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.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Huey Long Era</th>
<th>New Deal Era</th>
</tr>
</thead>
<tbody>
<tr>
<td>1928</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1931</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>1934</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>1937</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>1940</td>
<td>60</td>
<td>70</td>
</tr>
</tbody>
</table>

- 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

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

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Road Spending by Parish

1930-32

1932-34

Manufactured Ice

<table>
<thead>
<tr>
<th>Establishments</th>
<th># Wage Earners</th>
<th>Industry Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Effect of Spending</td>
<td>Effect of Taxes</td>
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</tbody>
</table>

Cotton Production (bales)

<table>
<thead>
<tr>
<th>Road spend</th>
<th>Education spend</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control Set 1</td>
<td>Control Set 2</td>
<td></td>
</tr>
<tr>
<td>-1.5</td>
<td>-1.5</td>
<td>0</td>
</tr>
<tr>
<td>-1</td>
<td>-1</td>
<td>0</td>
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<td>1.5</td>
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</tr>
</tbody>
</table>

Per Cap. Retail Spending

-1.5 -1 -0.5 0 0.5 1 1.5

Road spend
Education spend
Tax
AAA (New Deal)
Pub. Works (ND)