



## **New Deal or Raw Deal?**

**Guest: Burt Folsom**

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**WOODS:** Burt, I remember back in 2009, you and I were on Glenn Beck at the same time on a split screen, and you were talking about *New Deal or Raw Deal?* and I was talking about *Meltdown*. Glenn said he had read them both over the weekend. I thought, well, I’m not so sure I buy that. But then he was extracting ideas from these books that were not in the press packet, so he had to have read them. And I thought, I respect that he managed to do that.

**FOLSOM:** We had a good time with that, Tom. I remember that. It was split-screen and so the two of us didn’t have a chance to chat at all, or talk with each other, but we played off the material very well. Both of us have tremendous historical interest in the 1930s, and of course connecting it with the issues today. That was a good session; I enjoyed that.

**WOODS:** I’ll tell you, Burt, to be perfectly honest with you: when your book came out I thought to myself, we have Jim Powell’s book, and then Bob Murphy came out with a book on the Great Depression and the New Deal, and Tom DiLorenzo has done some good work. And then we have John T. Flynn’s old book. And I frankly wondered how much more there is to dig up. And boy was I ever wrong – as I’ve told anyone who cared to listen ever since. You dug up such great stuff, that’s why I wanted to have you on today.

**FOLSOM:** Thank you.

**WOODS:** I want to start off by reading you a passage from your own book.

**FOLSOM:** Okay.

**WOODS:** And in this passage you are quoting Henry Steele Commager and Richard Morris, who were totally mainstream historians—and boy, does it show.

**FOLSOM:** Right.

**WOODS:** I was so creeped out at this passage when I first read this book. When I was flipping through my copy this morning before you and I spoke, I found I had bracketed off this passage and put a big exclamation mark next to it. So let me read it to you.

**FOLSOM:** [Laughter] Sure.

**WOODS:** Here they are summarizing Franklin Roosevelt and his whole mystique: “It is the stuff of good history, this, a leadership that was buoyant and dynamic. A large program designed to enable the government to catch up with a generation of lag and solve the problems that crowded upon it. A people quickened to resolution and self-confidence. A nation brought to realize its responsibilities and its potentialities. How it lends itself to drama. The sun rises on a stricken field. The new leader raises the banner and waves it defiantly at the foe. His followers crowd about him. Armies of recruits emerge from the

shadows and throng into the ranks. The bands play. The flags wave. The army moves forward and soon the sound of battle and the shouts of victory are heard in the distance. In perspective we can see that it was not quite like that, but that was the way it seemed at the time.” Burt, I’m not going to make any editorial comment on that. I want you to do so.

**FOLSOM:** [Laughter] Well, for that generation of liberals, the 1930s was a golden opportunity to grow government, and we saw them bring academics into the political arena. So, Ray Moley and Rexford Tugwell, the brain trust at Columbia University. The AAA was designed, at least in part, by Professor Black at Harvard, also by some people at Montana State. So, you had college professors designing programs actively, and the fact we know now is that those programs didn’t work. They were often counterproductive. But at the time, for academics who believed that private enterprise creates problems and government solves them, that was an enormously great period for them—the 1930s and Franklin Roosevelt.

**WOODS:** This rhetoric coming from these historians is so striking. It’s interesting how many Americans say: “Gosh, how could people have ever developed such a cult of personality around the fascist dictators, or some two-bit, Third World guy?” And yet listen to the ways they spoke about Franklin Roosevelt like he’s a demigod.

**FOLSOM:** Right.

**WOODS:** It’s so beneath a free people. I want to talk about some of the alphabet-soup agencies and some of the programs.

**FOLSOM:** Sure.

**WOODS:** I want to start off with the National Recovery Administration, because here you’ve got so much great new material. So, can you first explain what the purpose of this was? And then I want to talk about what you found in the tire industry, a classic example of what this program turned out to be in practice.

**FOLSOM:** Right, the National Recovery Act—that’s the old NRA—was designed to allow businesses to set prices for products. Those prices would be legalized, and it would be illegal to give a discount to a customer. And the argument for this was that the competition that was ensuing between businesses was causing problems with the businesses’ survival and so businesses would fail and that would increase unemployment. If you allowed businesses to charge a lot for their products, that would give them profits and keep people employed. Of course, that’s utter silliness and it’s so unconstitutional—the Supreme Court later decided in a 9-0 vote that it was unconstitutional. But, nonetheless, we had about 500 industries that came forth and had NRA codes that would set the prices of products. They would set wages for their employees. And those people in the industry, those businesses, had to charge those prices for the products.

**WOODS:** In the tire industry you give a great example of what this actually meant for the small businessman. Why was this not just a general boon for business?

**FOLSOM:** Right. That’s a good question. It would seem like it was a boon for business in general, but it wasn’t. It was for bigger businesses. The smaller businesses ended up hurting.

The tire industry is a good example and that’s why I went through that. By the way, there is no real NRA archives, but we have in the William Borah Papers in the Library of Congress tremendous amounts of material that’s largely untapped about businesses complaining and talking about the problems with the NRA.

The tire industry is a classic example. Here you have a situation where the larger tire industries—I’m talking Goodyear, or Goodrich and Firestone—have a national market. So, what happened if you had to charge \$20, let’s just say, for a tire, and the prices are set at \$20. The small tire producer who is located, say, in Austin, Texas, produces his tires for \$20, but he can’t give a discount. So Firestone comes in at twenty, he comes in at twenty, and right after that Firestone says, “By the way, if you buy our tires, we promise national servicing. Whether you’re in San Francisco, whether you’re in Austin, Texas, Houston, or Boston, Massachusetts—we have a national distributorship and we can service any tire that goes bad, so you ought to buy from us.”

Well, the local tire dealers can't offer that kind of pitch and now they can't compete by giving a discount. And so they end up going broke, and we have more unemployment after the NRA than we did before.

**WOODS:** You quote somebody, I don't remember his name, and I don't think it's important, from the tire industry—a small businessman—making exactly this point at the time. It wasn't just in retrospect that historians figured out, "You know what, this actually favored the bigger businesses." They saw it at the time. Which is why Clarence Darrow, in his investigation of the NRA the next year, called it "wolfish." He had this whole list of horrifying adjectives to describe the actual operation of the NRA.

**FOLSOM:** That's one of the few times I agree with Clarence Darrow. He had that pegged. He saw the damage that was being done to small business and he did what he could to undermine the National Recovery Act in the official position he had to hear claims made by small businessmen. The Act is utterly ridiculous. It is unconstitutional, it is anti-American and it failed abysmally.

**WOODS:** Now, Burt, they had to suspend the antitrust laws to get away with the sorts of industry-wide price controls, or at the very least there were minimum prices set.

**FOLSOM:** Yes.

**WOODS:** But, what was the economic rationale behind it? I mean, yes it looks preposterous, but surely they had some reason for doing it.

**FOLSOM:** The idea here is that if you allow businesses to set prices they won't lay anybody off. And they're going to pay good wages because those were parts of the NRA code, and therefore everybody is going to be happy. What that omits is, as I say, that people will end up being unemployed, as in the case of the tire industry. Small businessmen that are right on the edge, can't afford to charge very high prices because part of the way they compete is by saying: "Hey, we'll give you a discount if you come with us rather than the bigger dealer who has a better reputation. We'll give you a discount if you come over here with us."

Now, in the case of the NRA codes, if you charged rates for your product that were below the code rates you could go to jail. I cite in *New Deal or Raw Deal* examples of people who either were threatened and they lost court cases and almost went to jail or who did go to jail.

**WOODS:** Another part of the NRA codes were minimum wages, relatively high minimum wages, so this, no doubt, drove some people out of the labor market altogether. That leads to the question: suppose I do manage to keep my job, even in the face of these relatively high minimum wages. If the idea is that we want minimum wages so the workers will have purchasing power, if they manage to get a job at all—

**FOLSOM:** Exactly.

**WOODS:** --isn't that offset by the fact that everything I go to buy is at an artificially high price because of these codes?

**FOLSOM:** You're exactly right, Tom; these are parts of the unintended consequences. You can't set high prices for products without having negative consequences on the consumers who are buying these products.

And then it also leads you to want to buy foreign. And so then what happens is we need to have high tariffs to keep cheaper foreign goods out of our country that would be able to successfully compete with those products whose prices are set high by the NRA codes. So, then we have countries that retaliate against us because we won't buy their tires, or whatever, and so now our auto industry, which is very competitive internationally, is being tarified off in Europe because we won't buy products made in other countries because of the NRA code. In other words, there's spillover effects that makes this an economic disaster.

**WOODS:** Let's talk about probably the easiest one of all in terms of persuading the general public that it was a bad idea and that, of course, is the Agricultural Adjustment Act. I think anybody today will admit that was a bad idea. Tell us about it. First, what it did in its first year of existence when you already had all of this production and it was too late to impose acreage control, and then what did it do later?

**FOLSOM:** It's interesting what you just said, Tom. You said it's almost indefensible and you're right. In the academic world I very rarely meet someone who says, "I want to step up and defend the AAA." In part because you're paying farmers not to produce and you're asking them to cut back on their production. Well, you can't get out of a depression by producing less and paying people not to produce. It's obvious. And so on it's very surface it's not going to help the economy.

However, variations of the AAA are still in effect today, lingered on for a long time and that's because if you give groups in the economy, like farmers a subsidy—even if the subsidy is counterproductive for the economy—the farmers are reluctant to give up their subsidy, and politicians end up going along with it in future administrations. Which shows why it's bad to get these programs in, Tom, to begin with because it's very hard to get rid of programs—even bad ones—once they are established.

**WOODS:** Even if they harm the whole public, the point is that in a concentrated way they benefit a few who have the time to lobby for them 24 hours a day. You and I don't have an incentive to lobby against them, and so they persist. But what happened in 1933 specifically – what did they do with all this production that was indeed pushing prices lower than they wanted them to be?

**FOLSOM:** You have farmers that are paid roughly \$10 an acre to take their land out of production. It varies from crop to crop. In the cases of hogs, Tom, you know they were required to slaughter hogs because they were required to take them out of circulation. Again, you're paying people to eliminate food from the economy.

**WOODS:** Right. They're destroying things.

**FOLSOM:** Right. And that's not going to end up in recovering from a depression. And, of course, when Governor Landon ran against this in the 1936 election on the Republican ticket, Roosevelt quickly said, "So, are you going to eliminate the farmers' program that I have given them?" And he said, "Oh, uh, uh, no, we'll just run it more efficiently."

**WOODS:** Ah, the story of the Republican Party.

**FOLSOM:** And so they were going to run it more efficiently. And so if you are a farmer, are you going to vote for the guy who gave you a subsidy or his opponent who says, "No, I will make the subsidy more efficient"?

Roosevelt, as you know, carried all but two states. He won the electoral college against Landon 523 to 8. What I'm saying, Tom, just on the face of the two programs we've mentioned so far today, the NRA (the National Recovery Act) and the AAA (the Agricultural Adjustment Act), those two programs with terrible negative consequences, Roosevelt ran on those programs saying, "Yeah, I'm glad I passed them." And he got 523 electoral votes and his opponent got eight.

**WOODS:** Burt, let's talk about the Tennessee Valley Authority because that, by contrast, is a program that almost everybody will defend and say, "Now, look, this one even you crazy conservatives and libertarians have got to support, or at least admit that it worked." What was the TVA and did it work?

**FOLSOM:** It's a subsidy to the Tennessee Valley, and the idea here is that you have a good river system and it could generate cheap electricity. And so we'll give them a subsidy in that area and they will then have the cheap electricity. In other words, taxing most of the nation to give to Tennessee, Kentucky, and Alabama. The senators from those states—Alben Barkley was the majority leader, he's from Kentucky, and you had two very senior Democratic senators from Tennessee and also from Alabama. So, the political influence is: we're going to carve out a subsidy for our states, for the river systems in our states, to improve them, to generate hydro-electricity with dams and this sort of thing in our states and the taxpayers will end up paying for it.

**WOODS:** So what's the outcome? Did this actually bring electrification to the Tennessee Valley? That's what it said it was going to do, right?

**FOLSOM:** Well, it did. I taught in that area for a while and there were a lot of people who said, "Boy, my grandparents didn't have electricity before, and after we do."

What's interesting is that those areas that had the subsidized electricity ended up remaining in rural economies. They had less incentive to become industrial, to innovate with new industries, to venture into new enterprises. And so we find that North Carolina, for example, which didn't have any TVA at all, ended up developing better economically than Tennessee did, because Tennessee in effect had an incentive, people had an incentive, to stay put, we've got subsidized electricity, and we don't need to venture into new programs quite as easily. It ended up, oddly enough, slowing down the very areas that received the subsidy.

**WOODS:** What about the claim, though, that look, Folsom, I remember that my granddaddy got a job down at the WPA and that's what got his family through the 1930s?

**FOLSOM:** I think that's one of the arguments that's been used most effectively over the years in defense of the New Deal. And in fact, my father-in-law was in that category, and there was really no way that I was able to reach him. Because what he's saying is, "I did not have a job before Franklin Roosevelt, then Roosevelt came in and now I do have a job." Which in his case was true, because he was from Kentucky and Alben Barkley, being majority leader, brought a lot of pork into Kentucky—the TVA being one example—and then he was able to get a job.

What you have to look at is the bigger picture. And the bigger picture is that you have to have higher taxes to afford all these subsidies. Higher taxes meant that the tax rate, the top rate, which was 25 percent in 1932—income tax rate—went up to 79 percent by 1935. And, of course, it ultimately would go over 90 percent a few years later. And what you have is rich people who were formerly able to keep three-fourths of everything they made and invest it in the economy, now all of sudden had no incentive to reinvest. They took their money, they put it into tax-exempt bonds, they put it into stamp collections, coin collections, foreign investments, all sorts of other things, art collections that did not generate wealth for the American economy.

So what you did by having the programs that didn't work, you gave people jobs for which there really was no demand, and then you took the money to do that and made it so that rich people had no incentive to invest in the American economy. And that perpetuates the Great Depression. And it's why it was the worst ten-year period in American history—the 1930s, when we had the Great Depression and had these programs.

**WOODS:** Burt, what about the political angle in terms of the disbursement of WPA programs around the country? Do you go for this thesis that they were disbursed not according to need, but according to, let's say, other calculations?

**FOLSOM:** Yes, that's very interesting, Tom, because what we see, as you know, is that once you give the power to give these subsidies to either congressional groups, or in some cases the president had this power as well, when you start allocating that power, immediately it is used for political purposes, not really for economic purposes. At least, not to steer money into areas that need economic development. No, it went right for political purposes right away. Roosevelt targeted those states that he wanted to carry in future elections; those states received the massive bulk of federal funds. We can document this, and I did that in the book *New Deal or Raw Deal*.

We see states like Pennsylvania and Vermont and the results of those states, and specific counties in those states, receiving massive amounts of federal funds, and how they then voted Democratic and allowed Roosevelt to carry 46 out of 48 states in 1936.

**WOODS:** And, of course, what need would he have had to spread a lot of programs down there in the South, when the South wasn't going to vote for a Republican, almost even if it was Christ himself? That was what it would have taken them to vote Republican at that point. And they're the poorest and they get the least relief.

Let me read a quotation from page 174 of your book. This is from Senator Daniel Hastings, Republican of Delaware: "All appreciate the difficulty Republican candidates generally are confronted with and the large sums of money being used, at least indirectly, by the New Deal for campaigning purposes." He predicted

that “this indirect bribery of the voters will be overcome. I cannot believe the American people are willing to be sold that way.”

Well, I wish I couldn't believe it. I'm afraid I've lived through it.

**FOLSOM:** [Laughter] Right, we saw that many were indeed willing to be bought. Al Smith, former governor of New York, said it best when he said, “Nobody shoots Santa Claus.” And that's sort of what Roosevelt was able to demonstrate. That you come in with the promise of a program, maybe a real program, and maybe the promise of a future program, and you can get votes from areas. Then you try to tax the rich to pay for these programs, and although you lose their votes, you get the votes of other people who hope to get the tax money for projects in their district.

**WOODS:** Now, Burt, I just want to know, did any of your critics on this book come at you with the following sort of argument, did anybody say: “Look, we will concede that unemployment was an intractable problem during the '30s, though it did get better under Franklin Roosevelt than it had been in the past, but the fact is we did begin to see some recovery. We did get economic growth. And before Franklin Roosevelt we didn't have the New Deal, while after him and during his presidency we did, and so it seems unreasonable to attribute the economic growth that we did see to anything other than the New Deal itself.

**FOLSOM:** Well, then I'd have to ask, Tom, where is the economic growth that we're getting? Because I can see lots of economic stagnation. For example, in the 1930s we never had a year that had patents that were as high as they were in the late '20s. The amount of innovation drops considerably. In the 1920s we get the beginnings of air conditioning, we get the zipper. You know, we get all sorts of inventions like Dixie cups for purposes of sanitation. We get the decline of disease. We get life expectancy increasing five to ten years in the 1920s. It goes down in the 1930s.

See, in other words, the 1930s is way overrated in terms of innovation. We had lower life expectancy after two terms of Franklin Roosevelt than we did in 1932, when he was elected. And yet in the 1920s we had an increase in life expectancy of almost six years. So, what we see is a disaster. We had murder rates go up. If you look at the data between 1900 and 1960, the seven worst years of murder rates were all in the 1930s—between 1900 and 1960. You have suicide rates increasing. Unemployment is hard on people. We had very little innovation. We had very little economic development. It was a disastrous decade.

**WOODS:** You know, your former colleague at Hillsdale College, Bob Murphy, has a take on this in which he says: looking at every previous downturn in American history you find no New Deal that followed. Usually, the government did little to nothing and eventually the market adjusted itself.

**FOLSOM:** Bob is right. He's absolutely right.

**WOODS:** So, the question isn't: would there have been a recovery or would there not? There was always a recovery. But, why was this one the most drawn out in American history? Because it just so happens it had the most government involvement. I mean, could you imagine if it had been the opposite? If all the downturns had been followed by New Deals and then the only one where you and I were in charge during it and we didn't do anything and the economy just stagnated for a decade. They'd never let us hear the end of that!

**FOLSOM:** No, you're exactly right. As we know, correlation does not equal an absolute truth. But there is that correlation.

**WOODS:** Right.

**FOLSOM:** That is that in previous depressions like the Panic of 1893, the Panic of 1873, for example, we had very little government activity and we were out of the problem in three years. Sometimes it was as much as five years. Three to five years we were out of the problem. Then we get the Great Depression, and I think people thought when Hoover went through it that we'd be out of it by the end of Roosevelt's second year, because that would be four or five years. But it kept going, and it kept going, and Roosevelt kept doing more and more programs, and then we had a depression within the depression, and employment actually went up during 1937 and '38. I begin the book in 1939, when unemployment is at 20.7 percent and Secretary of

the Treasury Henry Morgenthau says, “My gosh, we’ve been doing this for seven years and nothing seems to be working.”

**WOODS:** Well, Burt, we’re going to leave it there, but I’ll tell you this is such an important book and it’s interesting to read. You dug up some juicy quotations from these people, the good guys and bad guys alike. I strongly urge people to check this out: *New Deal or Raw Deal: How FDR’s Legacy Has Damaged America*. We’ll have to have you back on in a couple of months when your next book is out.

**FOLSOM:** I would like that very much, Tom. I’ve enjoyed getting to know you over the years and I wish you the best with your show.

**WOODS:** Thanks so much, Burt.