January 6, 2015

Craig Pirrong looks at low oil prices and sees, not Machiavellian machinations, but simple supply and demand.

... Instead, the most likely explanation for the price decline is a decline in demand. The fall in price parallels quite closely declines in world GDP forecasts. Chinese manufacturing in particular has slowed. This has been reflected in other commodity prices which are driven by Chinese industrial demand, most notably iron ore, which has fallen almost 50 percent over the last year, and copper, which has fallen by about 15 percent since June. And somehow I don't think the Australians or Chileans are attempting to punish their economic rivals or geopolitical enemies. They are just along for the ride on the demand train.

The biggest price daily oil price decline occurred the day after Thanksgiving, when OPEC announced it would not cut output. Prices have also declined on days when the Saudis or other Gulf states reiterated their intention to maintain output. But maintaining and increasing output are two different things. The Saudis didn't announce that they were opening the taps, like they did in 1986. They are just saying they won't shut them. And as I argued in an earlier post, given their market share and the elasticity of demand for oil, that's a rational thing to do without having to resort to predatory explanations. ...

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And yeah. I'm looking at you, VVP. ***(Vladimir Vladirimovich Putin)***

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Victor Davis Hanson explores the ironies of low price oil.

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Robert Samuelson writes on five economic stories to watch in 2015. Oil is first on that list.

The start of a new year is a good time to take stock. For those of us in the news business, this suggests stepping back and asking what's important. Here are five economic stories worth watching.

1) What happens to oil? Saudi Arabia has helped drive down crude prices from roughly $100 a barrel to about $60 by refusing to cut its production in the face of a global surplus and the unwillingness of other producers to cut their output. The question is whether the Saudis will hold to this strategy until enough high-cost producers — including some U.S. shale oil operators — are driven from the market or whether they're seeking some sort of production-sharing agreement with major exporters inside and outside the Organization of the Petroleum Exporting Countries. What's clear is that Saudi Arabia doesn't want to cut output unilaterally. ...

David Harsanyi thinks we should thank gridlock for saving the economy.

... if activist policies really had as big an impact on our economic fortunes as DC operatives claim, I only have one question: Which policy did Barack Obama enact that initiated this astonishing turnaround? We should definitely replicate it.

Because those who've been paying attention these past few years may have noticed that the predominant agenda of Washington was doing nothing. It was only when the tinkering and superfluous stimulus spending wound down that fortunes began to turn around. So it's perplexing how the same pundits who cautioned us about gridlock's traumatizing effects now ignore its existence.

Here, for instance, is a Paul Krugman column titled the "Obama Bounce." The problem is that the author fails to justify his headline. It begins like this:

Suppose that for some reason you decided to start hitting yourself in the head, repeatedly, with a baseball bat. You'd feel pretty bad. Correspondingly, you'd probably feel a lot better if and when you finally stopped. What would that improvement in your condition tell you?

Suppose you tell us what the baseball represents? Because spending in current dollars has remained steady since 2010 and spending as a percent of GDP has gone down. In 2009, 125 bills were enacted into law. In 2010, 258. After that, Congress, year by year, became one of the least productive in history. And the more unproductive Washington became, the more the economy began to improve.

Krugman argues that the recession lingered because government hadn't hired enough people to do taxpayer-funded busy work. The baseball bat. But then he undercuts this notion by pointing out that there was an explosion of public-sector hiring under George W. Bush – the man he claims caused the entire mess in the first place. Krugman also ignores the stimulus, because it screws up his imaginary "austerity" timeline. He then spends most of the column debunking austerity's success in Britain. ...

Adding emphasis to Harsanyi's above column, **Jim Grant** writes on the depression that was solved by the government doing nothing.

To combat the Great Recession and its long-lingering aftermath, leading central banks have pulled some $10 trillion out of thin air. Governments of the world's principal economies have rung up almost $20 trillion in deficit spending. We often hear that the authorities have done too little. Perhaps they have done too much.

Not so long ago, the authorities did hardly anything. In response to the severe, little-known economic slump of the early 1920s, they virtually sat on their hands. It is an often forgotten episode that suggests the potential for constructive federal inaction—and underscores the healing power of Adam Smith 's invisible hand.

Beginning in January 1920, something much worse than a recession blighted the world. The U.S. suffered the steepest plunge in wholesale prices in its history (not even eclipsed by the Great Depression), as well as a 31.6% drop in industrial production and a 46.6% fall in the Dow Jones Industrial Average. Unemployment spiked, and corporate profits plunged.

What to do? "Nothing" was the substantive response of the successive administrations of Woodrow Wilson and Warren G. Harding. Well, not quite nothing. Rather, they did what few 21st-century policy makers would have dared: They balanced the federal budget and—via the still wet-behind-the-ears Federal Reserve—raised interest rates rather than lowering them. Curiously, the depression ran its course. Eighteen months elapsed from business-cycle peak to business-cycle trough—following which the 1920s roared. ...

Streetwise Professor

The Oil Price Decline: No Conspiracy Theories Need Apply

by Craig Pirrong

2014 is in the books, and fittingly the last day of the year saw a fall in the price of oil. The nearly 50 percent decline in oil prices from the end of June to today was the biggest commodities story of the year. This decline has spawned numerous conspiracy theories, which like most conspiracy theories, are pure bunk.

Most of the stories focus on Saudi Arabia and shale oil. In some versions, the Saudis decided to crash the price of oil to drive out competition from US shale production. I analyzed, and dismissed, this story some weeks back. In other versions, the Saudis decided to crash the price of oil in order to strike a blow at its arch enemy Iran, or in some variants, at Iran and Russia (either in cahoots with the US, or to punish Russia for its support of Assad).

Well, to crash prices it is necessary to increase output. The Saudis, however, did not increase output over the past 6 months: it has remained relatively static. This couldn't be more different from what happened during the 1985-1986 price collapse, to which the most recent decline is often compared. In the early-80s, the Saudis cut output from about 10 million barrels per day (mmbpd) to as low as 3.5 mmbpd in order to maintain prices in the face of rampant cheating on output quotas by other OPEC members. Realizing that it was being the chump, the Saudis increased output about 44 percent. Nothing like that has happened in the past six months.

The other purported cause of the price decline is the increase in US output. This increase is indeed remarkable, but its timing and magnitude doesn't explain the price decline. US output has been rising inexorably for a couple of years, and the rate of increase has exceeded forecasts, but not by nearly enough to explain the post-June price decline. Since June, US output has risen by about 100kbpd per month. Cumulatively, that's about 600kbpd, or a less than .7 of world output. Even using an elasticity on the high side of 10*, this could account for about a 7 percent decline in the price. What's more, some of the US increase has been needed to offset the on again, off again production in Libya and declines in production in Mexico.

Meaning that the focus on the supply side has been totally misplaced. This in turn implies that all of the hyperventilating about S&S-Shale and the Saudis-is wrongheaded.

Instead, the most likely explanation for the price decline is a decline in demand. The fall in price parallels quite closely declines in world GDP forecasts. Chinese manufacturing in particular has slowed. This has been reflected in other commodity prices which are driven by Chinese industrial demand, most notably iron ore, which has fallen almost 50 percent over the last year, and copper, which has fallen by about 15 percent since June. And somehow I don't think the Australians or Chileans are attempting to punish their economic rivals or geopolitical enemies. They are just along for the ride on the demand train.

The biggest price daily oil price decline occurred the day after Thanksgiving, when OPEC announced it would not cut output. Prices have also declined on days when the Saudis or other Gulf states reiterated their intention to maintain output. But maintaining and increasing output are two different things. The Saudis didn't announce that they were opening the taps, like they did in 1986. They are just saying they won't shut them. And as I argued in an earlier post, given their market share and the elasticity of demand for oil, that's a rational thing to do without having to resort to predatory explanations.

Again, although most analysis focused on supply, the post-Thanksgiving price decline was really attributable to demand too. Market participants were predicting that OPEC would cut output to support prices in the face of falling demand, and this expectation helped to prop up prices. When the expectation was contradicted, prices fell. (I was only surprised that people were surprised that OPEC didn't cut output. I didn't see that happening, and I was right: The Saudis only cut output very modestly (by about 3 percent) during the price collapse in the aftermath of Lehman. Where I was wrong was not understanding that it appears that it was almost universally believed that OPEC was almost certain to make a large cut: I was right about the Saudis, but wrong about what everybody thought about the Saudis. This is why I am blogging, rather than sipping Mai Tais on a yacht that would make Abramovich green with envy.

So, it's not exactly a case of move along, there's nothing to see here: the price decline is certainly worth watching. It's just that what you are seeing is not the result of some grand scheme engineered by the Saudis or anybody else. If there is any scheming going on, it is China's attempt to move to a more sustainable growth model that is less dependent on stimulus-driven investment in industry and infrastructure.

It is certainly the case that the decline in commodity prices generally, and the oil price in particular, could have -and is indeed already having-seismic economic and geopolitical controversies. It is definitely the case that Russia and Iran are going to suffer mightily as a result of the price decline. This may in turn force them to dial back their geopolitical ambitions, although particularly in the case of Russia it could lead to the opposite response by a desperate leadership. But just because these outcomes might be desirable to the US or the Saudis doesn't mean that the price decline was deliberately engineered to produce them. They are just consequences of broad economic developments that were intended by no one. For the Saudis, the unintended geopolitical consequences at best palliate some serious economic pain.

Given that (unlike in 2008-2009) the demand decline isn't due to weakness in the US economy, on the whole the US will benefit from the lower oil price, though some regions (like here in Texas and in North Dakota) will obviously suffer. Drilling activity in the US will decline, but this shouldn't warm Saudi hearts, because if demand rebounds and drives up prices, drilling will rebound too. The oil and the technology aren't going anywhere: they are on tap for when the price is right.

Recent academic research shows that most of the price variations in oil over the past decades have been demand driven, rather than supply driven. This most recent decline is just another example of that.

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*****_This elasticity of 10 is related to the sensitivity of oil consumption to prices. Speculative storage makes oil demand more elastic. Indeed, in response to the price decline, visible speculative storage (primarily at Cushing) has increased, and the market has moved into a contango, which is associated with greater storage._

National Review

The Ironies of Oil

Obama once ridiculed cheap energy, which is now saving him from himself.

by Victor Davis Hanson

Gasoline prices are on the verge of crashing down to below $2 a gallon. The price of oil may dip below $50 a barrel.

Even with renewed demand from a global economic resurgence, energy prices continue to fall. The U.S. has suddenly become the world's largest combined producer of oil and natural gas.

That fact — along with a desire to weaken hostile Iran and Russia — has prompted the oil-rich Gulf sheikdoms to keep pumping oil even as the price falls. In their game of petro-chicken, the desperate sheiks hope that either their poorer enemies will run out of cash or that fracking in the U.S. will become unprofitable and cease.

Everyone seems to have forgotten about "peak oil" — the catchphrase of the new millennium.

The world in general, and the United States in particular, supposedly had already burned more oil than was left under the Earth. Under President Barack Obama, gasoline prices had soared. When he entered office in January 2009, gas prices averaged around $1.60 per gallon. Four years later, by spring of 2013, gas prices had climbed beyond $3.50 a gallon.

The Obama administration never much worried about high energy costs. During the 2008 campaign, Obama promised that "under my plan . . . electricity rates would necessarily skyrocket." Shutting down coal plants and using higher-priced but cleaner natural gas would pave the way for an even pricier mandated wind and solar generation.

In the vice-presidential debates of 2008, Joe Biden mocked Sarah Palin for the supposedly mindless campaign mantra of "Drill, baby, drill." Biden intoned that "it will take ten years for one drop of oil to come out of any of the wells that are going to be drilled."

The energy secretary-designate, the professorial Steven Chu, in 2008 had unwisely voiced a widely held but wisely unspoken progressive belief that "somehow we have to figure out how to boost the price of gasoline to the levels in Europe" — or about $9 a gallon.

Just two years ago, when up for reelection, Obama reminded Americans, "We can't just drill our way to lower gas prices."

Obama ridiculed the Republican idea of lowering gas to $2 a gallon through new oil-recovery techniques. "They're already dusting off their three-point plans for $2 gas," Obama mocked. "I'll save you the suspense: Step one is drill, step two is drill, and step three is keep drilling."

Such easy rhetoric was backed by action — or lack of it. The Keystone XL pipeline was put on permanent hold. New fracking leases on federal lands were postponed. Huge areas of oil- and gas-rich federal lands were put off limits. Some blue states stopped fracking. Money poured into solar schemes like Solyndra.

Decreased use of expensive energy was deemed desirable. Cash-strapped commuters would be forced to drive less, thereby advancing the noble cause of curbing supposed man-made global warming. Federal subsidies flowed for high-speed rail. Wind, solar, and other alternate energies could at last become competitive. Cap-and-trade legislation looked as if it might sail through Congress.

Unfortunately for the Obama administration, the new age of sky-high oil prices proved an economic disaster. The natural cycle of recovery never quite followed the end of the recession in mid 2009, as U.S. budget and trade deficits soared.

Abroad, all the wrong countries were empowered as never before.

The late Hugo Chávez used his oil windfall in Venezuela to subsidize subversion throughout Latin America. Petrodollar-rich Russian president Vladimir Putin charted a confident anti-American foreign policy.

Iran used its growing riches to step up progress toward producing a nuclear bomb while upping subsidies to terrorist organizations such as Hezbollah.

Then, finally, oil and gas prices plunged owing to the “drill, baby, drill,” can-do attitude of the private sector. Americans should thank the U.S. oilman — from the drillers in the field to the engineers behind the scenes — who did the impossible. They vastly increased the supply of what was supposedly a permanently declining resource, and thereby helped to crash prices.

Oilmen, not the government, returned hundreds of billions of dollars to American consumers. They, not Ivy League experts and Wall Street grandees, kick-started the economy where federal subsidies had failed to. They, not the policies of the Obama administration or the rhetoric of Secretary of State John Kerry, weakened our enemies.

Almost everything Obama tried for six years in an effort to rev the economy — from near-zero interest rates and $1 trillion annual budget deficits to Obamacare and vast increases in entitlements — has failed. His foreign-policy stances of resets and leading from behind led to chaos and emboldened enemies.

Yet the United States economy is slowly recovering with cheap energy. Consumers have more money. Industries are returning to U.S. soil.

Abroad, spendthrift oil producers such as hostile Iran, Russia, and Venezuela are nearly broke. Friendly rivals such as Japan and the European Union can’t compete with the U.S. energy edge.

What Obama once ridiculed is now saving him from himself — after he had championed policies that nearly destroyed him.

The Greeks had a word for it: irony.

Washington Post

Five economic stories to watch in 2015

by Robert Samuelson

The start of a new year is a good time to take stock. For those of us in the news business, this suggests stepping back and asking what's important. Here are five economic stories worth watching.

1) *What happens to oil?* Saudi Arabia has helped drive down crude prices from roughly $100 a barrel to about $60 by refusing to cut its production in the face of a global surplus and the unwillingness of other producers to cut their output. The question is whether the Saudis will hold to this strategy until enough high-cost producers — including some U.S. shale oil operators — are driven from the market or whether they're seeking some sort of production-sharing agreement with major exporters inside and outside the Organization of the Petroleum Exporting Countries. What's clear is that Saudi Arabia doesn't want to cut output unilaterally.

2) *What happens to Europe?* A year ago, the worst of Europe's currency and debt crisis seemed to have passed. Well, maybe not. Greece is now headed for a parliamentary election on Jan. 25, with the possibility that the left-wing Syriza party — committed to ending the austerity policies of the ruling center-right New Democracy Party — might triumph. If Syriza wins and repudiates some debts, there might be spillover to other debtor countries, including Portugal and Spain. Rising interest rates would make it harder for them to service their debts. The crisis could spread.

3) *Will the Fed get it right?* Since late 2008, the Federal Reserve has held its benchmark short-term interest rate — the Fed funds rate — at near zero. With the economy strengthening and unemployment dropping below 6 percent, pressure is building to raise rates to more normal levels. For the Fed, this creates practical problems: It doesn't want to raise rates too rapidly for fear of disrupting the recovery. But even if the Fed proceeds cautiously, it could be frustrated by private investors. What matters most are long-term rates on home mortgages and corporate bonds — rates largely outside the Fed's control. If private investors react by raising these rates, the recovery could suffer.

4) *Will wages begin to outperform prices?* For most of this recovery, wages have generally stayed even with prices, increasing at about a 2 percent annual rate. As a result, many workers haven't received inflation-adjusted increases in wages or salaries for years. Now this could reverse. As labor markets tighten, employers may have to pay more to keep their best or most experienced workers. Meanwhile, lower oil prices may — at least temporarily — cut inflation. Together, these forces could produce modest increases in inflation-adjusted wages. This could bolster consumer spending and confidence, strengthening the recovery.

5) *Can China maintain strong economic growth?* For years, growth rates averaged close to 10 percent, powered by massive industrial and infrastructure investments and huge trade surpluses. But this was not sustainable, and relying more on consumer spending has caused China to lower its growth target to 7.5 percent. Even this may be too ambitious. Since the global financial crisis, China's debt levels have exploded as loans were dispensed liberally to avoid a slump. Now, China can no longer depend so heavily on borrowed money. A slowdown could have wide ramifications. Commodity-producing countries could suffer because China is generally their largest customer. If China stimulates exports by allowing its currency to depreciate, trade wars might intensify.

The Federalist

Why Aren't We Thanking 'Gridlock' For Saving The Economy?

Our economic turnaround only began when the tinkering stopped.

by David Harsanyi

The Obama Boom is finally here. Gross domestic product grew by a healthy 5 percent in the third quarter, the strongest growth we've seen since 2003. Consumer spending looks like it's going to be strong in 2015, unemployment numbers have looked good, buying power is up and the stock market closed at 18,000 for the first time ever. All good things. So what happened?

Note: The quarter before Obama took office, the U.S. economy SHRUNK by 8.9%, worst since 1930. Last quarter it GREW by 5%, best since 2003.

— David Axelrod (@davidaxelrod) December 24, 2014

Note: Contrasting the most severe recessionary quarter of a six-year presidency—one filled with extravagant and unmet economic promises—with its best quarter, might strike you as a bit hackish. But let's go with it.

Axelrod isn't alone is claiming political credit for economic success, and the Obama administration certainly isn't the first to try and take the glory. But if activist policies really had as big an impact on our economic fortunes as DC operatives claim, I only have one question: Which policy did Barack Obama enact that initiated this astonishing turnaround? We should definitely replicate it.

Because those who've been paying attention these past few years may have noticed that the predominant agenda of Washington was doing nothing. It was only when the tinkering and superfluous stimulus spending wound down that fortunes began to turn around. So it's perplexing how the same pundits who cautioned us about gridlock's traumatizing effects now ignore its existence.

Here, for instance, is a Paul Krugman column titled the "Obama Bounce." The problem is that the author fails to justify his headline. It begins like this:

Suppose that for some reason you decided to start hitting yourself in the head, repeatedly, with a baseball bat. You'd feel pretty bad. Correspondingly, you'd probably feel a lot better if and when you finally stopped. What would that improvement in your condition tell you?

Suppose you tell us what the baseball represents? Because spending in current dollars has remained steady since 2010 and spending as a percent of GDP has gone down. In 2009, 125 bills were enacted into law. In 2010, 258. After that, Congress, year by year, became one of the least productive in history. And the more unproductive Washington became, the more the economy began to improve.

Krugman argues that the recession lingered because government hadn't hired enough people to do taxpayer-funded busy work. The baseball bat. But then he undercuts this notion by pointing out that there was an explosion of public-sector hiring under George W. Bush – the man he claims caused the entire mess in the first place. Krugman also ignores the stimulus, because it screws up his imaginary "austerity" timeline. He then spends most of the column debunking austerity's success in Britain.

He does this because, in theory, left-wing economic policies can never lose. For years, the administration rationalized the crippling unemployment we experienced by spinning a comforting counter-history: things would have been a lot worse. But didn't the stimulus fail even if we judged it on its own promises? Well, it should have been bigger. Wasn't this the slowest recovery in history? Well, this was the worst situation since the Great Depression.

The *Boston Globe*, in an editorial reflecting much of the evidence-free praising the president has gotten, spins another mythology. It points to policies passed 2010 as the reason for growth today. But it's just as easy—and more plausible when we consider the history of our strong emergence from severe recessions—to suggest that economy could have been a lot better had the administration alleviated many of its early regulatory and tax burdens. Or done nothing. Certainly, a person could just as effortlessly argue that shoehorning huge agenda items under the guise of spurring growth was more harmful than helpful.

"People often don't realize that a political system is sometimes effective when it does not do certain things." Pietro Nivola, a senior fellow in governance studies at the Brookings Institution, argued in 2013. "You can't just measure the things it does, the actions it takes; you also have to measure the actions it does not take." Nivola's study was impressed by how gridlock has the ability to stop the Republican House from cutting spending too abruptly for the economy.

And perhaps he's right. Gridlock has caused an odd, but pervasive, stability in Washington. Spending has been static. No jarring reforms have passed — no cap-and-trade, which would have artificially spiked energy prices and undercut the growth we're now experiencing. The inadvertent, but reigning, policy over the past four years has been, do no harm.

On the strength of good economic news, POLITICO reports that Obama will use his State of the Union to roll out an agenda aimed at the stagnating wages and those Americans left behind to build on the growth. I'm going to take wild guess and say that it's going to incorporate a lot of happy talk about "infrastructure" and a fairer reallocation of wealth. We need to grow from the middle out, if you will. No doubt, politically speaking, Democrats' fortunes are bound to improve somewhat as economic anxieties ebb. The president will surely see better approval numbers.

But let's hear specifics. As I remember it, the administration hasn't done anything in a long time. I know this because an incalculable number of op-eds have informed me that the president has had to contend with militant ideologues and has been unable to implement his agenda. I know this, because I've had to listen to years of hand-wringing about politicians' inaction. You can't have it both ways.

WSJ

The Depression That Was Fixed by Doing Nothing

The often forgotten 1920-21 economic crisis suggests that sometimes the best stimulus is none at all.

by James Grant

To combat the Great Recession and its long-lingering aftermath, leading central banks have pulled some $10 trillion out of thin air. Governments of the world's principal economies have rung up almost $20 trillion in deficit spending. We often hear that the authorities have done too little. Perhaps they have done too much.

Not so long ago, the authorities did hardly anything. In response to the severe, little-known economic slump of the early 1920s, they virtually sat on their hands. It is an often forgotten episode that suggests the potential for constructive federal inaction—and underscores the healing power of Adam Smith 's invisible hand.

Beginning in January 1920, something much worse than a recession blighted the world. The U.S. suffered the steepest plunge in wholesale prices in its history (not even eclipsed by the Great Depression), as well as a 31.6% drop in industrial production and a 46.6% fall in the Dow Jones Industrial Average. Unemployment spiked, and corporate profits plunged.

What to do? "Nothing" was the substantive response of the successive administrations of Woodrow Wilson and Warren G. Harding. Well, not quite nothing. Rather, they did what few 21st-century policy makers would have dared: They balanced the federal budget and—via the still wet-behind-the-ears Federal Reserve—raised interest rates rather than lowering them. Curiously, the depression ran its course. Eighteen months elapsed from business-cycle peak to business-cycle trough—following which the 1920s roared.

The adage that "the past is a foreign country" is especially apt in economics. In 1920, "macroeconomics" had yet to be invented. People spoke of prosperity and depression but not of a national economy. Still less did they identify an organic whole for the government to manage. Intervention came later; by 1929, central bankers had begun to dabble in the technique of price-level "stabilization." After the crash, President Herbert Hoover famously pressed employers not to cut wages.

Laissez faire had its last hurrah in 1921. In the 1920 Republican Party platform, the only comment on "national economy" had to do with the stewardship of the federal finances.

Borrowing and interest-rate suppression during World War I had fostered a postwar boom. Imbibing the inflationary ether, Harry Truman, then in his mid-30s, opened a new haberdashery in Kansas City. General Motors built the world's largest headquarters building in Detroit. National City Bank , forerunner to today's Citibank , overexpanded in Cuba.

The sky took its time in falling. A belated monetary tightening compounded the hardship of plunging prices—a combination that battered bankers, laborers, farmers, corporate titans and small businesspeople alike. By the close of 1920, Billy Durant, the flamboyant chief of GM, was broke and jobless. A year and a half later, the future 33rd president of the U.S. and his haberdashery partner were out of business, and the mighty City Bank was nursing its self-inflicted wounds in Cuba.

All this made 1921 a grim time. There had been a flu pandemic and a Red Scare. Labor and management were at each other's throats. Prohibition had closed the bars and taverns (or driven them underground). Someone had fixed the 1919 World Series. And the Federal Reserve, determined to protect the purchasing power of the gold dollar, actually raised interest rates in the face of collapsing business activity—to as much as 8% in 1920. Without a federal safety net, people got by on savings, wits or charity—or they didn't get by.

In the absence of anything resembling government stimulus, a modern economist may wonder how the depression of 1920-21 ever ended. Oddly enough, deflation turned out to be a tonic. Prices—and, critically, wages too—were allowed to fall, and they fell far enough to entice consumers, employers and investors to part with their money. Europeans, noticing that America was on the bargain counter, shipped their gold across the Atlantic, where it swelled the

depression-shrunken U.S. money supply. Shares of profitable and well-financed American companies changed hands at giveaway valuations.

Of course, the year-and-a-half depression must have seemed interminable for all who were jobless or destitute. It was, however, a great deal shorter than the 43 months of the Great Depression of 1929-33. Then too, the 1922 recovery would bring tears of envy to today's central bankers and policy makers: Passenger-car production shot up by 63%, for instance, and the Dow jumped by 21.5%. "From practically all angles," this newspaper judged in a New Year's Day 1923 retrospective, "1922 can be recorded as the renaissance of prosperity."

In 2008, as Lehman Brothers toppled, the Great Depression monopolized the market on historical analogies. To avoid a recurrence of the 1930s, officials declared, the U.S. had to knock down interest rates, manipulate stock prices to go higher, repave the highways and trade in the clunkers.

The forgotten depression teaches a very different lesson. Sometimes the best stimulus is none at all.

Mr. Grant is the author of "The Forgotten Depression: 1921: The Crash That Cured Itself."

If you have to ask if it's too early to drink wine... you're an amateur and we can't be friends.

"Susan, this might be just the wine talking, but I think I want to order more wine."

dear WINE,

we had a deal.

you were to make me funnier, sexier, smarter and a better dancer.

i saw the video.

we need to talk.