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## **Obama's Link to "Old Iron Pants"**

**by Jim Powell**

Since Barack Obama pledged a "New New Deal" for the American people, he has been favoring a combination of more government spending, more government regulations, and more power for labor unions. This has led some observers to conclude that he might be drawing inspiration from "Old Iron Pants" — the hard-drinking, fast-talking Gen. Hugh Johnson, *Time* magazine's 1933 "Man of the Year," who did more than anybody else to promote Franklin Roosevelt's National Recovery Administration.

The NRA was established after Roosevelt signed the National Industrial Recovery Act on June 16, 1933 — the climax of his fabled "Hundred Days" of frenzied legislating. Roosevelt claimed that the NRA "gives us the means to conquer unemployment."

The NRA was the result of hard work by many of the most brilliant minds Roosevelt had gathered in Washington. Simon Rifkind, who drafted bills for Sen. Robert F. Wagner of New York, played an important role, as did Leon Keyserling, an economist who became an administrative assistant for Wagner. Jerome Frank, a former Chicago lawyer, helped with drafting. Assistant Secretary of Commerce John Dickinson developed ideas. Labor Secretary Frances Perkins was involved. Felix Frankfurter was consulted about the constitutionality of proposed legislation. James P. Warburg, a New York banker, offered an assessment of some of the proposals. Louis Brandeis offered his suggestions. And of course, Roosevelt's "Brain Trust" — Raymond Moley, Rexford Tugwell, and Adolf Berle — were in the thick of discussions about what became the NIRA. Roosevelt's budget director, Lewis Douglas, expressed perhaps better than anyone else the pride of the New Dealers in their handiwork: "[The NIRA] is so far-reaching, so compelling, so thoughtful, that it takes in every economic factor."

Respected businessmen were on board. The U.S. Chamber of Commerce hailed the thinking behind the NRA:

Freedom of action which might have been justified in the relatively simple life of the last century cannot be tolerated today, because the unwise action of one

individual may adversely affect the lives of thousands. We have left the period of extreme individualism and are living in a period in which national economy must be recognized as a controlling factor.

The NRA sanctioned labor unions as monopoly bargaining agents in a workplace. Section 7(a) provided “the right to bargain collectively through representatives of their own choosing without interference, coercion or restraint on the part of the employer.” “Collective bargaining” meant that if a majority of workers in a company wanted to be represented by a union, then 100 percent of workers must be represented by that union and pay union dues, whether they wished to or not. So 7(a) disregarded the right of individuals to bargain freely on their own.

Of course, employers had suffered through four years of declining business and could be expected to resist codes that increased their labor costs above market levels, so the NRA enabled employers to write codes requiring that everybody cut output and charge higher prices. In other words, in exchange for swallowing the above-market labor costs, employers were permitted to form cartels — antitrust laws were suspended.

Industry trade association lawyers drafted cartel codes, and Roosevelt made them official by issuing executive orders. The first NRA code was developed for the cotton-textile industry, which was moving factories from high-cost New England to lower-cost locations in the South. New England labor unions pushed for government-mandated minimum wages that would partially wipe out the cost advantages of the South. Of course, higher wages were substantially cancelled out by higher prices for thousands of products covered by the cartel codes.

Altogether, the NRA produced 550 codes, 200 supplementary regulations, and 11,000 administrative orders that affected 2.3 million employers and 16 million workers. There were NRA codes for artificial flowers and feathers, fabric auto equipment, mattress covers, light sewing (except garments), breakfast furniture, retail drugs, retail farm equipment, retail solid fuels, rock crushers, truckers, retail lumber and building materials, undergarments and negligees, upholstery and decorative fabrics, and on and on.

### **The iron hand of Hugh Johnson**

Roosevelt named Hugh Johnson to run the NRA. He had served with Gen. John J. Pershing when Woodrow Wilson asked them to chase the Mexican bandit Pancho Villa, who eluded them. Then Johnson distinguished himself as the man who helped draft Wilson’s bill for military conscription in World War I. It might have been during Johnson’s stint as a Wilson administration bureaucrat that he earned the moniker “Old Iron Pants.” In any case, when he was tapped for the NRA, he displayed a genius for zealous promotion and colorful invectives.

It might seem hard to believe the degree to which Johnson and his cadre felt qualified to interfere with the details of private business operations. For example, as economic journalist Henry Hazlitt reported in the December 1933 *American Mercury*,

The corset and brassiere industry, while permitting manufacturers or wholesalers to contribute up to 50 percent of the net cost of a retailer's advertising space, prohibits them from paying any of the cost of advertising on "corsets, combinations, girdle-corsets, or step-in corsets which are advertised for retail sale at less than \$2, or on brassieres which are advertised for retail sales at less than \$1."

How did Johnson know what the selling price of anything should be? Hazlitt cited the NRA mantra as applied to lumber prices:

The cost of production below which lumber prices will not be permitted to fall is the "current weighted average cost of production," and in adding up this cost the following items are to be included: wages; materials and supplies; overhead and administration, including trade association dues and code fees; shipping, including grading and loading; selling; taxes, including taxes on timber; interest paid on indebtedness; discounts, claims paid and losses on trade accounts; depreciation; raw material; and conservation and reforestation, including costs of protection of timbered and cut-over lands.

There was no evident consideration that such costs vary from business to business, and there are many reasons businesses need to cut prices, such as raising cash from slow-moving inventory.

During Hugh Johnson's moments of fame in 1933 and 1934, he utterly dominated the New Deal. He drafted what was called the President's Reemployment Agreement, which called for minimum wages between \$12 and \$15 for a work week up to 44 hours. Johnson launched a direct-mail campaign urging businessmen to sign the agreement and become NRA "members." He concocted a Blue Eagle insignia based on a Navaho thunderbird, together with the slogan "We do our part." The idea was to have businesses display the Blue Eagle and intimidate those who hadn't gone along into signing. For further intimidation, he urged consumers to sign pledges that they would buy only from businesses displaying a Blue Eagle:

When every American housewife understands that the Blue Eagle on everything that she permits to enter her home is a symbol of its restoration to security, may God have mercy on the man or group of men who attempt to trifle with this bird!

Millions of Blue Eagle posters were distributed throughout the country. Johnson touted the Blue Eagle in radio talks, rallies, and parades in a thousand cities and towns. The highlight came when an estimated two million people watched a quarter-million Blue Eagle marchers go down Fifth Avenue in Manhattan.

There were some 1,400 NRA-compliance enforcers at 54 state and branch offices. They were empowered to recommend fines up to \$500 and imprisonment up to six months for each violation. On December 11, 1933, for instance, the NRA launched its biggest crackdown, summoning about 150 dry cleaners to Washington for alleged discounting. In April 1934, 49-year-old immigrant Jacob Maged of Jersey City, New Jersey, was jailed for three months and fined for charging 35 cents to press a suit, rather than the 40 cents mandated by the NRA dry-cleaning code. Abraham Traube, the president of the Cleaners and Dyers Board of Trade, who had a hand in drafting the code, defended the get-tough policy on discounters by saying, “We think that this is the only way to enforce the NRA. If we did the same thing in New York City we would soon get the whole industry in line.” Compassionate cartelism?

### **Critics of the NRA**

Johnson contemptuously dismissed critics. At a meeting of the National Association of Manufacturers, he snarled,

Away, slight men! You may have been leaders once. You are corporals of disaster now, and a safe place for you may be yapping at the flanks but it is not safe to stand obstructing the front of this great army. You might be trampled underfoot — not knowingly but inadvertently — because of your small stature and of the uplifted glance of a people whose ‘eyes have seen the glory’ and whose purpose is intent on the inspired leadership of your neighbor and my friend Franklin Roosevelt!

As people learned more about the NRA and “Old Iron Pants,” they noticed more than a passing resemblance to fascism. Mario Palmieri’s *Philosophy of Fascism* (1936), published in Chicago by the Dante Alighieri Society, described ideas remarkably similar to those Johnson promoted:

Economic initiatives cannot be left to the arbitrary decisions of private, individual interests. Open competition, if not wisely directed and restricted, actually destroys wealth instead of creating it.... The proper function of the State in the Fascist system is that of supervising, regulating and arbitrating the relationships of capital and labor, employers and employees, individuals and associations, private interests and national interests.... Private wealth belongs not only to the individual, but, in a symbolic sense, to the State as well.

Mussolini himself declared, “Anti-individualistic, the Fascist conception of life stresses the importance of the State and accepts the individual only insofar as his interests coincide with those of the State.” Again, Mussolini: “Liberty is not a right but a duty ... the individual, left to himself, unless he be a saint or a hero, always refuses to pay taxes, obey laws or go to war.”

However one might characterize the NRA, it flopped as a cure for the Great Depression. It forced desperate people, who needed bargains, to pay above-market prices. Even Eleanor Roosevelt acknowledged as much. She noted, for instance, that people in Minnesota had difficulty obtaining coal to heat their homes “because of freight rates and a rise in price attributed to the NRA — it now costs \$4 a ton.”

The NRA made it more expensive for employers to hire people, which meant less hiring — when unemployment was about 25 percent. Moreover, emboldened by their expanded powers under the NRA, labor-union bosses called a succession of strikes, disrupting production more than at any time in the previous dozen years. Most Americans worked for small businesses, but NRA codes made it harder for small businesses to survive and grow, by denying them the option of price competition with big companies. All Johnson could offer was rhetoric denouncing “rugged individualists.”

### **Henry Ford**

There were some courageous persons who resisted the propaganda, pressure, and police. The best-known opponent of the NRA was Henry Ford, who had initially been sympathetic to Roosevelt. “We know that President Roosevelt wants to do the right and helpful thing,” Ford remarked. He remained discreetly silent as Hugh Johnson secured agreement from General Motors and Chrysler to draft a code for the automobile industry. Ford refused to sign it. Johnson claimed that Ford nonetheless “approves of everything done and being done by this administration,” which Ford subsequently denied. When Johnson was asked what would happen to employers who refused to sign a code, he snapped, “They’ll get a sock in the nose!”

Because General Motors and Chrysler had signed the auto-industry code, their dealers displayed Blue Eagle posters, stickers, and other propaganda materials. Johnson made clear that the government would purchase motor vehicles and anything else for that matter only from Blue Eagle businesses that had signed an NRA Code.

That led to some embarrassment when a Ford bid for 500 trucks, ordered by the Civilian Conservation Corps (CCC), was reported to be \$169,000 less than the next-lowest bid, from Dodge Brothers. The NRA policy meant suppressing low-cost suppliers such as Ford and passing along excessive costs to taxpayers who had enough of their own problems to worry about in the Depression. Ironically, Dodge was reported to be paying lower wages than Ford. The CCC went with Ford, the low bidder.

Johnson urged the public not to buy from a refusenik such as Ford. "I think the American people will crack down on him when the Blue Eagle is on the other cars," Johnson said. Many newspapers joined the effort to intimidate Ford. The *Cleveland Plain Dealer*, for instance, editorialized, "In a fight between the eagle and the flivver, who wins? Our bet is on the eagle ... because the bird of the air rather than the bird of the roads has the moral backing of the public." The *New York Daily News* warned, "If Mr. Ford can tell it [the New Deal] to go to hell and get away with it, it won't be long before some of the other big boys will do the same thing."

Henry Ford still refused to sanction the NRA with his signature, and some Americans openly admired his courage. The *New York Times* reported that Ford "now has become the bright and shining knight of the motor capital, which watches with approval of some hopefulness his latest tilt with generally accepted standards in his defiance of the NRA." Humorist Will Rogers remarked, "When you start jerking the Fords out from under the traveling public, you are monkeying with the very foundations of American life."

Apparently the public was more concerned about the quality and price of their cars than they were about the NRA, because Ford car sales were up for the year, even though the company could no longer sell to the U.S. government or anybody else who accepted federal money. Ford, reported Allan Nevins,

had maintained his independence, and he must have suspected that his defiance was not without advertising value. Every day brought him reminders of the unique position he had achieved. It was reflected in news stories. Longstanding Ford customers praised his cars. Men, women, and children told him their troubles, sent him poems of praise, and begged for aid in an immense variety of projects. The assumption that Henry Ford could meet any practical problem and even achieve the impossible was widespread and persistent.

### **The end of the NRA**

Although Hugh Johnson blamed the growing unpopularity of the NRA on a few grumblers such as Henry Ford, Roosevelt blamed it on "Old Iron Pants" himself. In August 1934, Roosevelt summoned him to the Oval Office and fired him, with Frances Perkins and lawyer Donald Richberg, the NRA's number two man, as witnesses. Richberg took over the NRA.

In February 1935, Roosevelt asked Congress that the NRA be extended another two years. Congress did vote for an extension, but only for one year because of all the complaints. Despite Richberg's efforts, opposition to the NRA grew stronger and stronger by the time the U.S. Supreme Court struck it down as unconstitutional on May 29, 1935.

Economists at the Brookings Institution reported, “The NRA on the whole retarded recovery.” Roosevelt’s Brain Truster Raymond Moley was among the framers of the NRA who later acknowledged the error of their ways. “Planning an economy in normal times is possible only through the discipline of a police state,” he reflected.

They cannot have the cake of free enterprise and also eat it away by government directives. Government ... cannot summon the talent to create positive means for operating a free economy.... Economic planning on a national scale in a politically free society involves contradictions that cannot be resolved in practice. The bones of the Blue Eagle should be a grim reminder of this reality.

Experience with the NRA ought to offer a warning for President Obama and others who imagine that government is smart enough to make an economy prosper.

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