

Fiscal Policy in the Great Depression: Evidence from Huey Long's Louisiana

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How does fiscal policy affect the economy?

- Classic question in macroeconomics
- How much does income or output rise when government spending rises?
- Many studies have looked at modern evidence
 - But modern recessions are mild and brief
- Some papers have looked at New Deal spending after 1933
- These are important, but don't catch downturn phase from 1929-1933
- This paper:
 - Looks at a major fiscal spending program during 1929-1940 period
 - Also considers tax revenues, rarely considered
- Huey Long's Louisiana
 - Populist governor embarks on a major spending program

Fiscal Multipliers

- Great Depression
 - Hausman (2016) looks at veterans bonus in 1936, finds veterans spend most of bonus, MPC between 0.6 and 0.75
 - Gordon and Krenn (2010) finds a multiplier of 1.8 from early 1939 to June 1942, but afterwards bottlenecks shrink the multiplier to 0.88
- World War 2
 - Brunet (2017) found multiplier of 0.25 during World War 2
 - Barro (1981) found a multiplier of 0.6 for World War 2
- Chodorow-Reich (2019) good overview of recent cross-sectional fiscal multipliers (estimates multiplier to be 1.8)

Subnational fiscal policy

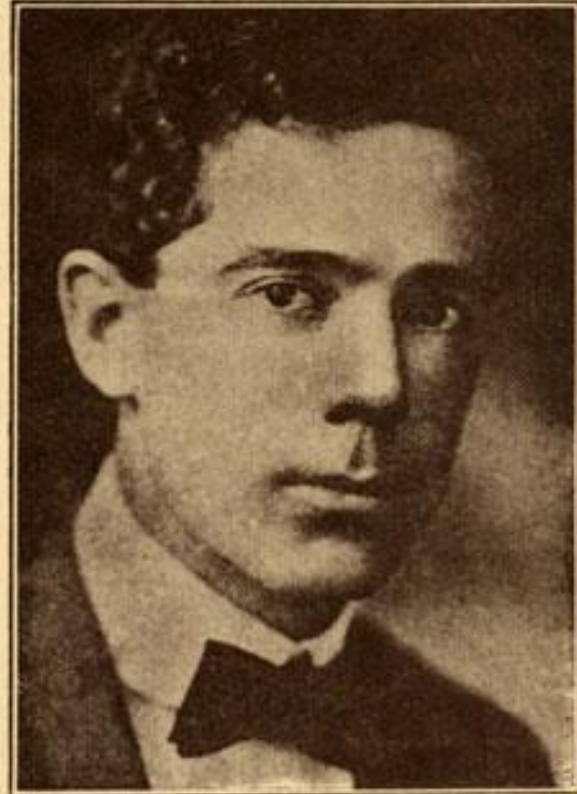
- Fiscal policy at a subnational level very different
- Federal government can deficit spend
- State government have balanced budget requirements
 - Introduces procyclical bias to their fiscal policy (Clemens and Miran 2012)
 - Makes large state fiscal policy actions in recessions rare
- However, state fiscal policy allows for treatment-control framework
- Unlike national fiscal policy (New Deal, military spending)
 - Only **Louisiana** is treated by the Long fiscal program
- Louisiana state government under Long rule issues lots of bonds
 - Louisiana debt goes from \$29,822 in 1929 to \$83,884 in 1931 to \$14,2250 in 1937
 - Effectively runs deficits at state-level

Preview of results

- Spending tends to stimulate economic activity
- Taxes retard economic activity
 - Particularly for non-tradeable industries
- Multiplier is much lower than modern estimates at ZLB
- No effect for tradeable industries

Long runs for Railroad Commissioner in 1918

I RESPECTFULLY ASK YOUR VOTE
For Railroad Commissioner



HUEY P. LONG

WINNFIELD, LA.

Election September 10, 1918.


(See Other Side)

Vote for a Principle

For three years I have made a fight in an effort to force the railroad, lumber and insurance companies of this State to pay a reasonable sum for injuring or killing their workers, rather than the unreasonable sums now allowed by law.

In 1917 I compelled railroad officials to pay back to their laborers thousands of dollars deducted from their wages under pretense of insurance premiums, etc.

I wrote the Jordan Bill in 1916, which made it a criminal offense for any concern wilfully failing to protect their laborers from injuries and death.

In the Courts I have consistently represented the farmers and workers in establishing jurisprudence which has brought the common people of this State thousands of dollars.

I stand for the principle that a railroad commissioner should be the people's representative and should represent the public, and not follow railroad dictation.

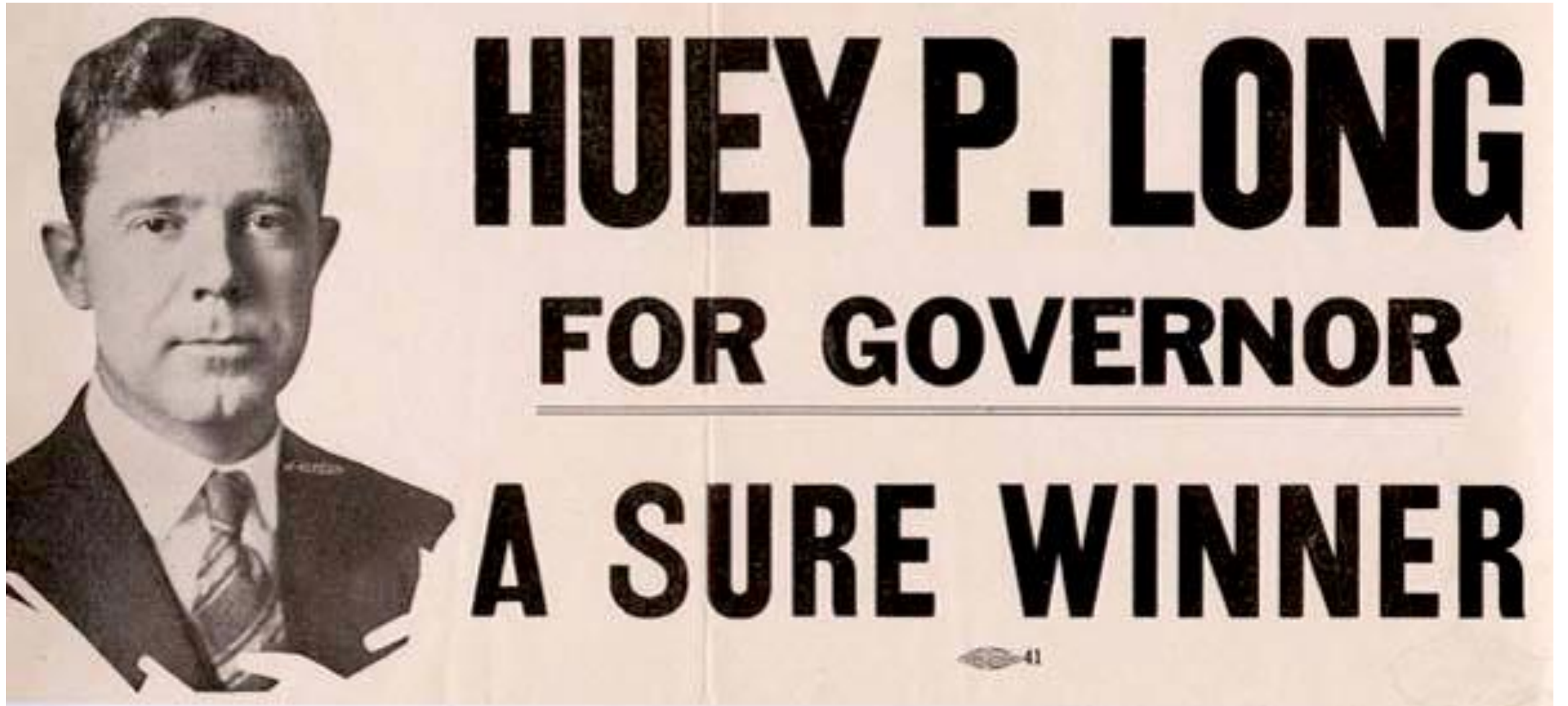
I was born on a farm, am a common man, and my sympathies have always been with the masses. I am opposed by the privilege seekers and profiteers.

Vote for me on September 10th.

HUEY P. LONG.

(See other side).

Huey runs for governor in 1924, successfully in 1928



Huey Campaigns on Good Roads



Free Textbook Program



Adult Literacy Programs



ARKANSAS

MAP OF
LOUISIANA
SHOWING
PROGRESS
OF
HARDSURFACING PROGRAM

— LEGEND —

- Hardsurface Highways Completed.....
- Hardsurface Highways under Construction.....
- Gravel Surface Highways Preparatory to Hard Surfacing.....
- Graded Highways Preparatory to Hard Surfacing.....
- Routes to be Hard Surfaced.....

April 20, 1932

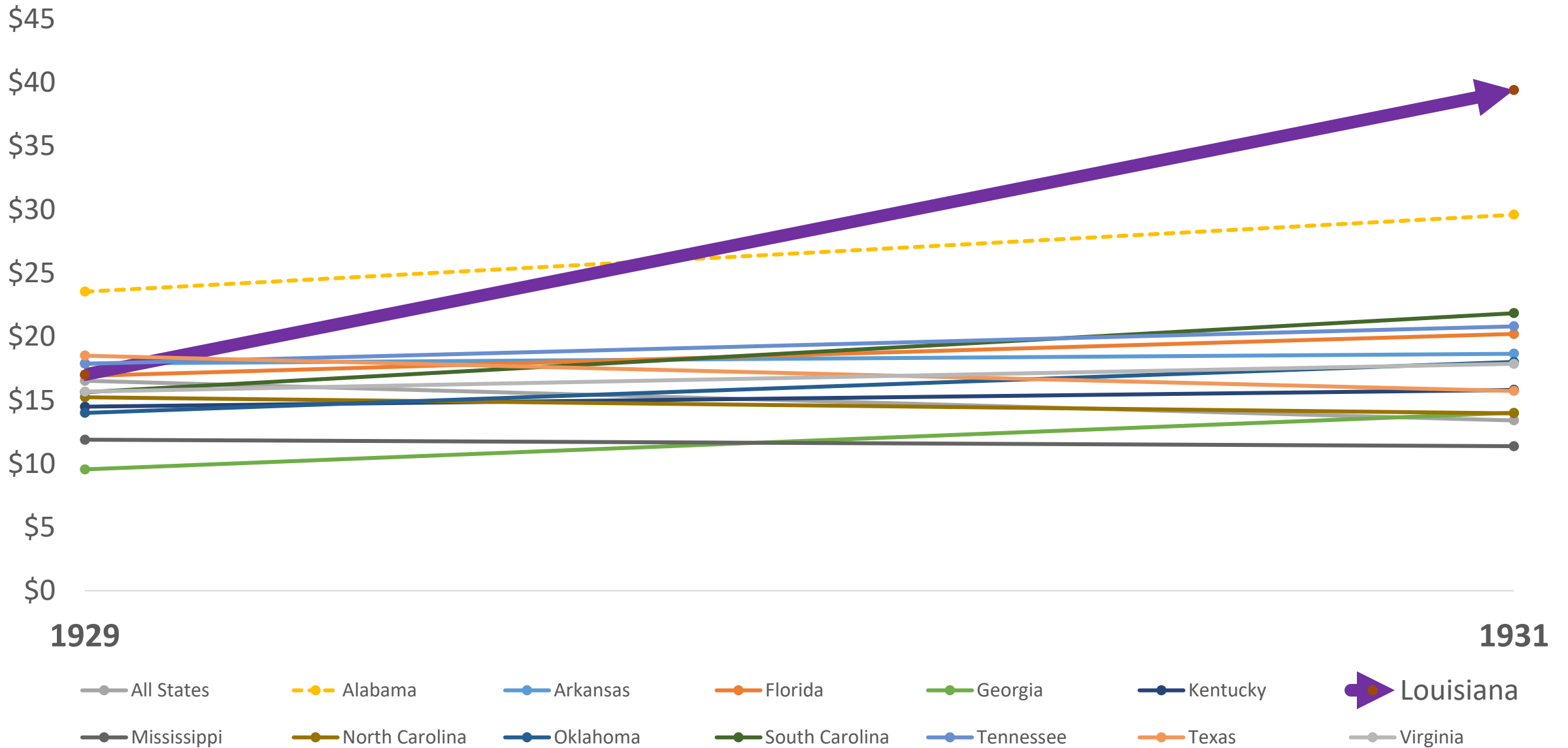


T E X A S

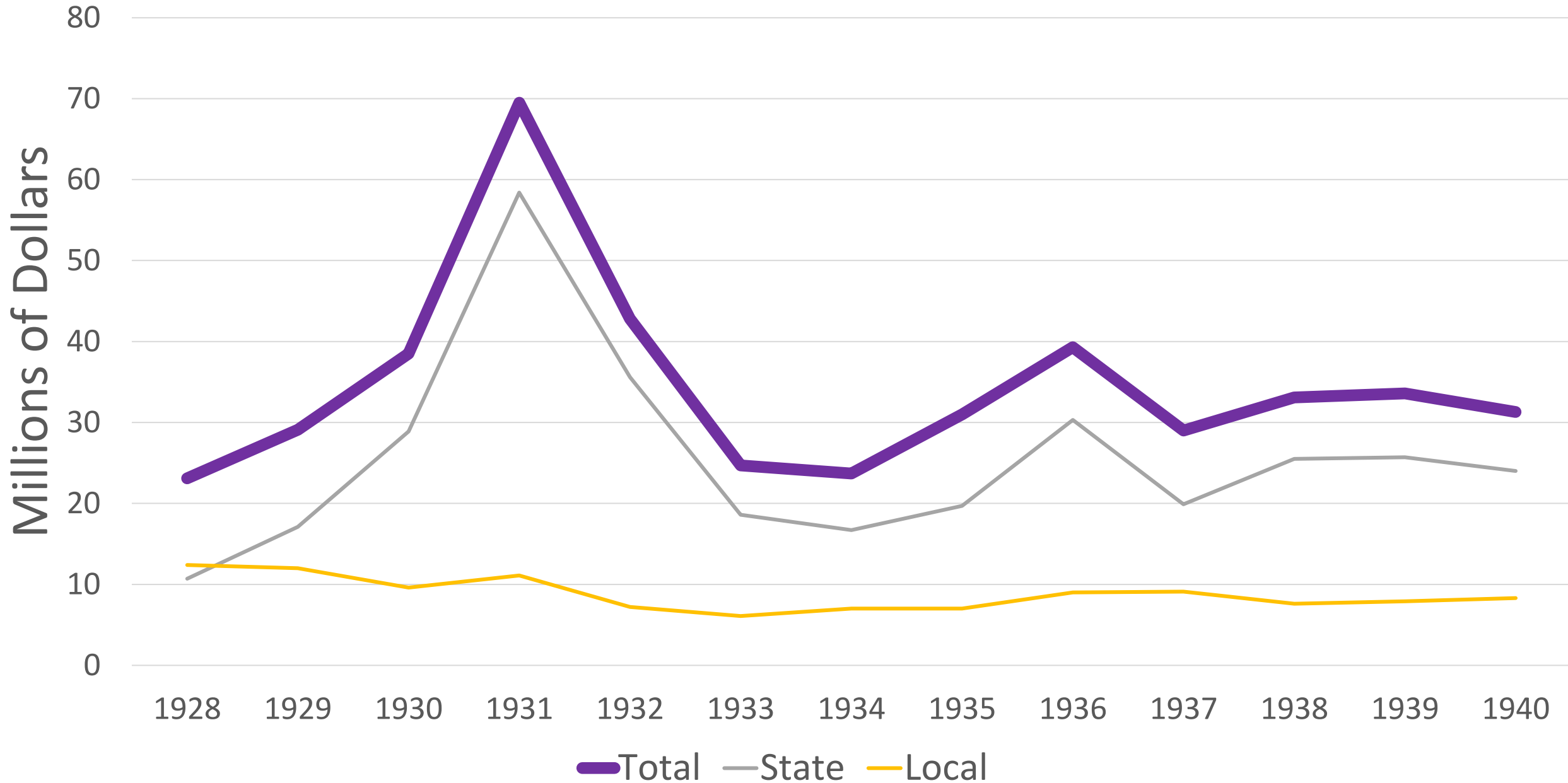
M I S S I S S I P P I

G U L F
O F
M E X I C O

Per Capita State Government Spending



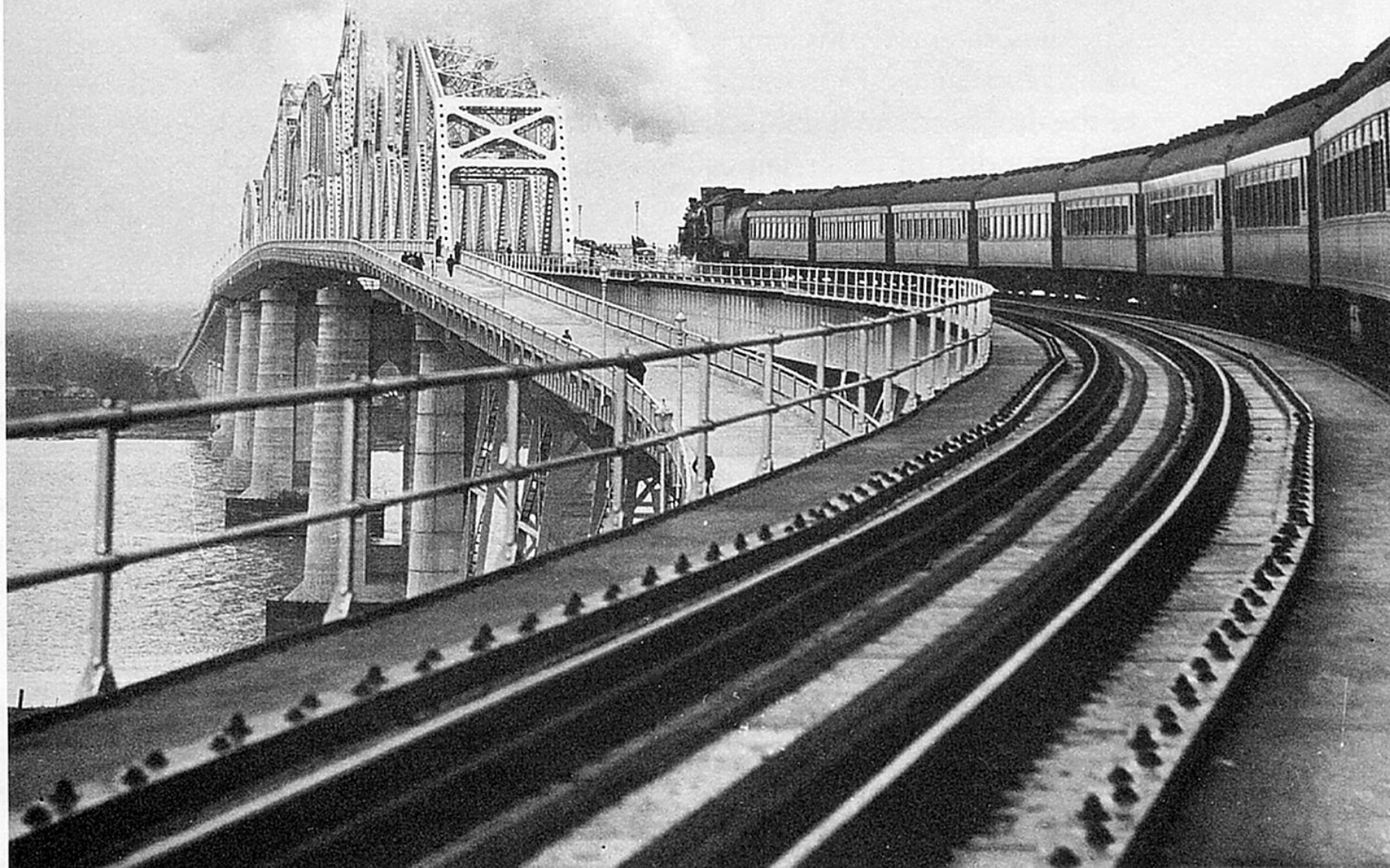
Louisiana State and Local Highway Expenditures



Huey Long Assassinated September 1935



Huey P. Long Bridge, New Orleans



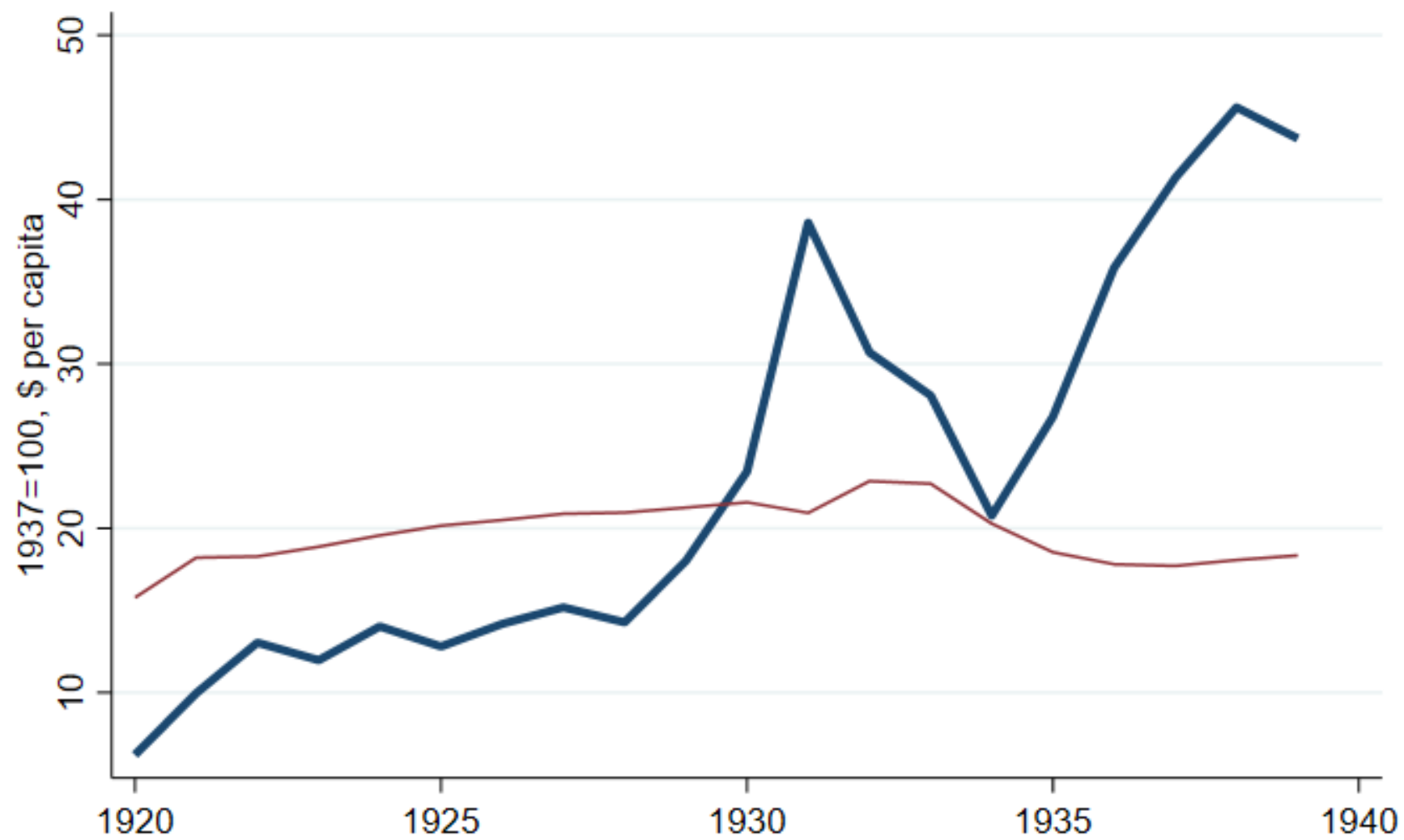
After Huey's assassination

Long faction tries to continue legacy of public investment

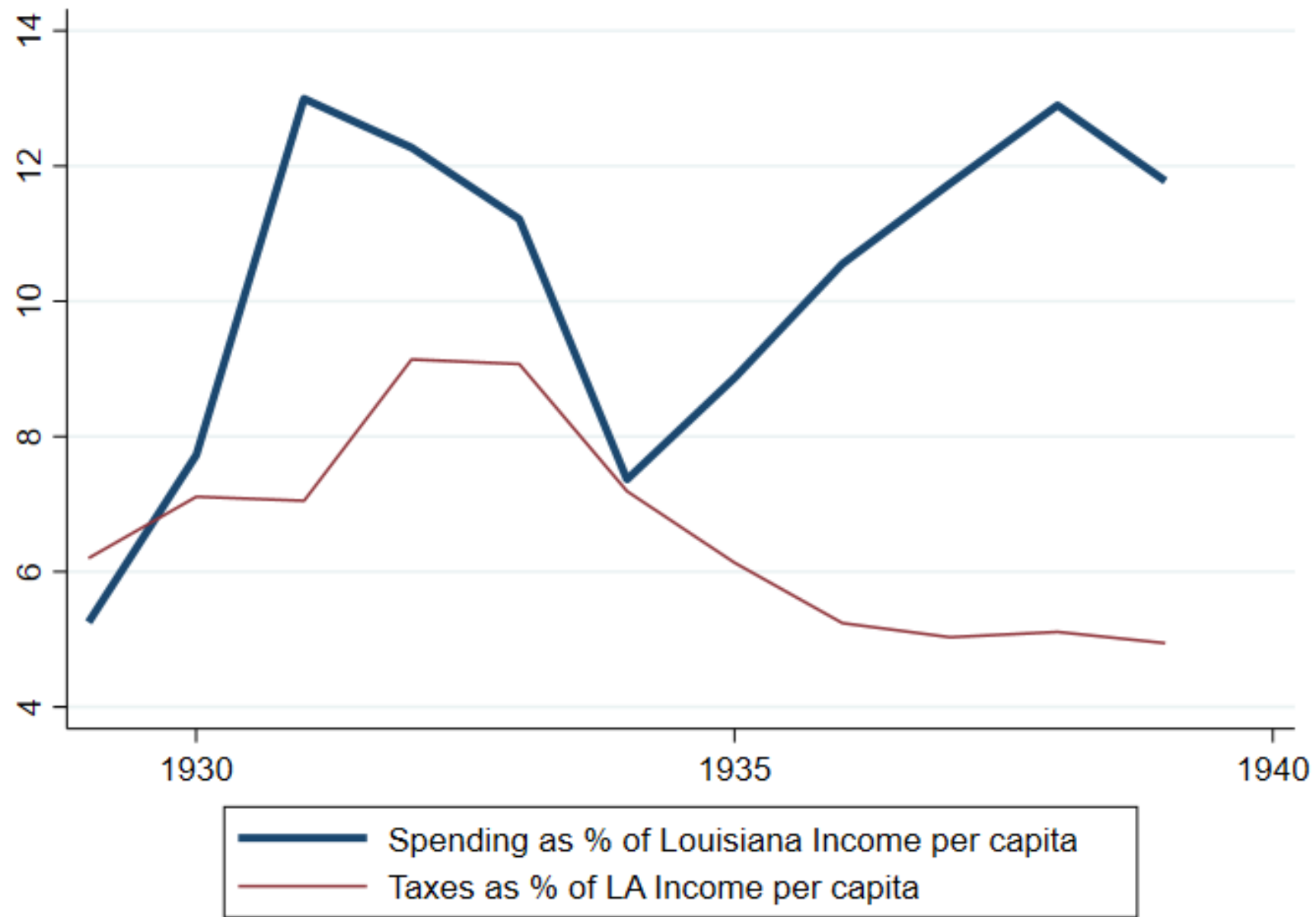


Huey P. Long - O.K. Allen Bridge





— Real per Capita Louisiana State Spending
— Real per Capita Louisiana State and Local Taxes



Summary Statistics

VARIABLES	(1) N	(2) mean	(3) sd	(4) min	(5) max
Ratio Income per capita (LA/US)	12	49.31	1.430	46.85	51.6
Bank Assets LA/US per capita	21	43.90	6.569	31.79	58.1
Bank Deposits LA/US per capita	21	43.18	5.582	31.69	54.1
Total Establishments	10	55.47	1.760	51.37	57.2
Total Wage Earners	10	59.46	9.602	49.82	78.1
Total Wages	10	43.69	8.287	33.61	61.2
Ice Establishments	10	186.2	24.29	157.6	225.
Ice Wage Earners	10	209.2	26.53	159.6	246.
Ice Wages	10	175.1	14.81	152.9	199.
Real per Capita State Spending	20	0.232	0.123	0.0622	0.45
Real per Capita State Taxes	20	0.197	0.0184	0.158	0.22
Spending as % of LA Income per capita	11	0.102	0.0257	0.0525	0.13
Taxes as % of LA Income per capita	11	0.0657	0.0152	0.0494	0.09

Personal Income per capita Ratio



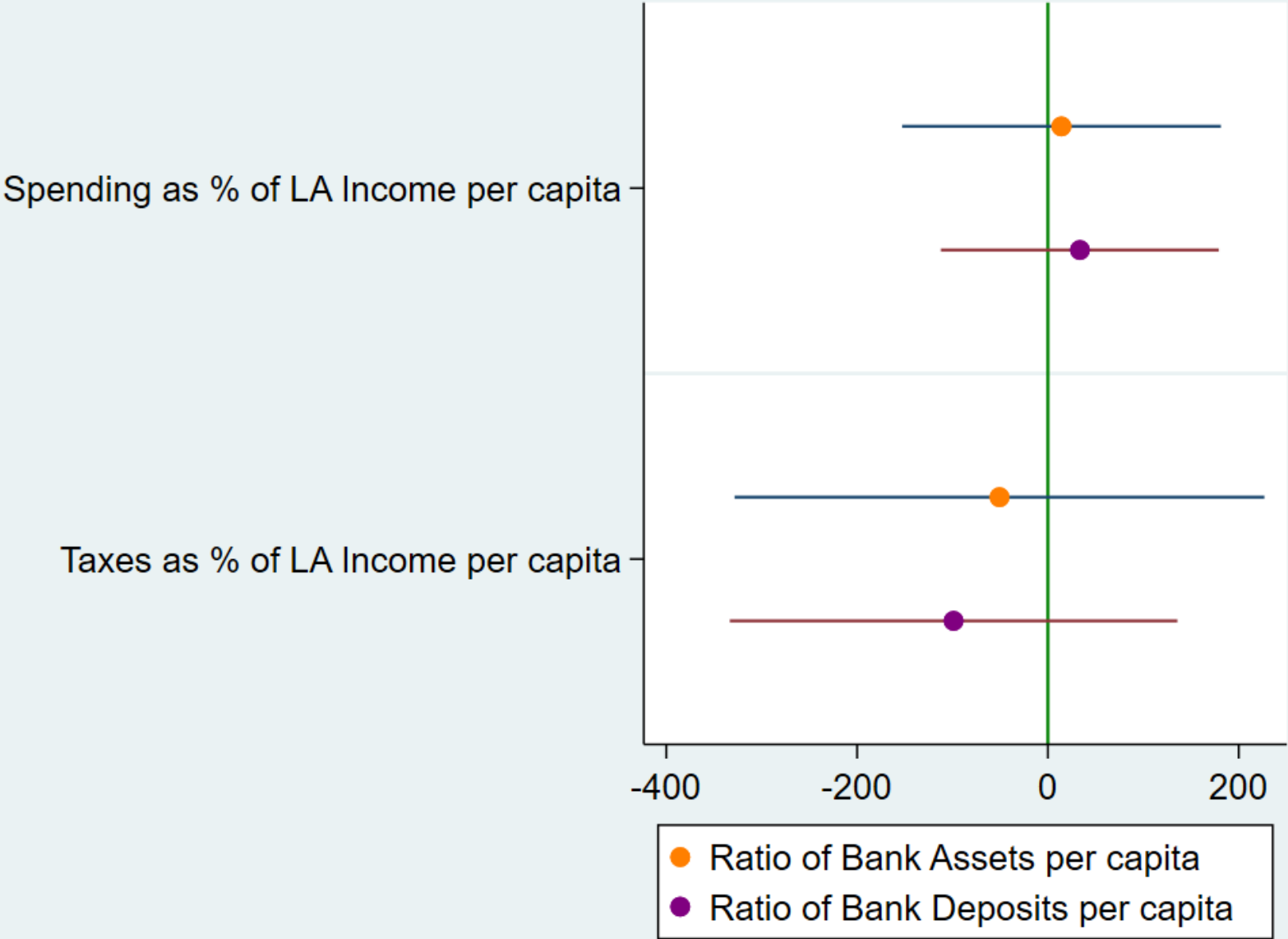
Level of Ratio of Personal Income Per Capita

VARIABLES	(1) Ratio Income per capita (LA/US)	(2) Ratio Income per capita (LA/US)
Spending as % of LA Income per capita	36.44** (11.17)	
Taxes as % of LA Income per capita	-6.120 (14.29)	
Real per Capita State Spending		10.04** (4.083)
Real per Capita State Taxes		9.970 (14.12)
Constant	46.20*** (0.992)	44.31*** (3.694)
Observations	11	11
R-squared	0.556	0.460

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Banking Variables



Bank Variables (\$ Louisiana pc /\$ USA pc)

VARIABLES	(1) Bank Assets LA/US per capita	(2) Bank Deposits LA/US per capita
Spending as % of LA Income per capita	14.17 (72.46)	33.51 (63.17)
Taxes as % of LA Income per capita	-50.74 (120.4)	-98.92 (101.7)
Constant	41.26** (12.57)	42.62*** (10.71)
Observations	11	11
R-squared	0.034	0.151

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Census of Manufactures Variables



Census of Manufactures Variables (1)

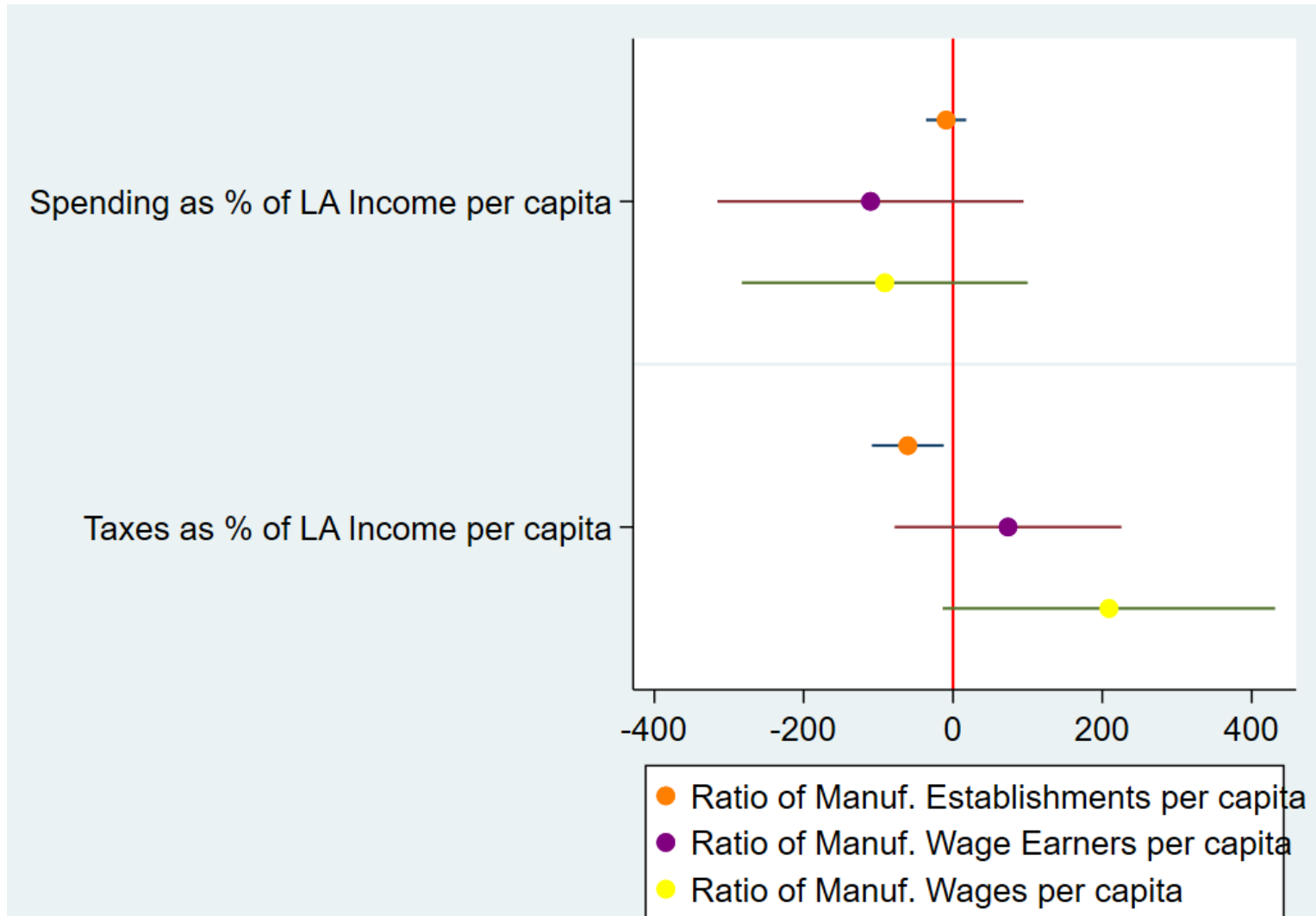
(Ratio of LA to USA)

VARIABLES	(1) Total Establishments	(2) Total Wage Earners	(3) Total Wages
Real per Capita State Spending	1.032 (3.252)	-66.18*** (12.04)	-54.22*** (14.97)
Real per Capita State Taxes	-52.37* (25.55)	-118.8 (95.89)	-17.29 (103.9)
Constant	65.56*** (4.616)	99.26*** (22.05)	60.47** (24.68)
Observations	10	10	10
R-squared	0.259	0.781	0.707

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Census of Manufactures Variables



Census of Manufactures Variables (2)

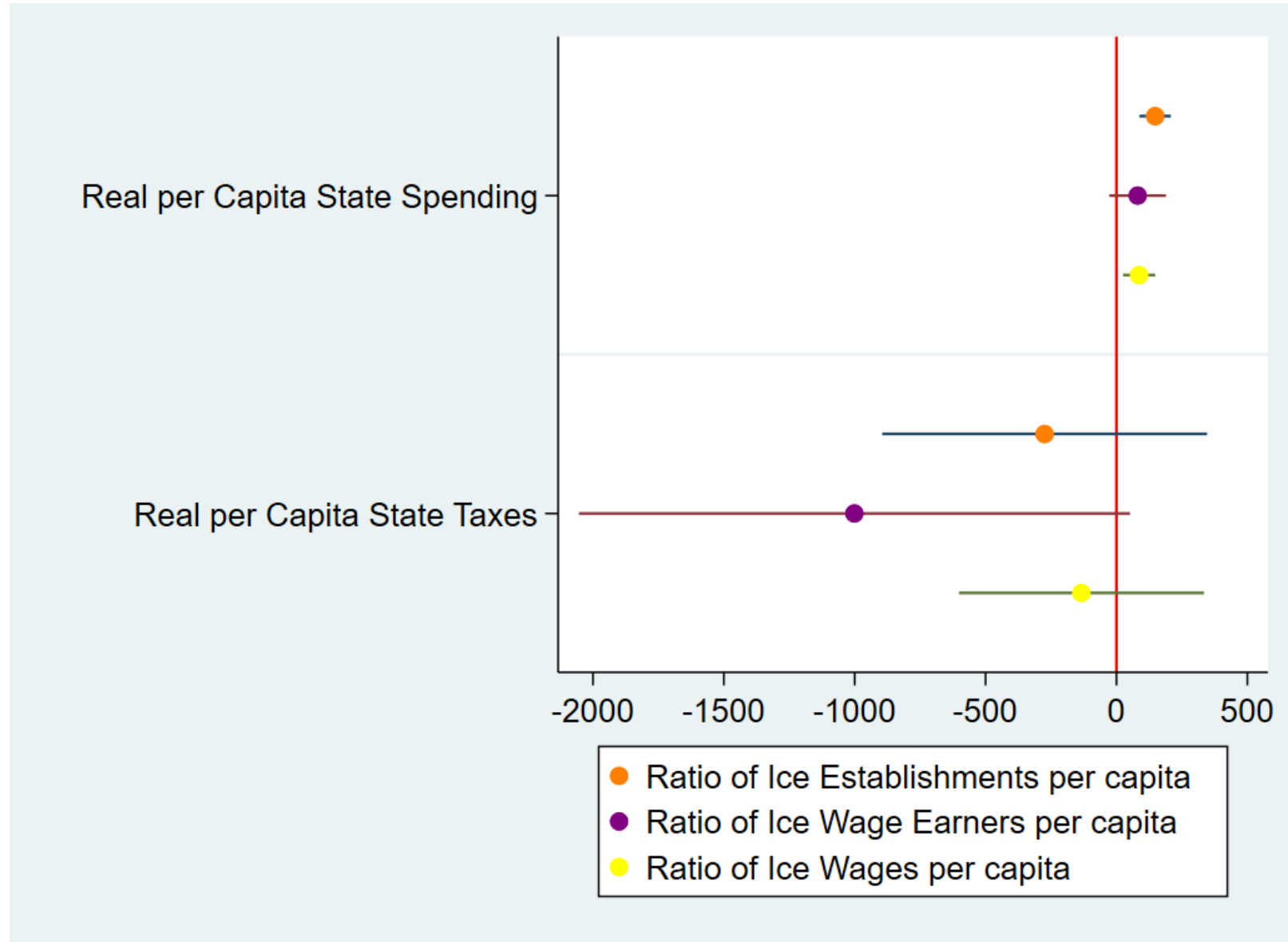
(Ratio of LA to USA)

VARIABLES	(1) Total Establishments	(2) Total Wage Earners	(3) Total Wages
Spending as % of LA Income per capita	-9.175 (8.467)	-110.5 (64.41)	-91.33 (60.11)
Taxes as % of LA Income per capita	-60.63** (15.10)	73.66 (47.76)	208.9* (69.93)
Constant	60.58*** (1.395)	59.81*** (8.708)	34.81** (8.477)
Observations	6	6	6
R-squared	0.765	0.548	0.674

Robust standard errors in parentheses

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Nontreadeable industry: Manufactured Ice (1)



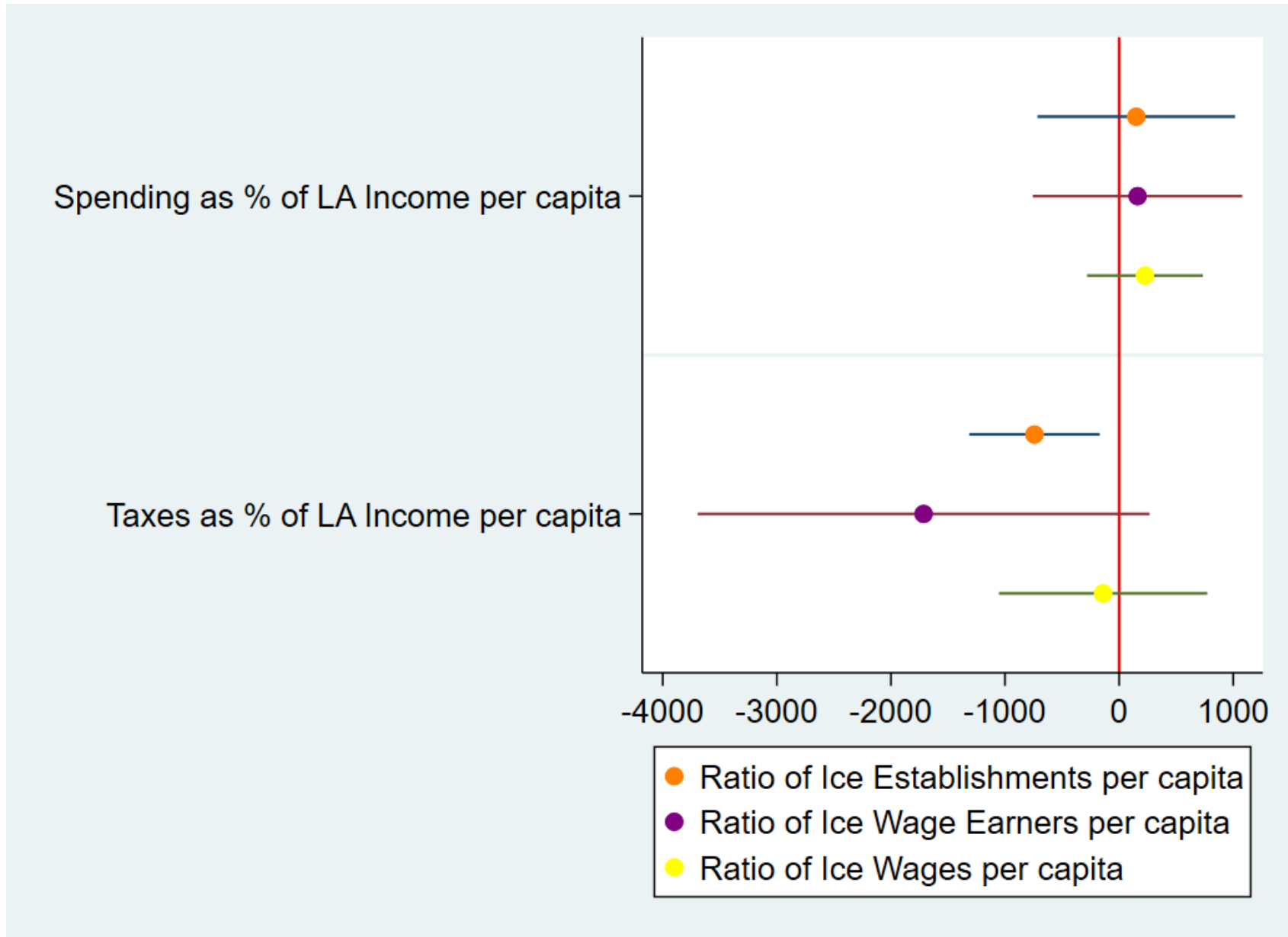
Nontreadeable industry: Manufactured Ice(1)

VARIABLES	(1) Ice Establishments	(2) Ice Wage Earners	(3) Ice Wages
Real per Capita State Spending	147.5*** (25.29)	80.65 (45.86)	86.31** (26.02)
Real per Capita State Taxes	-274.8 (262.5)	-1,001* (445.3)	-134.1 (198.0)
Constant	204.1*** (56.14)	387.2*** (92.12)	180.3*** (37.30)
Observations	10	10	10
R-squared	0.695	0.618	0.623

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Nontreadeable industry: Manufactured Ice(2)



Manufactured Ice Variables (2)

VARIABLES	(1) Ice Establishments	(2) Ice Wage Earners	(3) Ice Wages
Spending as % of LA Income per capita	149.9 (272.2)	161.7 (288.4)	226.5 (159.5)
Taxes as % of LA Income per capita	-741.9** (179.7)	-1,713* (622.2)	-140.7 (287.0)
Constant	233.9*** (36.59)	309.6*** (48.34)	169.7*** (21.45)
Observations	6	6	6
R-squared	0.443	0.653	0.333

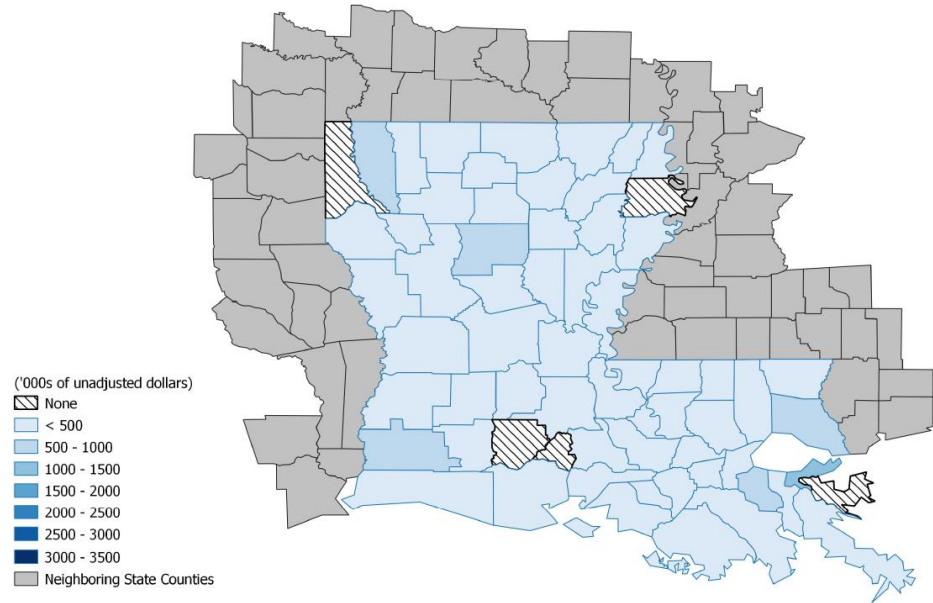
Robust standard errors in parentheses

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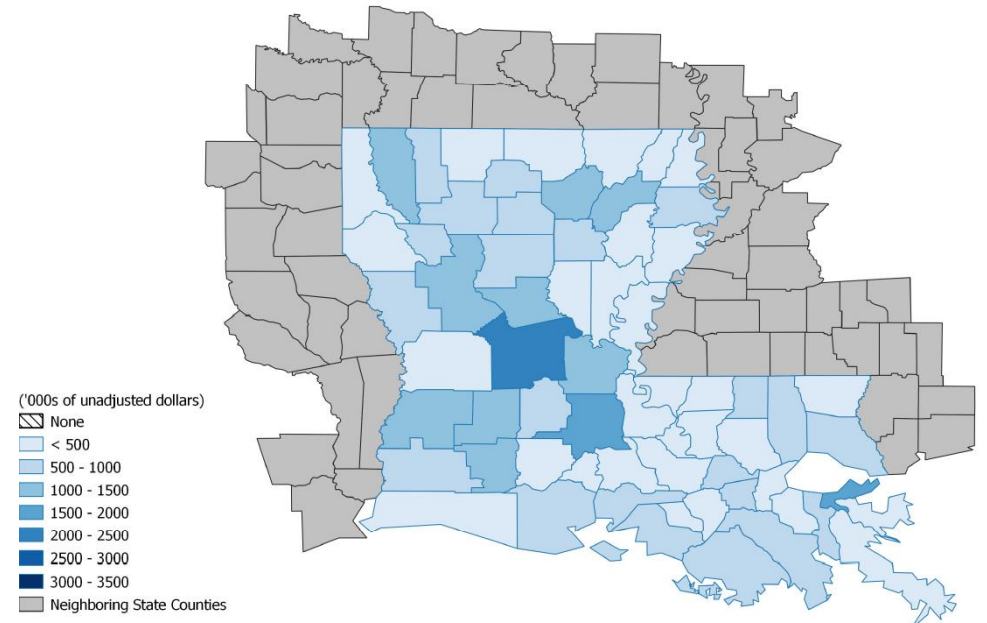
Parish Summary Statistics

VARIABLES	(1) N	(2) mean	(3) sd	(4) min	(5) max
Population	1,342	71,129	123,185	6,600	1.206e+06
Retail sales (per cap.)	256	278.5	148.9	44.62	975.0
Cotton production (bales)	639	15,141	12,321	421	77,800
Road spend (per cap.)	1,214	8.285	17.47	0	349.9
Road spend (per cap.) under H. Long	448	13.02	16.51	0	94.33
Tax (per cap.)	1,277	17.16	8.548	4.556	68.14
Education spend (per cap.)	1,086	9.576	4.916	0.367	40.44
AAA grants (per cap.)	1,470	107.0	70.18	0	301.6
PBRE spend (per cap.)	1,470	171.2	120.0	53.75	850.6

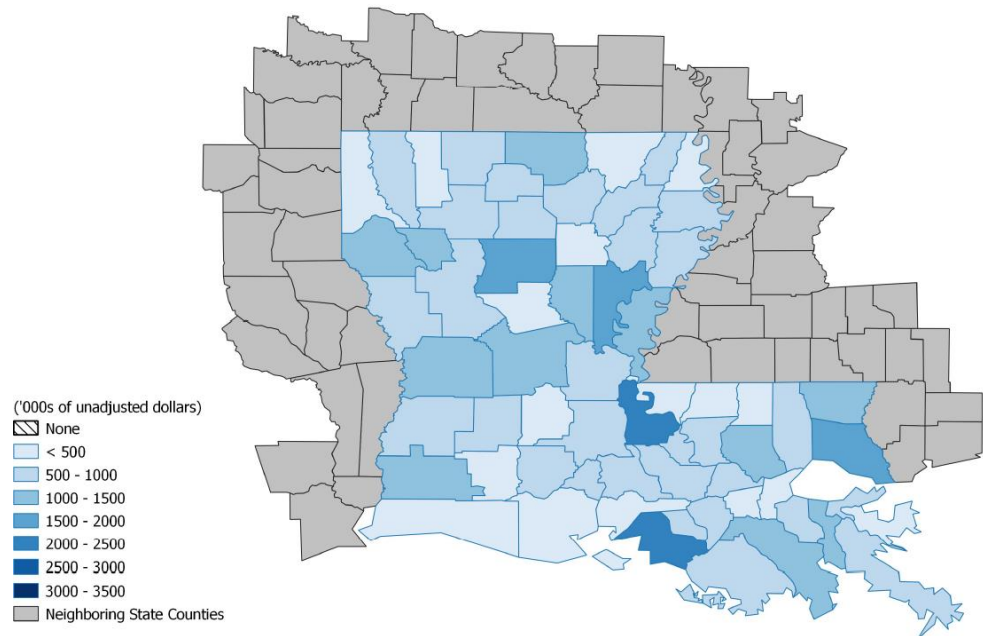
Highway Spending in Louisiana 1928 - 1930



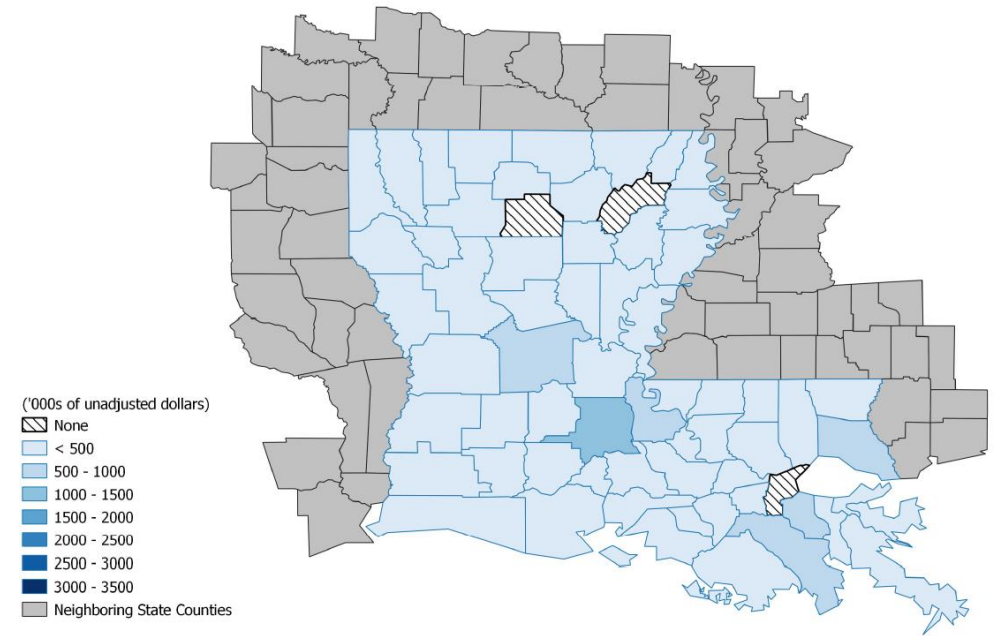
Highway Spending in Louisiana 1930 - 32

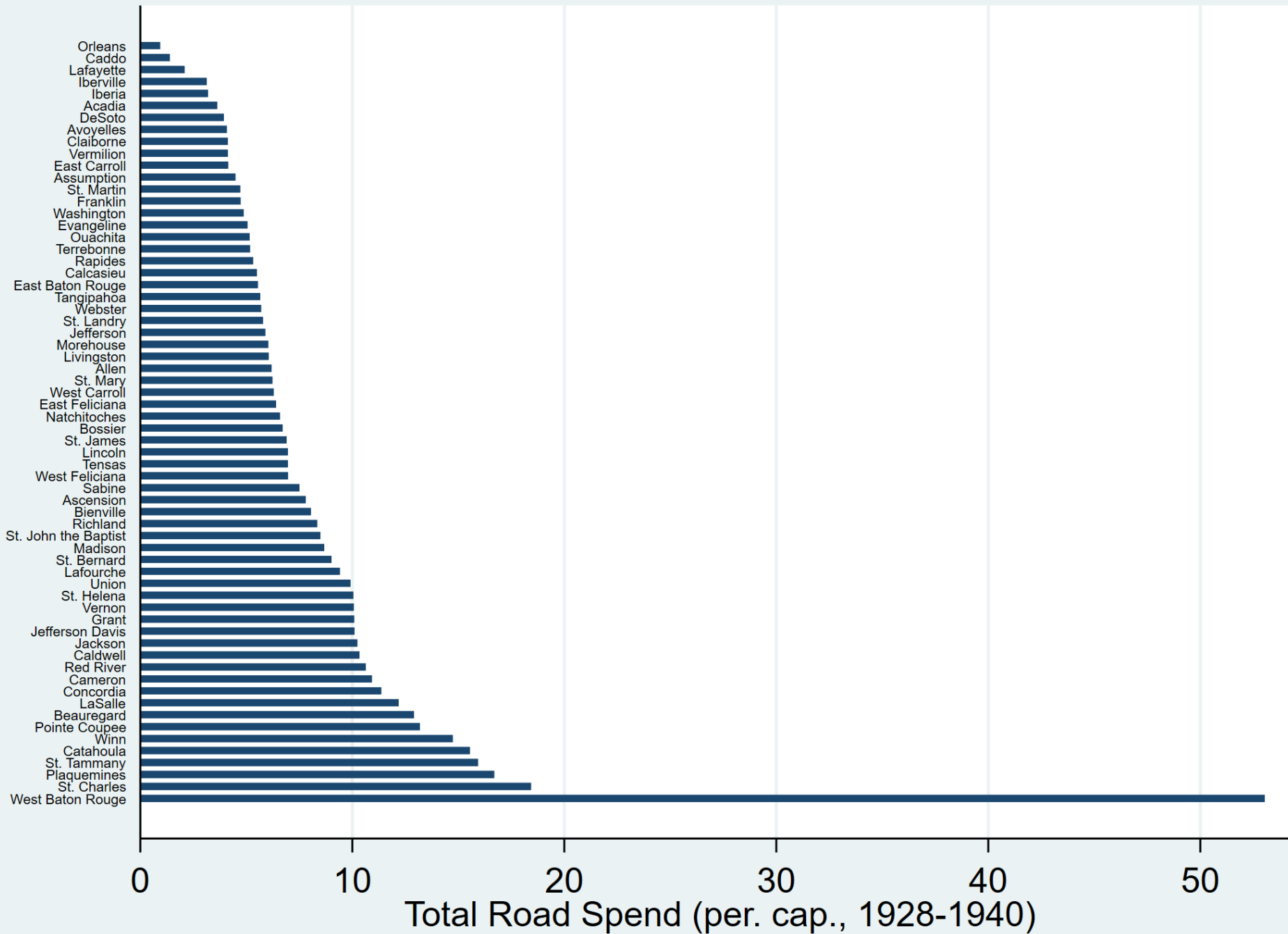


Highway Spending in Louisiana 1932 - 34

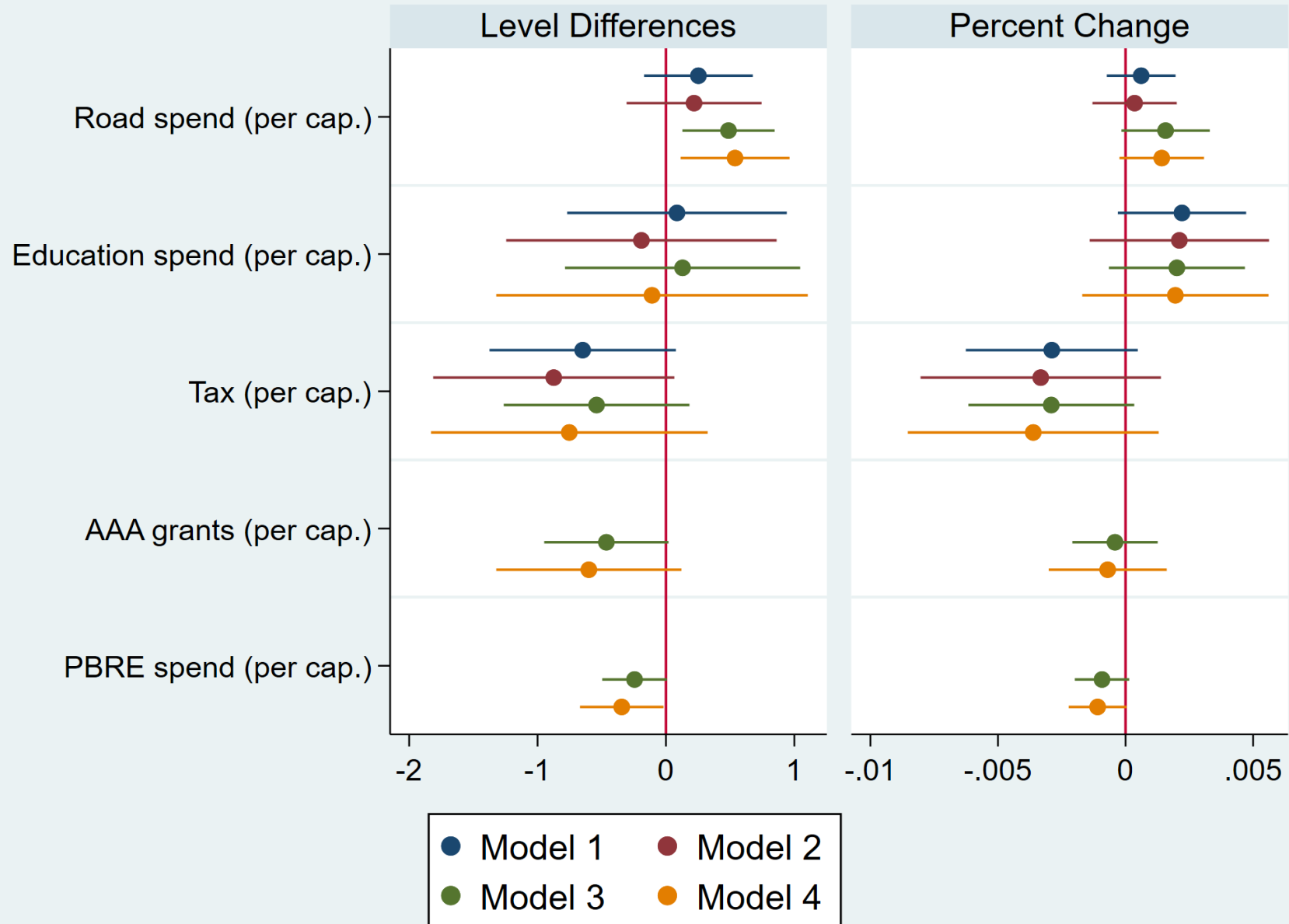


Highway Spending in Louisiana 1934 - 36





Fiscal Policy Effect on Real Retail Spending per capita



Level Change in Real Retail Sales per capita

VARIABLES	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4
Road spend (per cap.)	0.254 (0.216)	0.218 (0.266)	0.490*** (0.182)	0.542** (0.215)
Education spend (per cap.)	0.150 (0.442)	-0.0878 (0.545)	0.185 (0.470)	-0.0184 (0.626)
Tax (per cap.)	-0.700* (0.392)	-0.963* (0.501)	-0.597 (0.391)	-0.860 (0.584)
AAA grants (per cap.)			-0.460* (0.245)	-0.589 (0.364)
PBRE spend (per cap.)			-0.246* (0.128)	-0.348** (0.165)
Constant	-107.8 (1,619)	-40.70 (52.22)	186.4 (1,615)	-55.82 (58.48)
Observations	192	192	192	192
R-squared	0.728	0.753	0.740	0.769
Time-period FE	YES	YES	YES	YES
Fishback Controls	YES		YES	
Parish FE		YES		YES

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

% Change in Real Retail Sales per capita

VARIABLES	LABELS	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4
roadSpend	Road spend (per cap.)	0.000622 (0.000689)	0.000346 (0.000835)	0.00159* (0.000876)	0.00144* (0.000843)
Educ	Education spend (per cap.)	0.00258** (0.00125)	0.00267 (0.00169)	0.00236* (0.00133)	0.00251 (0.00177)
Tax	Tax (per cap.)	-0.00330* (0.00181)	-0.00406 (0.00255)	-0.00336* (0.00175)	-0.00448* (0.00269)
DRPCAAA	AAA grants (per cap.)			-0.000375 (0.000834)	-0.000597 (0.00115)
DRPCPBRE	PBRE spend (per cap.)			-0.000928* (0.000541)	-0.00112* (0.000581)
Constant	Constant	1.557 (4.417)	-0.256 (0.243)	2.205 (4.423)	-0.255 (0.244)
Observations		192	192	192	192
R-squared		0.755	0.786	0.762	0.795
Time-period FE		YES	YES	YES	YES
Fishback Controls		YES		YES	
Parish FE			YES		YES

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Cotton Production (Bales)

VARIABLES	(1) Model 1	(2) Model 2
Road spend (per cap.)	-0.000718 (0.000705)	-0.00219*** (0.000605)
Education spend (per cap.)	0.00559*** (0.00159)	0.00807*** (0.00157)
Tax (per cap.)	0.00252** (0.00114)	0.000309 (0.000919)
Constant	789,851*** (198,717)	10,981*** (1,373)
Observations	520	520
R-squared	0.823	0.663
Year FE	YES	YES
Fishback Controls	YES	
Cotton Area FE		YES

Robust standard errors in parentheses

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Discussion

- Spending in Louisiana from 1929-1940 stimulated economic activity
- Taxes in Louisiana from 1929-1940 retarded economic activity
 - Especially in nontradeable industry (manufactured ice) where spending stays local
- Multiplier is very low however, why?
- Louisiana is a small open economy in a currency union
 - Little manufacturing domestically
 - Lots of production of tradeable goods
 - Low level of human capital
- Lots of architects, marble, etc. must be imported to the state
- All this reduces multipliers and effect of fiscal policy
 - Common result that fiscal policy less effective in developing economy

Future work

- Get state-level government revenue data (split out debt from revenues)
- Get state-level government debt issuance data
- Parish-level Census of Manufactures data
- Corruption dismultipliers (1939-1940 Louisiana Scandals)
- Border county spillover analysis a la Dube et al. (2018) for Mississippi, Texas, and Arkansas
- Track down out-of-county contract spending (e.g. from New Louisiana Capitol where many materials and skilled workers were from out of state)