



11350 Random Hills Road, Suite 800, Fairfax, Virginia 22030 Phone (703) 934-6101 Fax (703) 352-3678

[fff@fff.org](mailto:fff@fff.org) [www.fff.org](http://www.fff.org)

## **The Fallacies of Another New Deal, Part 3**

**by William L. Anderson**

Historians want us to believe that Franklin Roosevelt had nothing to do with causing the massive unemployment and World War II that came in the wake of the Great Depression. Instead, they tell us that Roosevelt simply did the best he could with the hand which he was dealt.

No doubt, the fireside chats were reassuring, and I still receive email from people who say that their parents claim they would have starved during the 1930s had it not been for Roosevelt's programs of financial relief and public-works projects such as the WPA and CCC, which employed thousands of people. However, that is analogous to my secretly burning down your house and then letting you live in my cramped shed (no charge for the mice), and your thanking me for allowing you to have a roof over your head.

One must contrast Roosevelt's many programs with his campaign promises. Writes Lawrence Reed,

The platform of the Democratic Party, whose ticket Roosevelt headed, declared, "We believe that a party platform is a covenant with the people to be faithfully kept by the party entrusted with power." It called for a 25-percent reduction in federal spending, a balanced federal budget, a sound gold currency "to be preserved at all hazards," the removal of government from areas that belonged more appropriately to private enterprise, and an end to the "extravagance" of Hoover's farm programs. This is what *candidate* Roosevelt promised, but it bears no resemblance to what *President* Roosevelt actually delivered.

And what did Roosevelt deliver? In his first year in office, these were some of the things he did:

- Devalued the dollar and ended the gold standard, seizing private gold in the process;

- Tried to organize the entire U.S. economy into a series of cartels, from banking to the dog-food industry, with laws such as the Glass-Steagall Act and the National Industrial Recovery Act (NIRA);
- Destroyed crops and livestock in the name of saving agriculture by forcing up prices through the Agricultural Adjustment Act (AAA), financing the sorry operation through a tax on agricultural products;
- Openly blamed business owners for the economic problems and began verbal assaults on people he called “economic royalists.”

Lew Rockwell, writing about the NIRA, noted that there were

police raids of factories, as workers were lined up and interrogated to make sure that they weren't working overtime and weren't accepting less than the government-approved minimum. Consumers were arrested for paying less than the approved minimum prices. A tailor named Jack Magid in New Jersey was arrested and jailed for charging 35 cents instead of 40 cents to press a pair of pants. In time, the NRA became unenforceable, as black markets sprang up in every industry. The crackdown became worse, with nighttime raids on factories, and bureaucrats chopping down doors with axes to make sure that no one was sewing clothes. The NRA staff ballooned from 60 employees to 6,000 at the national level.

Such measures hardly brought recovery, since during a recovery output expands and more people are employed. The Roosevelt programs, however, attempted to *curtail* manufacturing and agricultural production, forcing up wages and prices to levels above what free markets would have been, thus distorting the economy even further. It is no surprise that unemployment rates stayed high until the U.S. Supreme Court struck down a number of Roosevelt's pet projects, including the NIRA and the AAA.

Economic historian Robert Higgs notes that during the 1930s, *private* investment levels stayed at extremely low levels, historically speaking. He argues that “regime uncertainty” was the main reason that private investors were reluctant to make long-range investment plans, as they did not know what kind of political economy the United States would have in the next decade, fascism as in Italy and Germany, communism as in the USSR, or something else. Uncertainty ruled, and the anti-business rhetoric that came regularly from the White House, academe, and the media made matters even worse. Higgs writes,

Accepting his party's nomination for the presidency in 1936, Roosevelt railed against the “economic royalists” allegedly seeking a “new industrial dictatorship” (quoted in Leuchtenburg 1963, 183-84).

Privately he opined that “businessmen as a class were stupid, that newspapers were just as bad; nothing would win more votes than to have the press and the business community aligned against him” (Leuchtenburg 1963, 183). Just before the election of 1936, in an address at Madison Square Garden, he fulminated against the magnates of “organized money [who were] unanimous in their hate for me” and declared, “I welcome their hatred.” To uproarious applause, he threatened: “I should like to have it said of my second Administration that in it these forces met their master” (quoted in Leuchtenburg 1963, 184).

### **New Deal aftermath**

After the Supreme Court acted against much of his first set of New Deal legislation, Roosevelt railed against the Court and threatened to “pack the Court” with his allies. The justices “learned” their lessons, and in 1937 ruled that the National Labor Relations or Wagner Act (passed in 1935) was constitutional. That led not only to the growth of labor unions but also to drastically increased labor violence, as the federal, state, and local governments tended to side with strikers. The historian William E. Leuchtenburg writes,

Property-minded citizens were scared by the seizure of factories, incensed when strikers interfered with the mails, vexed by the intimidation of nonunionists, and alarmed by flying squadrons of workers who marched, or threatened to march, from city to city.

Indeed, business owners and investors came to realize that the government was dead set against them and would quickly confiscate their property on a whim or permit labor unions to destroy in a short time capital that had taken years to build. The damage done by Hoover through his wrong-headed policies was compounded by Roosevelt and his government, and unemployment stayed in the double digits, moving to nearly 20 percent by 1938, a “depression within a depression.”

As Higgs points out, the country escaped from this trap only after World War II, when subsequent administrations refused to follow Roosevelt’s anti-enterprise lead, and the New Deal planners had moved back into academe or died. Later presidential administrations were much more reluctant to change the institutional landscape in which business operated, and the certainty about the future also brought back the engine of private investment. Thus, by the 1950s, the U.S. economy was well back on its way to prosperity.

As noted at the beginning of this series, many commentators are claiming that the U.S. government needs to act in ways reminiscent of the Roosevelt administration, and the early actions by President Bush have moved in that direction. First, there have been the many financial bailouts of banks and other financial institutions that foolishly invested in large amounts of now-worthless mortgage securities.

The equity positions taken by the U.S. government in banks and businesses are setting another precedent and leading the country into unfamiliar territory. Typical economic commentators seem to be divided only regarding their views on whether these actions are sufficient or are “too little, too late.”

Unfortunately, the modern pundits and policymakers seem to believe that the U.S. government can inflate its way out of this economic morass. No one, administrator or member of Congress, wants to be seen as “doing nothing,” so the government presses on and repeats the same bad policies of the Hoover and Roosevelt administrations.

President Obama has promised to empower labor unions, force up wages, nationalize health care, and further nationalize the country’s financial system. His supporters want higher tariffs, more import quotas, a freeze on mortgage foreclosures, and direct economic relief, along with substantially higher taxes on wealthy people.

President Barack Obama has decided to follow Roosevelt’s lead, despite what we know about the true economic disaster he created. Government cannot create something out of nothing, the rhetoric of politicians notwithstanding. As investor Jim Rogers recently said in an interview, government leaders need to stay out of the way and let the bad investments liquidate and let the firms and individuals that are fundamentally strong lead the way into a recovery.

Unfortunately, Obama is not taking Rogers’s advice. We already know the results of massive government economic intervention, but it seems that we are going to learn the very hard lessons once again.

*William L. Anderson teaches economics at Frostburg State University in Maryland.*

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