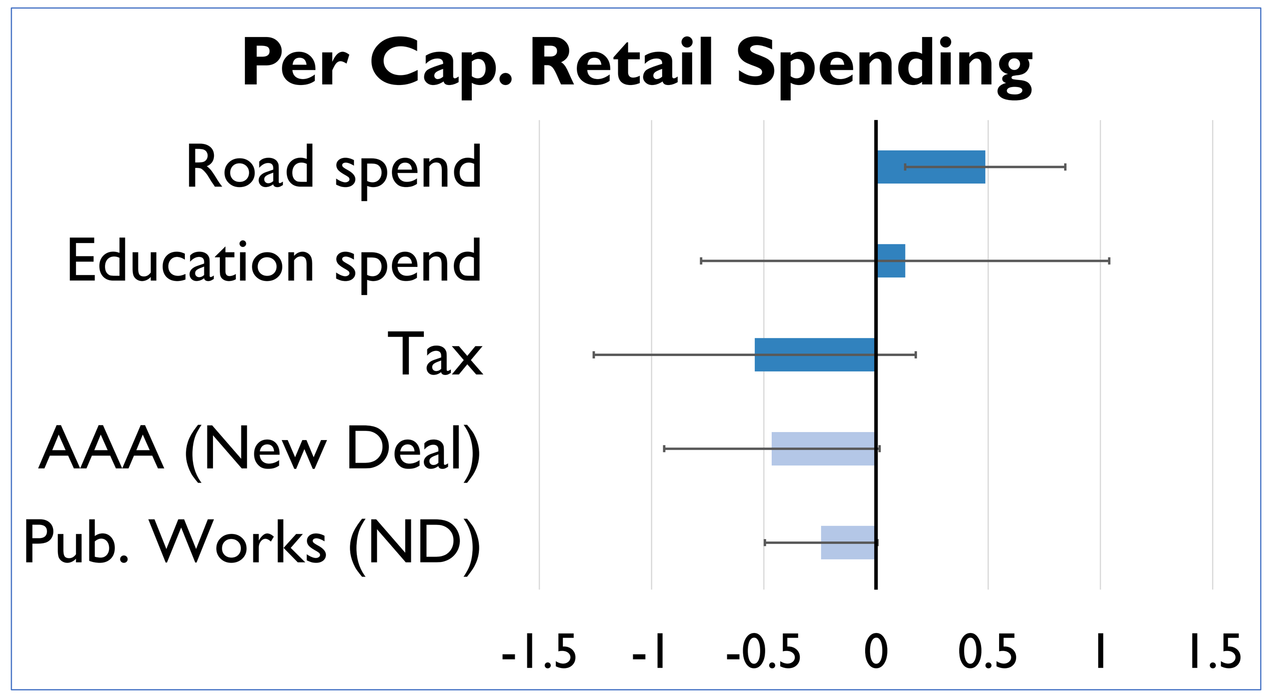
Why Low Multipliers?

- Above results indicate an implied multiplier of about 1.0 for Louisiana → most modern studies find a multiplier around 1.8 at the ZLB
- Reasons for low multiplier are complex:
  - Louisiana's production is mostly tradeable, so the "cotton" effect prevails
  - Low level of human capital → a lot of contracts went out of state
  - Endemic corruption associated with the Huey Long political machine

Parish-Level Results

Positive Effect on Retail Spending

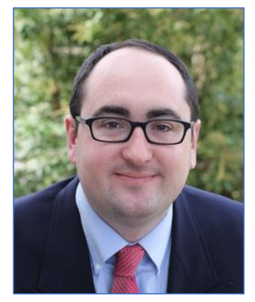
- Both spending programs (roads and literacy) directly increased retail spending
- Only the road program is significant
- However, negative effect of New Deal Public Works programs is puzzling
- Negative effect of AAA in line with literature



Future Work

- Reasons for low multiplier in Depression era Louisiana
- Impact of corruption on efficacy of spending program
- Spatial control using counties from neighboring states

Authors & Contact



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