



World War II on the Home Front

Guest: Burt Folsom

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Burt Folsom is the author of FDR Goes to War: How Expanded Executive Power, Spiraling National Debt, and Restricted Civil Liberties Shaped Wartime America.

WOODS: Let's start off with the relationship between business and the federal government during the war. Franklin Roosevelt does if not quite a 180, then certainly a substantial shift in his rhetoric and posture toward big business once he knows he's going to need the private sector to help him win the war. He knows he needs a different sort of attitude. What was the result of all that? What was it like? What was the dynamic?

FOLSOM: Right, you're correct. Roosevelt had a pragmatic side that sometimes would come out. In the New Deal, he wanted to promote government intervention. He had his programs. They didn't work. We had high unemployment still over 20% well into his second term, but he persisted. Now, the war is different because he realizes that if he doesn't this time give business people some encourage to invest, we will lose the war. If we lost the war, his place in history will always be the ignominious spot of the American president who lost a war. He knew that he could survive a depression. People didn't know who was president during the 1870s in the Panic of 1873. Those things are forgotten. But you can't lose a war. That will be remembered always. So Roosevelt threw himself into World War II encouraging business people to invest to make airplanes, to make weaponry, to cooperate. He suspended antitrust laws. He wanted plane makers to cooperate and make the most planes they could—the best planes, the best tanks, to win the war.

WOODS: Was there any skepticism on the part of the private sector toward this newfound olive branch being extended to them?

FOLSOM: There was at first because Roosevelt had raised the income tax rate to a top rate of 79% in the 1930s. He had an extra tax on corporate profits. He raised the corporate income tax. He raised excise taxes. They were in a situation where there was very little incentive to invest—and that didn't bother Roosevelt, because he could always use their refusal to invest as an argument against them with the electorate and thereby win more votes. So that didn't bother him that much, but it did bother him in World War II when businessmen at first balked. But then when they saw he was in earnest, and that he was going to be very cooperative, that he

was going to use the Reconstruction Finance Corporation to help give them good deals on amortization of their new factories and that kind of thing, then they went whole hog into World War II and won the war.

WOODS: You mentioned the high marginal income tax rates, and that puts me in mind of a chapter you have talking about taxes during the war years. Of course, it's during these years that we get the practice of income tax withholding. Can you talk about how that came about?

FOLSOM: Right, that came about because Roosevelt wanted money more quickly for World War II, and the idea of withholding taxes rather than having it paid once a year allowed him to get money immediately. And the employers had to do it themselves. He didn't even have to pay to have it collected. You have the employers collect it, send it to him, and he gets the money immediately rather than having to wait a year. So withholding became for Roosevelt something very important. It was introduced as a temporary measure because of the war emergency, but of course, once it was in place, it was then continued after the war.

WOODS: What was the general public's view of this? Couldn't be argued that after all this is more convenient for me to do a kind of, as one of the advocates called it, a pay-as-you-go tax policy, and this is more convenient than having to pay a single lump sum? Was the general public strongly in favor or against?

FOLSOM: Well, the public was not particularly eagerly for it, but it was sold to them as an emergency war measure, and the other thing is that because the money is taken from them each month, they don't really notice the tax. Whereas if it comes at the end of the year, all of a sudden you have a lump sum that is due, and you're immediately angry about your tax bill. But if it can be withheld every month and you accustom yourself to a smaller paycheck, you almost don't even realize the money is going to the government immediately.

WOODS: Milton Friedman gets a lot of abuse for his small role in all of this, but I think he was a fairly minor figure in the whole matter of the withholding tax. And then he felt bad about it later. But I notice there isn't even an entry for Milton Friedman in your index. So you are sparing him as well?

FOLSOM: Well, he was very apologetic. He was a minor bureaucrat in the Second World War, and he did advocate the withholding, and it wasn't until later that he began to realize what he'd done. He jokingly said that the rest of his life to some extent was repenting for what he'd done in World War II because he began to recognize the nature of government, which is once you withhold—once you get that income—the government doesn't go back and return to lower rates, at least without a lot of push on the part of a lot of people. The natural tendency will be for the government to continue the high rates, to continue the withholding, to continue to secure as much income as possible.

WOODS: Burt, as long we're talking about taxes, let's talk about how Franklin Roosevelt used the IRS for political purposes. Is this the first president to use the tax code in this way?

FOLSOM: Well, according to his son, Elliott, he is, and he is the first one I've been able to find. We don't see this during the 1920s. Andrew Mellon tried to be very open and above-board, and as Secretary of Treasury during the '20s, but in the '30s it changes, and Roosevelt does become the first president to use the IRS as a political weapon, both to have investigation of his enemies—people who had come against him—and also then he ended up occasionally having to protect a friend like Lyndon Johnson who was caught in an IRS investigation, and his political career would have been ruined. So Roosevelt had to put the IRS on his enemies, and then having done so, he had to make sure if they got into one of his friends, he could pull them off the friend and keep them on the enemy.

WOODS: On this same sort of theme, let's talk about the wiretaps that FDR engaged in or ordered. I didn't know some of this. I knew he had done some of this, but I hadn't known that he had ordered that Herbert Hoover be surveilled.

FOLSOM: Yes.

WOODS: There were people that weren't even necessarily—well, I suppose Hoover was something of a political opponent, obviously, of FDR's, but he wasn't an outrageously outspoken one by any means.

FOLSOM: No, there was lots—J. Edgar Hoover did a lot of work for Roosevelt and did a lot of investigation. There was a lot of wiretapping. Some journalists like Walter Trohan of the *Chicago Tribune* said that in order for him to have confidential talks with people in his reporting, he had to use a pay phone because his own phone was tapped. At one point Roosevelt tried to buy him off by having Jesse Jones at the Reconstruction Finance Corporation offer to give him a federal loan to start his own business so he could get some federal money, and that that might make Trohan more sympathetic to Roosevelt. But yeah, Roosevelt would wiretap. Many congressmen were wiretapped. In fact, when many Republicans like Hamilton Fish, a congressman from New York, complained about the wiretapping, he was told that there were many who were wiretapped, and they couldn't stop it.

WOODS: The 1940 Republican nominee was Wendell Willkie.

FOLSOM: Yes.

WOODS: Willkie, too, was under some type of surveillance, or they were listening to his calls, or whatever, because there was some suspicion, perhaps correct, that he was involved in some kind of affair that might be embarrassing for him if it was made public.

FOLSOM: Yes. And he was. With Irita van Doren, who was having an affair—she was a very prominent socialite, and Roosevelt did know that and was prepared to use it if necessary. The irony is that Roosevelt was having an affair with Lucy Mercer, but that was not widely known, and so that—he was able to have that information, if necessary, to use against Willkie without having concern that that kind of information would be used on him.

WOODS: Burt, say something about Colonel McCormick, Robert McCormick, at the *Chicago Tribune*. He was a well-known opponent of FDR. How does his story relate to this issue of wiretaps and the president's displeasure with critics and so on?

FOLSOM: Right, he had to endure wiretaps. He had to endure IRS investigation, as did several of his staff members. The *Chicago Tribune* was one newspaper that was staunchly critical, or skeptical I should say, of Roosevelt, and those reporters at the *Chicago Tribune* would often do a lot of deep investigation into Roosevelt's various shenanigans, and he didn't like it at all, and he wanted his attorney general, Francis Biddle, to investigate the *Chicago Tribune*, and if necessary, to stop publication of its paper. Roosevelt did get some publications stopped, but he was not able to do so with the *Chicago Tribune*.

WOODS: Here's a trick question, Burt.

FOLSOM: Okay.

WOODS: How many American high school textbooks include this information about FDR?

FOLSOM: Well, you may know something I don't, Tom, about this, but I don't know of any that include this or that he promoted it. I have never even seen in mainline textbooks, Tom, or even monographs very much information that when Roosevelt died the income tax was 94% on all income over \$200,000. That information vanishes. They tell us about the things that Roosevelt spent money on, but they don't tell us about where the money came from and the stifling effect that that often had on economic development in the United States.

WOODS: How would you compare the civil liberties record of the U.S. government in World War I and World War II? In World War I we see people going to jail for writing a pamphlet or giving a speech about the war. You don't see that really in World War II. Things seem to be different. So it seems like there were advances. Then on the other hand, you have the Japanese-American issue. How do you sort this all out?

FOLSOM: Right, there were problems in both wars. As you know, President Wilson shut down many German-language newspapers in World War I. Eugene Debs, a presidential candidate, ends up being jailed, and Wilson will not even release him after the war. Roosevelt had the same vitriol toward his political opponents in World War II. Probably, you're right: he wasn't as successful in being able to jail them or stop them as Wilson was. But still, he had quite a bit of effect on that, and you're right: one of the worst episodes of civil liberties in U.S. history was the putting of the Japanese-Americans in relocation camps when they were innocent. They were presumed to be guilty rather than innocent, in contrast to American jurisprudence.

WOODS: Is there any way to know today what it was that FDR knew or thought he knew about the Japanese-Americans at that time? Did he really believe that they were collectively either guilty or likely to be guilty of treasonous activity?

FOLSOM: There could have been one or two, but that has to be resolved on an individual basis, not a collective arrest of over 100,000 and placing them into relocation camps. Roosevelt knew that as a group they were not guilty. He knew that because J. Edgar Hoover had his eyes on the Japanese-Americans. And remember, if you're going to do a lot of these wiretaps and all this secret investigation, as Hoover did and as Roosevelt wanted done, you know a lot about a lot of different people and a lot of different groups. And Hoover knew that the Japanese-Americans collectively were very innocent, very loyal to this country, and we know they later fought very nobly for the United States, many of them, in World War II. Hoover told this to Roosevelt and Roosevelt went ahead and allowed the internment to take place anyway. It did help him politically because those moves against the Japanese-Americans in California, and Oregon, and Washington, especially California, won him some elections in California because there was hostility toward the Japanese by some people because the Japanese were so successful. They were strong competitors in the market. And it helped Roosevelt politically to put them in the relocation camps.

WOODS: You have a chapter in here—switching gears a bit, on courting Stalin—on the relationship between Franklin Roosevelt and Josef Stalin. There are statements that are made by Roosevelt that you just can't believe. Now, it's understandable, I suppose, to diplomats and people who are involved in international affairs that when you're making a toast to somebody, you try to say nice things about them, but this goes way, way beyond that. Tell us a little bit about what we find in this chapter.

FOLSOM: Roosevelt totally wanted to please Stalin. Stalin was one of the few people that Roosevelt seems to have been rather faithful to his whole life. Roosevelt was someone who tended to use people. He had political allies that he would use for advantage. But for some reason on Stalin, he just wanted to please Stalin. He said, and I have several quotations—Anita and I do in the book—where he says I just want to give Stalin everything he wants without putting restraints on him. Roosevelt wanted to just load Stalin up with equipment with Lend/Lease. Roosevelt wanted to help Stalin by perhaps prematurely launching a front by the United States over in Europe before the United States soldiers were really ready to combat directly with the Germans. So it probably would have been a big bloodbath. But Roosevelt wanted to appeal to Stalin. He wanted to make him happy. He really admired Stalin in ways that are strange to try to figure out. That's why in the book we use quotations from Roosevelt again and again, because it's a puzzling situation how much he liked Stalin.

WOODS: And, in fact, that quotation that you cite that you almost think has to be made up, that if I just give Stalin everything he asks for—he goes on to say that well, then, *noblesse oblige*, he will feel compelled to cooperate together with me after the war to bring about a better world or some such thing as that. There is nothing in the record of this man that would make you think he would be inclined to do that, and there is no excuse for not knowing what was going on in the Soviet Union. By that point, people had a pretty good grasp of who this man was.

FOLSOM: I think you're absolutely right. The Russians owed us money. They wouldn't repay it. Roosevelt nonetheless wanted to recognize the Soviet Union and establish a relationship with Stalin. Sometimes he would embarrass Churchill in front of Stalin to try to show Stalin that Roosevelt really liked Stalin a whole lot and that Churchill was not that important to him. So Churchill had to endure certain indignities where Roosevelt would tease him and really ridicule him right in front of Stalin, and it made Stalin laugh, and that pleased Roosevelt.

WOODS: You have in here a chapter on a subject that I have written about and that is extremely important for people to get right, and yet, so many people unfortunately get it wrong: whether or not the war ended the Depression. Superficially, that seems to be the case. You can look at some national income accounting figures, and it looks like the war ends the Depression. What's the truth of the matter?

FOLSOM: Right, as you know, economist Robert Higgs has a lot of insights on that and has put us on the right track on that the war indeed did not get us out of the Great Depression. In a way, it's logical, Tom, to recognize this, because we send 12 million people overseas, we feed them, we clothe them. Well, obviously, if they are overseas employed as soldiers, that's going to reduce the unemployment rate at home. And we have people working in the munitions industries and making weapons. So we really have almost no unemployment, but that doesn't mean that the problem is resolved because the question—and Roosevelt recognized this, by the way, very clearly. What's going to happen when the war is over? Roosevelt in '44 began to realize we were going to win, and so then the question is: what's going to happen when these 12 million soldiers come home? Will they go back on to the unemployment line? Will people who are making munitions be unemployed? What's going to happen? And so that's the question.

The war only temporarily provided employment for people, and by the way, that's not very fun employment, to be overseas being shot at by Germans and many killed and going through cold and wretched conditions, eating poorly. That's not exactly a way to escape unemployment, and it cost America a fortune to do it. Now the war was worth winning, but it was expensive. We had a national debt of about, oh, \$40 billion going into the war. It was more like \$260 billion coming out, and that's because we had to pay all those soldiers, and pay for the weapons, and pay people to build the weapons. So that's where that big increase came from. The question is what's going to happen after the war, and Roosevelt thought we would have to have more government intervention, and that's where the issue is raised. He is defeated on that. We deregulate. We reduce the size of the federal government. We cut taxes, and that is why we got out of the Great Depression in 1945.

WOODS: Before I let you go, the subtitle of your book is *How Expanded Executive Power, Spiraling National Debt, and Restricted Civil Liberties Shaped Wartime America*. On the executive power question, of course, we have the so-called destroyers-for-bases deal in 1940.

FOLSOM: Yes.

WOODS: Are there other examples that come to mind of how the executive office expands under the pressures of World War II—under the opportunity of World War II?

FOLSOM: Right, there is much expansion that Roosevelt does and many opportunities for executive orders. To just use one executive order as an example, Roosevelt has an executive order to increase the federal income tax to 100% on all income over \$25,000. Now, the Senate went to work and got rid of that, but my point is that Roosevelt was at work trying to increase authority to the federal government. He ran much of the war operation and did so with his men, and so Congress had little authority other than affirming the fundraising. Roosevelt did a lot of the directing of the past. Now, I will say Roosevelt turned a lot of the war operation over to his generals because he knew he had to win. So when the generals would tell him they thought that we needed to take a certain step over in Europe, Roosevelt tended to go along with it, and because he went along with it, that helped the war get won by people who were on the ground and knew what was happening in the war.

WOODS: Burt, what are you working on these days?

FOLSOM: Well, I'd like to see a sequel on Truman at the end of World War II and his first term. We begin to get a lot of class warfare there, but also, I like the idea of looking at how we got out of the war—the question you asked earlier—through increasing freedom for Americans and encouraging the private sector so that we get inventions like the Xerox with the copying machine and even ballpoint pens. A lot of McDonald's, fast food, Holiday Inns, all of this begins to come out in the television in the years after World War II, because we told Americans we're going to cut taxes, we're going to let you keep what you make, by and large, and we're going to turn you loose and see what happens to the American economy. The end result was we had a huge recovery in the '40s and '50s from World War II, and that freedom is what got us out of the Depression and created the prosperity in a decade or two after World War II.

WOODS: Well, that would be a very important project, Burt, because to me it's a bit much to have to deal with the adulation of the historians toward Truman. It's unbelievable. I don't know how he could have deserved it less. The great treatment of Truman by Ralph Raico in his work is definitely worth looking into. He'll give you some juicy footnotes to follow up on. But that absolutely has to be done because when Truman left office, he had I think the lowest approval record of any president since they started doing polls, including Nixon when he resigned. And then yet by 1988, I remember when Dukakis and Bush were running, both were competing with each other to see which one could compare himself to Truman more. Truman, of all people, despised by everyone! You want to be Truman? What's the matter with this? This is your job, Burt. This is why you are here, is to finish this job for us.

FOLSOM: I have a chapter on Truman in our book *Uncle Sam Can't Count* that just came out this year. And that relates to the Reconstruction Finance Corporation and the corruption in it and that Truman allowed it to go on. You're right, Tom. There is a dimension to Truman's presidency that is unexplored that is very—that stinks, frankly, and that we have to bring to

light to show that this increase in government intervention, and that Truman's role in it was not helpful to the American economy or American society.

WOODS: Burt, where can people follow you online?

FOLSOM: At BurtFolsom.com. That is where I blog, and you can subscribe free of charge—be glad to have you.

WOODS: So it's BurtFolsom.com. Well, Burt, thanks again. We'll have to have you back when that fantastic and important smash of Harry Truman comes out. Thanks for your time.