September, 2004

NOTES from FEE

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Three Myths of the Great Depression

Burton Folsom, Jr.

The following is abridged from a speech delivered at "Evenings at FEE" in July 2004.

he Great Depression of the 1930s was in many ways the defining economic event of the 20th century. President Franklin Delano Roosevelt used the atmosphere of crisis created by the Depression to implement a series of government programs known as the New Deal, which caused radical centralization of federal power. For decades historians romanticized the New Deal, and only recently have scholars begun to peel away the layers of mythology surrounding that era. Three of those myths seem the most pervasive and damaging.

Myth Number One: The New Deal helped get us out of the Great Depression.

In fact, the New Deal was an inevitable economic failure. Roosevelt's formula of substituting government programs for a normal business recovery had no chance of relieving the high unemployment. FDR relied on extracting tax dollars from individuals and corporations to fund government programs, such as the Works Progress Administration (WPA), which hired workers to pick up trash, cut down trees, and build roads, bridges, and schools. The jobs Roosevelt thought he was creating were a mirage. They merely transferred jobs from the productive private sector to the inefficient public one.

Henry Hazlitt, a free-market writer and journalist, pointed out in his 1946 classic, *Economics in One Lesson*: "For every public job created by [a] bridge project a private job has been destroyed somewhere else. We can see the men employed on the bridge. We can watch them at work. . . . But there are other things that we do not see, because, alas, they have never been permitted to come into existence. They are the jobs destroyed by the $10 million taken from the taxpayers."

With the dramatic rise in government spending on public works, farm subsidies, and various relief programs, the top income tax rate skyrocketed from 24 percent in 1929 to 79 percent in 1935. In 1941 FDR even proposed raising the top rate to 99.5 percent on all income over $100,000 (but ended up settling for 90 percent). Not surprisingly, entrepreneurs were stifled and refused to invest and have their capital confiscated. Unemployment under the New Deal never dropped below 14 percent and averaged over 17 percent.

As the Great Depression persisted, even Treasury Secretary Henry Morgenthau admitted that the New Deal had been a failure. On May 6, 1939, he confessed, "We are spending more than we have ever spent before and it does not work. . . . We have never made good on our promises. . . . I say after eight years of this Administration we have just as much unemployment as when we started. . . . And an enormous debt to boot!"

Myth Number Two: The New Deal was a political success as well as an economic success.

To the contrary, the New Deal was a grand economic failure and only a qualified political success. This may surprise some because it seems counterintuitive in two ways. First, since FDR was elected to four terms and always with Democratic congresses, his economic programs seem to have had wide support. Second, if the New Deal was as damaging to the economy as I suggest, why did he achieve such clear political success over a long period of time?

In 1936, Roosevelt was up for re-election and he carried all but two states against his Republican challenger, Alf Landon. This amazing result is often

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emphasized by historians. What is less well known is the fact that in early 1936 Roosevelt was behind in the Gallup polls and even trailed in his own private polls. In February 1936, Emil Hurja, Roosevelt's personal pollster, concluded that if nominated Landon could beat Roosevelt were the election held that month. High unemployment was plaguing the president and the Supreme Court had recently struck down the Agricultural Adjustment Act (AAA) and the National Recovery Administration (NRA), two linchpins of the New Deal. Also, the Republicans had recently captured two congressional seats in open elections in Rhode Island and Michigan. In addition, the New York state legislature—where Roosevelt began his political career—had just swung over to the Republicans. This should not be surprising—the New Deal had not ended the Great Depression and voters were responding accordingly.

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However in 1936 the president developed a strategy that swamped the Republicans. It can be described in three words: subsidies for votes. He would spend record amounts of tax dollars on programs that would give people a vested interest in voting for his re-election. Gary Dean Best, in his excellent book *Pride, Prejudice, and Politics,* outlines Roosevelt's tactic of blitzing key election districts with federal funds. For example, he met with Henry Wallace, the agriculture secretary, and gave the following order, "Henry, through July, August, September, October and up to the 5th of November I want cotton to sell at 12 cents [a pound]. I do not care how you do it. That is your problem. It can't go below 12 cents."

When the WPA had spent all its money, and was faced with throwing people out of work on October 1, Roosevelt ordered Henry Morgenthau not to let anyone be laid off. As Morgenthau recalled Roosevelt's words, "he doesn't give a God damn where they get the money." With a Gallup poll showing relief workers going 5-1 for Roosevelt over Landon, the president had strong incentives to transfer as much wealth as possible from the private to the public sector.

Landon and fellow Republicans all over the country were perplexed over how to combat the "subsidies for votes" strategy. If they attacked Roosevelt's programs, he would ask what they would do differently. If they said, "End the programs," then the many Americans who were becoming addicted to the programs would protest and call the Republicans heartless, uncaring, and selfish. If Landon said he would continue the programs in different ways, then why should they switch over to his side? With Roosevelt they had government jobs. Why take chances with the Republicans? The subsidy-for-votes strategy helps explain the paradox of how the New Deal could be such an economic calamity for the nation and such a political triumph for Roosevelt.

Myth Number Three: Roosevelt was widely respected.

This is partly true. Roosevelt received thousands of fan letters each week and his picture was on the wall in perhaps millions of American homes. He had widespread adulation, especially from those who received his federal subsidies. But among reporters, policymakers, fellow politicians, and even his own friends Roosevelt was widely disrespected. His popularity was often superficial, and seemed to decline as people close to him came to know him better.

One thing that bothered his friends was FDR's ego. Hugh Johnson, the head of the NRA, said of his boss, "He seeks complete subservience. He thrives on adulation and submission." Hiram Johnson, the Republican Senator who bolted his party in 1932 and 1936 and publicly supported Roosevelt, said of the president, "He is drunk with power." Frances Perkins, the secretary of labor, listened to her boss almost every week and concluded, "Roosevelt never understood the point of view of the business community."

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Many of Roosevelt's friends seemed to fear reprisals if they told anyone what they really thought of him, and confided their true feelings in private diaries. Harold Ickes, the secretary of the interior, confided in his diary, "It is distressing to hear from so many quarters expressions that the President's word cannot be relied upon.

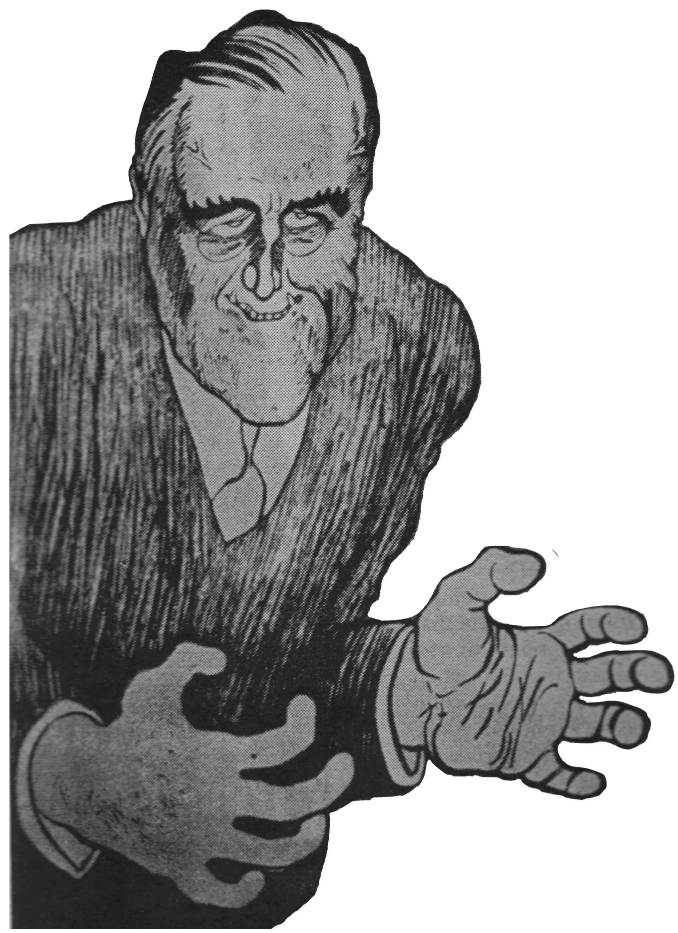
The number of people in the country who believe this seems to be growing. Unfortunately, based on my own experience, I regret to say that there are occasions when he does seem to regard his word lightly. I regret to say this about my Chief, the President of the United States, but unfortunately it is true."

Only when we begin to strip away these three myths will we be able to see the New Deal and the rise of the imperial presidency as a dark period in American history.

Roosevelt picked Raymond Moley, a Columbia professor, to be a Brain Truster and to write speeches, which Moley did during the president's first term. After one lengthy discussion with FDR, Moley wrote in his diary how Roosevelt had "launched into a denunciation of bankers and businessmen and said that every time they made an attack on him, . . . he gained votes and that the result of carrying on this sort of warfare was to bring the people to his support. . . . I was impressed as never before by the utter lack of logic of the man, the scantiness of his precise knowledge of things that he was talking about, by the gross inaccuracies in his statement, by the almost pathological lack of sequence in his discussion. . . . In other words, the political habits of his mind were working full steam with the added influence of a swollen ego. My deliberate impression is that he is dangerous in the extreme. . . ."

Finally, Henry Morgenthau, perhaps FDR's best friend, kept a diary in which he recorded his regular visits and conversations with the president. In many entries, Morgenthau expresses concern with the president's ego and his desire to centralize power in his own hands. After one such visit, Morgenthau wrote, "He pictures himself as being called in as a consultant of the various nations of the world. He said, 'Maybe I can prescribe for their ailments. . . . For example, I would tell England that she had too many people and she should move out ten million of her population. I would take a look at each country and, of course, when we made them disarm we would have to find new work for the munition workers in each country and that is where this international cartel would come in and your job would be to handle the finances.'"

Only when we begin to strip away these three myths will we be able to see the New Deal and the rise of the imperial presidency as a dark period in American history. In fact during the 1930s, the American economy would have been far better off if there had not been the New Deal.□



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