RESHAPING THE AMERICAN ECONOMY

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WITH THE INAUGURATION of Franklin D. Roosevelt on March 4, 1933, the social dynamic of the American government changed direction. For the first time in its history, the federal government assumed direct responsibility for the functioning of the American economy. Simultaneously, it undertook the long task—yet unfinished—of assuring that this economy should provide for every inhabitant of the republic. Briefly, Roosevelt intended and brought about an American *économie dirigée.*

The depth and power of that change are amply attested by the attitudes prevailing twenty-five years after Roosevelt's death. Now, an overwhelming majority of Americans takes this federal responsibility for granted. Most of the specific measures taken in 1933 are firmly embedded in current legal doctrine and are engrafted into the administrative structure. Later changes in them have been designed not to limit but to increase the effectiveness of the federal government in dealing with the socio-economic functioning of the country. The new measures contemplated by the incoming administration of President Johnson are designed to complete rather than to alter the Rooseveltian conception. True, in the presidential campaign of 1964, an attempt indeed was made to challenge the whole substance of Roosevelt's work; Senator Goldwater thought of it as a referendum upon its entire result. The radical conservatives led by Senator Goldwater openly advocated return to the *laissez-faire,* unguided economic system prevailing prior to 1932. Yet the mere idea of such a referendum proved so unsettling that the campaign was swiftly given a different political turn. A staggering popular majority made clear the permanence of the changes to which Roosevelt, in homespun political slogan, gave the title, "The New Deal."

It is the purpose of this essay to indicate and outline the decisions involved in this historic change and some of the basic conceptions on which it is founded.

I

The Rooseveltian campaign staff in 1932 was primarily interested—like all campaign staffs—in winning an election. Professional politicians, in the writer's experience, are only secondarily interested in theory. But they do represent sectors of population which want something—and in 1932 most of the population of the United States wanted something very badly indeed. They wanted to keep their jobs, or they wanted some arrangement allowing them to keep body and soul together until jobs became available. They wanted banks which would not fail. They wanted prices for the products of farm or factory they had to sell which would give more than the cost of production. More generally, everyone wanted a degree of protection from the tide of blind, uncontrolled, irrational injuries resulting from the catastrophic play of economic forces—certainly so far as these affected them. They wanted their own situations relieved, and their fears of the future allayed. The politicians reflecting their views wanted measures taken without knowing exactly what these measures should be.

Satisfaction of these demands precipitated a revision of American governmental theory, and no one knew it better than Roosevelt. The late President Hoover, himself as sterling an humanitarian as Roosevelt, had nevertheless come to personify classic economic theory, which included the doctrine that free play of market forces accomplishes the best possible allocation of economic resources. Under that doctrine, the "free market" was intimately intertwined with the philosophical conception of individual freedom. It assumed that free markets would eventually rectify the imbalances, would see that goods and services as fully as possible reached and satisfied human needs. Aided by a measure of private human charity, their functioning would provide a tolerable and an improving situation. "Prosperity around the corner" promised by his administration was not a mere politician's phrase; it was, quite simply, the promise of classic economic theology.

The opposite conception, to which Roosevelt had become converted, proceeded from pragmatic fact. No doubt economic forces left to themselves would "eventually" establish a balance—but the human cost of the process in 1933 had become intolerable. Continued, the vast and spreading misery could even threaten the foundations of the American State. Millions do not lose their jobs, their homes, and the necessities of life and see their wives and children in hunger in sweet reasonableness. Also, the phenomenon had become irrational. Great surpluses of goods had built up on one side of an economic plate glass window. They were there—in warehouses or grain elevators—while masses of hungry men looked at them in growing despair. Means had to be found to connect the supply with the need. An economic system is, of necessity, a man-made system; what men make, they can alter. If to keep the service of supply going, the gods of the free market had to be dethroned, dethroned they must be. Roosevelt had studied and travelled in Europe; he read voraciously; he had seen the depression begin in 1929 and reach flood proportions in 1932. He probably made the first major decision in the spring of that year. As Governor of New York, he knew very well that the governments of the states—let alone of the municipalities—could not by themselves make the social and economic changes needed. That task could be done only by the federal government. I can testify that the mental decision to make the federal government an active and permanent social and economic agency had been reached well before the middle of May of 1932.

Federal responsibility for the total economic condition of the country was a radical break with past American tradition; Roosevelt knew it and was prepared to make the break. For him, personally, this was perhaps more of a break than is readily appreciated. He had campaigned for Wilson and in 1912 had been a sub-Cabinet officer in the Wilson administration. That election was a three-cornered affair. President William Howard Taft stood for the conservative and—in theory—*laissez-faire* tradition whose result had been the accepted plutocracy prevailing in the first decade of the century. Theodore Roosevelt, campaigning on the Bull Moose ticket, was proposing federal intervention and advocating a remarkable series of radical measures—including, one wryly recalls now, a suggestion that Supreme Court decisions should be subject to referendum or recall by popular vote. Woodrow Wilson held the central position. He believed in free markets and the enlivening force of competition; he thought the prevalence of monopolies and financial concentrations was strangling them. His "New Freedom" was essentially aimed at breaking the grip of these monopolies. Basically, he wished to reestablish the free market operations interrupted by the "trusts" of the day. In two matters only he proposed federal intervention, namely, by creation of a Federal Reserve Banking system and by the newly authorized federal income tax. Classic economic and political theory rode high in the Wilson Administration. Local responsibility plus private initiative, clearing roadblocks impeding free opportunity and competition, were the watchwords. Roosevelt had been part of all this from 1912 to 1921. Reversing such a current of thought can not have been easy.

We do not, so far as the writer knows, have a really adequate record of the evolution of Roosevelt's thinking between 1928 and 1932. It may, I think, be assumed that it proceeded from his experience as Governor. He was always aware of human unhappiness. In his gubernatorial years, especially after 1929, every government office (not least his own in Albany) was battered by wave after wave of it. When a group of friends undertook to back his campaign for the Democratic nomination, he was already asking of himself and indeed of everyone around, what could be done? In April and May of 1932, he was conducting a ceaseless inquiry, talking to every businessman, economist, financial specialist or humanitarian who had, or thought he had, or might be expected to have, some ideas on the subject. The questions were always the same because no rational case could be made for any other form of action: what could be done by the federal government?

There was no substantial dissent from the proposition that direct federal intervention would be needed; no other means of remobilizing the shattered economy was equal to the job. That intervention could take any direction, from outright socialism to mere emergency repair work. Though unfrightened by the name, Roosevelt was no socialist: he had too vivid an appreciation of the size, diversity, and tradition of the vast area that is the United States to consider it practicable. Equally, he declined the idea that transient measures could bring the country back to "normal" and then be discarded. His general thinking ran towards a mixed but controlled economy undergirded by social measures (the latter took the form of the Social Security Act and the Labor Relations Act, with an interim period of relief and "made-work"). And he proposed to steer a large fraction of the national income toward those sectors of society which were poorest. Beside its humanitarian aspect, this would, of course, increase the purchasing power and the scope of markets. But that involved the credit situation, and very early he decided to deal with it. Specifically, he wanted to assure through federal measures that debtors should not be wiped out and their property transferred to creditor-or-lending administration, and obviously the banking system had not only to be undergirded but thoroughly reorganized.

My own first memorandum to him (May of 1932) was predicated on the theory that the millions of individuals and families in distress were probably the key to the situation; if we could make these families reasonably secure in current income, in such savings as they still had, in their jobs, and give them some confidence in the economic future, they would cease to be frightened hoarders of cash, would resume consumption, and would thereby reactivate manufacture and production, for, as I wrote: "Both as a matter of sound economics and decent humanity, an economic policy of the government ought to be adopted towards the restoration of individual safety," and I suggested a series of concrete measures. All connoted the entry of the federal government into fields it had, theretofore, considered outside its function.

Roosevelt had without anyone's help determined on federal entry; the problem was whether to start at the bottom or the top. Serious consideration, so far as I know, was never given toward socialization—that is, government take-over—of production in general. It was, however, believed that floors could and should be placed under prices and wage rates; the conception later took form in the National Industrial Recovery Act, later the NRA. That experiment, the most controversial and, as it turned out, the most transient of the New Deal, nevertheless did have a solid effect. Prices reached by unrestricted competition under the circumstances prevailing in 1933 reflected the necessities of debtors under hydraulic pressure, or the views of bankruptcy liquidators, rather than the serious appraisals of willing sellers dealing with willing buyers. ("Deflation carried to the crucifixon phase" was the savage but descriptive phrase applied to the situation on the night of March 5 by Adolph Miller of the Federal Reserve Board.) If forced liquidation to meet debts could be avoided and minimum prices and wage levels be set, and if a measure of income could be pumped in at the bottom, a level of stabilization could be reached. In retrospect, my feeling is that the Blue Eagle campaign served a useful purpose. Thanks to the Supreme Court of the United States, it probably ended at about the right time. Included in that general conception was an idea new at the time though well recognized today. Where industry was concentrated beyond a certain point, the great units of concentration became objects both of legitimate national concern and of national use; they thus could be the subject of federal action.

II

Actually, on March 4, 1933, the climax of economic disaster had been reached. The fact was catastrophic, but it had one political advantage. Faced with desperate need, the public expected the federal government to act immediately and Congress was in a mood to do so. Indeed, it was almost compelled by public demand to take immediate action, though the action had to be initiated by the Executive Branch which, for practical purposes, meant President Roosevelt himself. Long debate, much less bickering, was impossible in the Congress of the Hundred Days. The swift political engineering made possible by the crisis (it is concisely summarized by Arthur Schlesinger, Jr. in his work, *The Coming of the New Deal)* reflects the sheer surge of popular demand. In his inaugural address, the President had observed that it might become necessary for him to take powers ordinarily granted to a President only in wartime; that passage evoked the greatest demonstration of the occasion.

Circumstances determined the priorities. The Emergency Banking Act was passed on March 9, currency being, of course, the first necessity. But the provision of jobs and income followed almost at once. The Civilian Conservation Corps (aimed at taking care of unemployed youth with a measure of income to their families) came on March 13. The Emergency Relief Act passed on May 12 guaranteed a greater measure of consumption as well as relieving distress. Both were intended to be transitional. On the same day, the Agricultural Adjustment Act came into effect. It opened the way to steering a part of the national income into the then severely depressed farm areas. Simultaneously, the Emergency Farm Mortgage Act permitted use of federal credit to refinance farm mortgages, preventing further wholesale transfer of farms to creditor institutions by the foreclosure route. Six days later, legislation creating the Tennessee Valley Authority was adopted. This did more than permit development of the Tennessee River Valley electricity. It pumped money, organization, and life into a big, economically degenerating sector. On June 13, use of federal credit was authorized to permit refinancing of home mortgages throughout the country. On June 16, the National Industrial Recovery Act noted above came into effect. To this last Act was appended a public works program calling for the expenditure of more than three billions of dollars (billions meant more then than they do today). That same day, the Farm Credit Act provided and undergirded an adequate agricultural credit system, and the Railroad Coordination Act—least successful in the outcome—attempted to instill order into the crazy quilt of the railroad system (a task remaining undone even now). Meantime, a beginning had been made on measures dealing with the issue of securities, from which stems the present, more highly evolved, Securities and Exchange Commission.

There was no doubt that, in all this, Franklin Roosevelt was the dynamo as well as director. Friends and enemies, Americans and foreigners, saluted the gay, composed, driving leader. Norman Davis was quoted as saying, "There has been a miracle here." But miracles of this kind need time for gestation. Mobilization of ideas in the President's own mind had been going on for many months—probably indeed for a much longer period. The laws passed by the Congress of the Hundred Days were not pulled out of thin air by intention or impulse. The views of the President had been earlier crystallized and a great deal of preliminary paper work had been done. Basic memoranda and drafts had been assembled; the Congress in its committees therefore could rapidly put them into shape; it was left to Roosevelt to explain them to the country, and obtain for them the essential popular backing.

When the economic effects of the measures of the Hundred Days are traced, the outlines of the structure begin to appear. The federal government assumed control of currency and short term credit, of relief and emergency payments, of agricultural prices and agricultural credit, of industry and wages in industry (the wage provisions of the National Industrial Recovery Act set the standard for later developments), and of the debtor-creditor relationships throughout much of the country.

It must be noted that production was not a problem. Goods and services were readily available; there were surpluses, and goods could be readily produced in greater volume than they could be immediately distributed. Increase in production in any case was likely (probably certain) to keep pace (as in fact it did) with rising distribution as it flowed to consumers in need. This, I think, distinguishes the American economic revolution of 1933 from many other economic crises. It has been the steady—possibly undeserved—luxury of American political economy not to have to worry about adequate supply. There was thus no need and little political pressure to take away "wealth" from some and hand it to others, beyond the scope of more or less normal taxation. Perhaps because of that fact, the violent solutions adopted by the Soviet Union in 1917 and advocated by European revolutionary doctrine had little echo or economic appeal even to extremists. In a word, it was not necessary at the time to reorganize production and its ownership to provide remedy for the American economic breakdown. It was necessary to reorganize and assure distribution—at government expense if necessary—of the fruit of the productive capacity already in existence, organized, and adequate to carry out the service of supply.

III

Presently, however, a phase of the problem intruded itself with unhappy vehemence. It is worth recording here because the problem may emerge again, though in different form, in a few years.

About 13,000,000 Americans were out of work in 1933; they and their families were in distress. Their pressing necessities were presently taken care of through the Emergency Relief Act and the accompanying "made-work" program carried on by the Civil Works Administration under the direction of Mr. Harry Hopkins. Then, a swiftly hardening, tragic division. Men holding private jobs and their organized representatives feared the competition and resisted the intrusion of the unemployed seeking work in their own fields of labor. A cleft began to appear, setting employed against unemployed. It seemed as though defenses were set up against reabsorption of many of the unemployed into the normal labor force. In this phase, perhaps the most powerful conflicts of ideas had to be resolved. Badly handled, the economic intervention of the federal state might well have separated American labor (blue collar and white collar alike) into two classes: those on relief, and destined to stay on a dole, and those in regular jobs. In that period, a European argument was not infrequently heard: production should be for use and not for profit. The government should take measures necessary to maintain production but government should distribute the product according to need. In minor measure, the principle was used when the Food Stamp Plan was set up, making possible distribution of food according to need rather than through normal price operation. This would be more nearly in accord with European socialist doctrine. The argument for production-for-use had to be met—as it will again have to be met in the United States if automation ever succeeds in making vast production available without need for employing most of the population.

Factually, it must be admitted that the problem was never really solved until the coming of World War II in 1939. Unemployment, though reduced, did continue until the infinitely more massive federal intervention compelled by forced orders for munitions and supplies rapidly created jobs for everyone in the labor force—employment transferred with surprisingly little difficulty into peacetime activities after the war's end. Looking back, it is clear that (despite contrary accusations) the President was over-cautious rather than over-bold in his public works and allied programs. Had he, for example, financed the reconstruction of cities in 1933 and 1934, as his government financed creation of an army, navy, and air force and supporting services of supply from 1939 on, the problem might have been wholly, instead of partially, met through peacetime instead of wartime employment. The point is worth pondering. If automation has the results predicted by some, intervention on precisely that scale may be the only possible alternative to production-for-use. But in the next phase, both the responsibility and the capacity of the federal government will be taken for granted: no new revolution will be needed.

IV

Twenty years after Franklin Roosevelt's death, the extent of the change he wrought is difficult to bring home to a new generation. Federal responsibility for the functioning of the American economy is taken for granted. Disbelief if not outright denial is encountered when the hands-off, night-watchman, *laissez-faire* theory of federal government, obtaining until his era, is set out. In current context, it is hard even to imagine the possibility of having an economy without federal management of currency and credit, without federal policing of securities issues and the stock market, without minimum wage laws and social security, without a National Labor Relations Act, without an agricultural stabilization program, perhaps even without federal management of electricity, certainly without the highly articulated statistical services in whose development Roosevelt was so vividly interested. No one thinks of housing without the credit facilities offered through the Federal Housing Authority or conceives that the capital supply of the country could be cut off (as was attempted in 1934) merely because investment bankers decided not to offer securities to the public in protest against passing the Securities Act.

By an irony of tragedy and history, the arch of Roosevelt's economic conception was capped only after his death. He himself was clear that a system of flexible economic planning at the apex of the structure was essential. His own attempt to set up a planning commission was first emasculated, and later killed, by a hostile Congress. Yet the legacy of ideas remained. Through the patient genius of Senator Paul Douglas of Illinois, much of that legacy was embodied in the Employment Act of 1946; this law is the arch. It is aimed at coordinating the use of economic power by federal government. That Act declares it to be "the policy and responsibility" of the federal government to use all practical means

> . . . to coordinate and utilize all its plans, functions and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be offered useful employment opportunities, including self-employment, for those able, willing and seeking to work and to promote maximum employment, production and purchasing power. (15 *USCA* 1021)

It creates the Council of Economic Advisers as a sort of privy council to the President. It directs the President to report on January 20 of each year to the Congress of the United States —a report which must record existing level and foreseeable trends of employment, production, and purchasing power, indicating the levels needed to carry out the policy of promoting maximum employment, production, and purchasing power and a program to bring about such levels. The report goes automatically to a joint committee of the House and Senate on the economic report for hearing and debate. The joint committee's conclusions by legislation are to be "a guide to the several committees of the Congress dealing with legislation relating to the economic report." Meanwhile, the Economic Advisers must monthly publish and circulate to "members of the Congress" (and in fact to pretty much everyone who cares to have it) a publication entitled "Economic Indicators" on which reasoned estimates of the economic conditions of the country and its immediate future can be made.

That would have been a fair crystallization of Roosevelt's ideas, though he probably would have sought greater powers for the Economic Council. For practical purposes, something very like this had been informally worked out before his death. Senator Douglas' achievement was to give the planning conception acceptable statutory form and organization. Despite bitter attacks on the whole idea of a planned economy—they are not wanting today—few responsible men in academic, government, or business life desire to do without the Council of Economic Advisers. They merely use the phrase "resource allocation" instead of "planning." Debate today revolves not on the Council's right to exist but on whether the planning and coordination should not be extended and made more effective.

The simple political and historical fact is that no one can look at the task of the President or at the functioning of the federal government today as these were regarded before 1930's. Despite the confusions of political debate and engineering, the economic and social logic of the change has proved irrefutable. Looking back, we consider this obvious. But at the time it took the heart of a great statesman to revolt against the human costs of a blind system, the mind of a great statesman to see how federal power could be wisely used to overcome social and economic anarchy, and the skill of a great politician to erect the system we now have.

Franklin Delano Roosevelt has many monuments in many fields. The result of his redirection of the federal state is not the least. Nor is it the least expressive of the man himself: of his sympathy and his awareness; of his gay, even ironic, appreciation of the defects as well as the merits of the American political system; of his inveterate optimism (modified by kindly scepticism) as to human possibilities; of his unconquerable belief that America could make of herself whatever she really wished to be.