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Politics, President

146 . BE1WEEN THE WARS: AMERICA, 1919-1941 vention, and a masterful political leader and campaigner. Roosevelt's personality and character were to be important in the life of the nation. He was a man who stood out in any collection of people. He had in abundance the personal qualities necessary for political success in the United States: magnetic charm, intelligence, physical and spiritual toughness, a superb speaking voice, and a Hair for the dramatic. Perhaps the outstanding aspect of his personality was self-confidence, which his admirers found warming and his detractors found irritating. In his youth he had had the assurance that comes from secure social position and superior education. As a young man he had demonstrated to himself as well as to others that he was a capable government administrator. The bout with polio had established that he had the inner resources necessary to take personal tragedy in his stride. His career after 1928 had assured him that he had the qualities necessary to operate successfully at top levels of government and politics. And in March 1933, surely, confidence both in one's self and in the future of the nation was a quality sorely needed in the White House. 7 Franklin D. Roosevelt and the New Deal ALTIIOUGHHENEWDEALand Franklin D. Roosevelt were realities T so recently that many living Americans' knowledge of them is based upon personal memory of the 1930's rather than upon written historical accounts, the political and economic history of the decade has quickly become one of the most myth-laden aspects of the nation's past. Indeed, myths about FDR became so widespread even before he died in office in 1945 that they constituted political forces to be reckoned with, and misinterpretations of the New Deal were prevalent well before it passed from the scene. Most of the

myths about Roosevelt and the New Deal arose from political partisanship. He was both the best loved and the most hated president of the twentieth century, and it is easy for people to believe about him what they want to believe rather than what is objectively true. Many of his admirers regard him as a knight in gleaming armor, an American St. George who slayed the dragon of economic royalism, rescued the nation from economic disaster, restored control of the country to its people, and then alerted them to the danger of fascism and saved them from Tojo, Hitler, and Mussolini. From the oratory at AFL-CIO picnics one would gather that it was Roosevelt himself who created modern 147 I 148 . BETWEEN THE WARS: AMERICA, 1919-1941 labor unions. Negroes regard him as the best white friend of their race in their long and troubled history, with the single exception of Abraham Lincoln. Most American voters who think of themselves as liberals look back upon the New Deal as the high point of their political lives and consciously or unconsciously measure contemporary presidents and would-be presidents by an FDR yardstick. On the other side of the political fence is the legend that Roosevelt was primarily responsible for all that is distasteful and wrong in contemporary America. It was he, one hears in the locker rooms of elite country clubs, who started the nation along the road to " socialism," destroyed initiative, and created what some people call a " welfare state." There are still some people who can not bring themselves to say Roosevelt's name and refer to him as " that man." In the late 1940's there was even a Chicagoan who tried to start a movement among consumers to refuse to accept dimes that bore FDR's image. The Roosevelt haters also measure contemporary presidents and would-be presidents of the Democratic party by an FDR yardstick. Those who are moderate in their domestic policies are 'better than FDR"; those who speak in a militant rhetoric are " as bad." Aside from the facts that the contemporary American economy is clearly capitalistic rather than socialistic and that the federal and state governments offer fewer " welfare state" services than any major, economically developed nation in the world, the primary difficulty with these interpretations of Roosevelt, both by his admirers and detractors, is that they overemphasize his personal role and assume that he had more power than he or any other president ever had. Whether approving or disapproving of the New Deal, the myths make Roosevelt an all-powerful giant who performed the New Deal single-handedly. Granted that FDR was the most powerful president in the nation's history, that he exercised the leverage of the White House as had never been done before, that he was a consummate molder of public opinion and manipulator of political forces, and that he was the most important political figure of his age, one must still remember that Roosevelt by no means personally brought about all the changes in American life, even the political and economic changes, that occurred in the 1930's. Because the United States is a political democracy and a vast and complex nation and because the major political parties are coalitions of state and regional organizations with diverse interests and ideologies, any president, including Franklin Roosevelt, "~IJ FRANKLIN D. ROOSEVELT AND THE NEW ~~~I DEAL' 149 must to a very great extent play the role of a political broker. Presidents, and congressmen too, are subjected to pressures from business, agriculture, and labor, from producers and consumers, from exporters and importers, from debtors and creditors, from militarists and pacifists, from the ideological left and right. The chief executive must play the broker with the various pressures exerted upon him because it is true that politics is the art of the possible. (Political middle-roaders often quote this adage as justification for inaction, but if one defines possible realistically it is a basic fact of political life.) It is not going too far to say that government in the United States is a wonderfully complex kind of collective bargaining among all the various interests and pressures and that the occupant of the White House is the chairman of the continuous, interminable bargaining session as well as the administrator of the resulting policy. FDR was an extraordinarily gifted political broker. To a greater degree than any other president of this century he was able to playoff one pressure against another, to yield to one kind of pressure and minimize the opposition to it, and to use his power over public opinion to strengthen those pressures he wanted strengthened. But the point is that he harmonized diverse interests in such a way as to build the most successful national political coalition in recent American history. He did not design the New Deal; he " brokered" it. In the nature of things, the New Deal was a complex set of compromises. Roosevelt was the most important of the political figures bringing about the compromises, to be sure, but the New Deal did not spring from his mind. He was most instrumental in molding the New Deal, but the clay from which it was molded was the pressures exerted upon him. Now, if we accept this general view of government and politics in the United States, it follows that an historian of the era will not find an unfolding of a grand plan. Indeed, if one looks in the political record for a blueprint of the New Deal, for the doctrine that guided Roosevelt and the New Dealers' actions, one can only conclude that if there was a blueprint it changed from season to season, almost from month to month. There was much in the New Deal that was contradictory. Roosevelt zigged and zagged, ran to the left and to the right and stood in the middle. For example, Roosevelt, as we have seen, criticized Hoover for having spent too much government money, In his first days in office FDR tried seriously to reduce federal spending. Later he resorted to vast government spending and deficit financing, then tried to balance the budget again in 1937, and later still returned to annual deficits. 150 . BETWEEN THE WARS: AMERICA, 1919-1941 Another example : the early New Deal in effect suspended the antitrust laws, but in 1938 the federal government became concerned with enforcing these laws and investigating the extent of monopoly and its abuses. As building the military and naval potential of the nation became paramount after the outbreak of war in Europe in 1939, White House concern about vigorous enforcement of the Sherman and Clayton acts shriveled almost to nothing. Roosevelt quite obviously accepted Emerson's dictum that a foolish consistency was the hobgoblin of small minds. This is not to say that Roosevelt was an unprincipled opportunist; it is to say that he most certainly was not doctrinaire. Roosevelt's basic principles were widely shared ones. He believed in democracy, and he was humanitarian. He believed in employing the power of the federal government to combat the depression and to relieve those most sorely injured by it. He was willing to modify traditional relationships between government and privately owned economic enterprise in the interest of the general welfare, but he clearly was no opponent of capitalism as such. And as for the means to be employed in working toward these general ends of recovery, relief, and reform, his were within the framework of the Constitution and representative democracy even though much that government did while he was in officewas novel. An anecdote about Roosevelt reveals both his basic principles and his lack of doctrine. Early in his first year in office a bewildered and apparently callow and brash reporter asked, " Mr. President, are you a Communist?" Roosevelt replied that he was not. " Are you a fascist then?" Again Roosevelt replied that he was not. " What then are you, Mr. President?" Roosevelt seemed puzzled and a little amused. " Why," he said after a moment, " I'm a Christian-and a Democrat." The Banking Crisis Roosevelt took the presidential oath of office in the midst of the worst financial crisis the nation had ever known. A sense of panic gripped the nation, which FDR tried to subdue with the statement in his inaugural address that " the only thing we have to fear is fear itself," and customary political tugging and hauling all but ceased. Never before during peacetime had the nation abdicated its political prerogatives to such a degree and placed governmental responsibility and power in the hands of one man. Practically all the nation's banks were closed on Inauguration Day, and the banks were to the economy what the heart is to the FRANKLIN D. ROOSEVELT AND THE NEW DEAL· 151 body. Business was at a standstill. One could not cash a check, make a deposit, or withdraw deposited funds. The " bank holidays" had begun in Nevada in October 1932, when the governor of the state closed the banks in order to prevent several imminent failures. Midwestern governors took similar action in February 1933, and in the first three days of March Treasury Department officials of both the old and new administrations urged other governors to declare bank holidays. The primary reason for the Treasury's request was the alarming decline of the nation's gold reserves, the primary basis for currency. The flow of gold from the nation's banking center in New York to interior banks and to countries abroad had reduced the reserve over 71 per cent since the first of the year. Roosevelt's first task was to surmount this banking and financial crisis. Nothing more could be done until it was past. Roosevelt's first official actions were to call a special session of Congress' for March 9 and to issue an executive order declaring a national bank holiday. For his statutory authority Roosevelt cited a World War I measure that was not directly relevant. Treasury officials began drafting a banking bill to be introduced into the new Congress as soon as it met. They completed the drafting of the bill at 2: 00 A. M. on March 9, Congress convened at noon, and Roosevelt signed the bill into law at 9: 00 P. M. This Emergency Banking Act, besides granting the President the statutory power for the executive order he already had issued, created a means to aid banks in danger of failure and provided for the reopening of only those banks that seemed in reasonably healthy condition. The measure empowered the Reconstruction Finance Corporation to purchase preferred stock of banks and the Federal Reserve Banks to lend funds to state-chartered banks outside the Federal Reserve System. It also authorized the issue of additional Federal Reserve bank notes. The Act divided the closed banks into four categories, depending upon their degree of soundness. The strongest of them, after inspection . by examiners, were allowed to begin operations quickly ... the weakest of them, about one thousand in all, were closed permanently. By March 15 about half the banks in the country were again open for business. They were the bigger banks and held about 90 per cent of the total banking deposits. The banking crisis had passed. On Sunday evening, March 12, in a national radio address from the White House, Roosevelt explained the banking crisis and the action that had been taken. These " fireside chats," as he called them, proved a potent method of influencing public opinion. 152 . BETWEEN THE WARS: AMERICA , 1919-1941 The sense of urgency which gripped the country during FDR's first days in office was such that the new President could have done almost anything he wished with the nation's banks. At one extreme, he could have nationalized them or at least nationalized the important ones; at the other extreme, he could have done nothing and let the crisis run its natural course. The way actually chosen was a middle course that preserved the traditional arrangement with only minor modifications. Raymond Moley, one of FDR's early economic advisers who later parted company with the New Deal because he considered it too radical, wrote of the banking crisis and Roosevelt's actions, " If ever there was a moment when things hung in the balance, it was on March 5, 1933 -when unorthodoxy would have drained the last remaining strength of the capitalistic system. Capitalism was saved in eight days." At the end of the Hoover administration an I in the first months of FDR's presidency a Senate investigation of banking and the stock market-often called the Pecora investigation after the committee's chief counsel, Ferdinand Pecora= revealed widespread abuses. Public opinion demanded reform after the March 1933 crisis was surmounted. The Glass-Steagall Banking Act of June 1933 had features designed to prevent the kind of banking malpractices the Pecora committee had discovered. This law increased the power of the Federal Reserve Banks to regulate its members, especially with respect to lending for speculative purposes. It also required that banks utterly divorce themselves from affiliated investment companies, for the Pecora committee had demonstrated that banks sometimes operated in such a way as to advance the interest of their affiliated investment firms at the risk of their depositors' security. Perhaps most important for future banking stability, the law created the Federal Deposit Insurance Corporation (FDIC), a federally owned corporation, which insured deposits up to $2, 500. Banks were required to take insurance policies on their deposits, for which they paid a small premium. If the bank failed, all deposits up to $2, 500 would be paid off by the insurer, the FDIC. (The limit of insurance on each account went up to $5, 000 in 1935 and to $10, 000 in 1950.) Knowing that their accounts were insured, depositors were unlikely to cause a bank run. Bank failures declined to insignificance. In the rest of the decade less than one tenth as many banks failed as had done so in 1933. As in several other New Deal measures, the beneficiaries of the new law, the banks, fought the measure and argued that it was " government inter- FRANKLIN D. ROOSEVELT AND THE NEW DEAL· 153 ference." The American Bankers Associationtried to prevent the bill's passage, even though it had the effect of greatly stabilizing their enterprise. The Pecora committee also turned up evidence of stock-market rigging and of false representation of new stock issues. The Truthin-Securities Act of May 1933 required that prospective purchasers of new stock issues be fully informed about the financial condition of the firm issuing the stock, but it failed to establish an agency to enforce the law. A year later Congress established the Securities and Exchange Commissionand granted it power to regulate the sale of all securities, whether new issues or not. Wall Street objected to the SEC. To soften the blow, Roosevelt appointed a Boston millionaire with Wall Street connections, Joseph P. Kennedy, to be the first SEC chairman. With the immediate banking crisisoverby about ten days after Roosevelt's inauguration, the new administration and Congress were ready to move on to the broaderproblem of combatting the depression. New laws creating new agencies came with great speed in the next several weeks, and the burst of legislation seemed to assure the population that Washington had at last taken decisive action. It is necessary for us to examinethese new measures of the early New Deal in a logicalpresentation rather than in chronological order, but we should rememberthat newspaper readers of 1933 were seldom able to see the contemporary events in such coherent fashion. The First New Deal The early New Deal was no unified, systematic, and articulated attack on the depression. It was a shotgun approach precisely because the pressures upon Congress, of Congress upon the White House, and from the citizenry directlyupon the White House were not to be denied and the objectsof these pressures were diverse. Some parts of the populationwanted inflationary policies, and there was great support for inflation Congress, especially in among those congressmen with largely agricultural constituencies. Some wanted massive federal spending, both to relieve poverty through federal relief and to stimulatethe economy by expanding the total market. Others wanted just the reverse: minimum spending and balanced budgets. Somewanted an over-all industrial plan. Some wanted a plan for only certainparts of the economy. In general, FDR compromisedamong these several demands, 154 . BETWEEN THE WARS: AMERICA, 1919-1941 and the resulting first New Deal actions represented a variety of purposes and theories. The closest thing to a systematic governmental attack on the problem of recovery was the National Industrial Recovery Act of June 16, 1933, but even this measure was a blend of several ideas, and the administrators of the National Recovery Administration (NRA) established by the act were never agreed in their economic philosophies. The central idea of NRA arose from the " industrial self-government" plans that had come to the fore in the last two years of the Hoover administration. But the idea of " industrial self-government," under the demands of those who urged government rather than corporation planning, of those who urged largescale government spending for public works, and of labor pressures for the right to organize and for minimum wages, was considerably modified in the resulting legislation. The law had a curious legislative origin. At the end of the Hoover administration Senator Hugo Black of Alabama had introduced a bill sponsored by the AFL that would have prohibited interstate commerce of goods produced by labor that worked more than thirty hours a week . The idea of the proposal was to spread the number of jobs available to a greater number of workers. Support for the scheme was widespread. On April 6, 1933, the Black bill passed the Senate. FDR and his " brain trust," as the newspapers tagged his advisers who came from university faculties, wanted a more comprehensive approach to industrial stagnation. He sent Secretary of Labor Frances Perkins to the House Labor Committee to head off the Black bill. Miss Perkins succeeded in her mission and proposed instead of maximum hours a scheme of minimum wages and governmentally controlled industrial production quotas. Businessmen objected vigorously to this idea. The administration then set about finding a plan that business would accept and came forward in May with a draft of the National Industrial Recovery Act. The bill had something for the many pressures exerted on the government. For business it had a rather heavy dose of " industrial self-government"; for those who advocated national planning there was a scheme of government approval of the codes that industry would write; for labor there was Section 7 (a), which guranteed the right to bargain collectively and to form unions of the workers' own choosing; for those demanding a large public works program there was Title II of the bill, which created the Public Works Administration (PWA) and appropriated the huge sum of $3. 3 billion. FRANKLIN D. ROOSEVELT AND THE NEW DEAL· 155 The codes were the heart of the NRA. There was to be a special code written for each industry, some employing thousands of workers, such as the cotton textile industry, and some, such as the kosher poultry business, which was to bring about NRA's ultimate constitutional downfall, employing only a few hundred. Representatives from each business of an industry, as well as representatives from labor, the consuming public, and government, met and wrote a code for the industry which, after it had been approved by the NRA administrators, had the force of law. As it worked out with but few exceptions, business representatives actually wrote the codes, and they were usually from the biggest firms in the industry. Labor was usually almost voiceless, the consumer always had inadequate representation, and government representatives were without the special knowledge of the industry's detailed operations that might have made them effective. Writing the codes took time, and NRA approval of them was an enormous administrative task if they were to be reviewed carefully and effectively.

Taking advantage of the delay in getting the codes written and into operation, some manufacturers began to produce at full scale while wages and other costs were still unregulated so as to build inventories to be sold after the codes went into effect and better prices were guaranteed. To head off this self-defeating action, Roosevelt in late July urged all employers to sign up under what was popularly called the " blanket code," to be effective until the regular code was written and approved. The blanket code prohibited the employment of children, provided for a minimum wage of forty cents an hour, and set a maximum work week of thirty-six hours for production workers and forty for clerical personnel. Firms signed the blanket code so as to be able to display the blue eagle emblem that signified cooperation with NRA, which was thought to be necessary for the consuming public's acceptance. But the " chiseling," to use the popular term of the day, had already done its damage. Industrial production in July rose to a little more than the 1923-1928 average, only to fall by 35 per cent by October when the blanket code became almost universal. A great many people were unhappy with the way NRA worked. Labor gained less than it had anticipated and said that NRA stood for " National Run Around." Small businessmen resented the domination of big business in the writing of the codes. Big businessmen complained of the concessions they had to make to labor. Consumers were unhappy about the higher prices they had to pay for goods. And there was considerable unrest among those who 156 . BETWEEN THE WARS: AMERICA, 1919-1941 feared the power of concentrated big business because NRA suspended the antitrust laws. Congress had created NRA for only a two-year period, and it remained to be seen what Congress would do when asked to renew the legislation. But the Supreme Court intervened on May 25, 1935, and in Schechter v. United States unanimously declared NRA unconstitutional. The Court's primary objection was that the Constitution invested only Congress with the power to legislate and that the codes were actually legislation. Some New Dealers thought that the Court in the Schechter case had saved the administration from further embarrassment, but Roosevelt was greatly disappointed. As he anticipated after the Court's decision, child labor increased, as did unemployment, while wages declined. Yet NRA obviously had not effected full recovery, and many people were concerned lest it lead to development of the kind of formal corporate state then in force in Mussolini's Italy. After adjusting to the idea of the death of NRA, Roosevelt abandoned the idea of industrial self-government and never returned to it. Three other kinds of measures or programs of the early New Deal must be considered: monetary manipulation to bring a degree of inflation, federal spending for public works and relief, and special agricultural recovery legislation. The political pressures for all three were overwhelming. Inflation through monetary manipulation had been a demand of agricultural America during depressions from the colonial period forward and had been especially strong in the late nineteenth century. Roosevelt did not agree altogether with the inflationists in Congress-he was happy that Senator Burton K. Wheeler's bill putting forward the 1896 Bryanite demand for free and unlimited coinage of silver at a ratio of 16 to 1 with gold was defeated in the Senate, although by only ten votes-but he recognized that the depression had brought a severe deflation and he was willing to resort to a degree of inflation to offset it. Roosevelt was further bothered by the international implications of an inHationary program. He had pledged support of the World Economic Conference which was to meet in London in June 1933 and which, among other things, would endeavor to stabilize the world's currencies. This put FDR in just the kind of position he hated: he had to decide between support of the conference or a degree of inflation. He could not have both. After vacillating until the last minute, he decided for inflation and scuttled the conference. There were two main aspects of New Deal monetary manipulation: changing the gold content of the dollar and a silver pur- FRANKLIN D. ROOSEVELT AND THE NEW DEAL - 157 chase program. Through a series of executive orders and laws in the first two months of the administration the United States in effect abandoned the gold standard. An executive order prohibited the hoarding of gold, prohibited the redemption of currency for gold, and forbade the export of gold without Treasury permission. Then in October 1933 FDR instructed the Reconstruction Finance Corporation to begin buying gold on the world market above the world price. This meant that the gold content of the dollar was reduced by as much as the government paid above the world price. In January 1934 FDR requested Congress to pass the Gold Reserve Act, which became effective at the end of the month and authorized the chief executive to fix the gold content of the dollar between fifty and sixty cents. Roosevelt fixed the gold price at which the United States would buy at an even $35 an ounce. The price of gold when he took office had been $20. 67. In other words, the dollar had been devalued roughly 40 per cent in terms of gold, thus making it 40 per cent easier for foreigners to purchase American products. The Silver Purchase Act of June 1934 also had an inflationary purpose, but it was largely a raid by the nation's silver interests. The law required the Treasury to buy silver until its supply of the metal equaled one fourth of its total metallic reserve, or until the price of silver reached $1 . 29 an ounce, and to issue silver certificates and silver dollars on the purchased metal. The stated purpose of the act was to increase prices until they reached 1926 levels, but despite the law and all the other New Deal measures prices did not rise to that level until after Pearl Harbor. Expanded federal budgets probably did more to bring about recovery than did monetary manipulation. Federal spending for relief of the indigent was not only humanitarian, it was also economically stimulating because it directly increased total purchasing power. This kind of government stimulation of the economy was the reverse of the " trickle down" aid that the RFC had employed under Hoover and continued to practice under Roosevelt. The first New Deal relief act was the creation of the Civilian Conservation Corps in late March 1933. The CCC took 250, 000 young men from relief families, put them to work under War Department supervision at reforestation and other conservation projects, and paid them $30 a month, of which $25 went directly home to their families. When the CCC stopped in 1940 two and a quarter million young men had served in the organization. For relief of others Congress created the Federal Emergency Relief Administration (FERA) in May 1933 with an appropriation of 158 . BETWEEN THE WARS: AMERICA, 1919-1941 $500 million, but in the fall of that year it became apparent that a larger program would be necessary to get relief families through the winter. The administration had hoped that the Public Works Administration, headed by Secretary of the Interior Harold L. Ickes and created under Title II of NIRA, would be in full operation by the winter of 1933-1934, enough to employ thousands of men on public works such as new schools and highways. Ickes, however, was so determined that the money be spent wisely and carefully that PWA did not quickly put large numbers of men to work. Consequently in November 1933 FDR took some of the PWA funds, created the Civil Works Administration (CWA), installed Harry Hopkins as its head, and instructed him to spend the funds as quickly as possible so that men on relief could be put to work. Within two months Hopkins had four million people working on CWA projects. Many of the projects were ill conceived, but CWA did get dollars into the hands of families that needed it badly and thereby stimulated the whole economy as well. When the winter was over FDR closed down CWA, and Congress reinvigorated FERA with another large appropriation. Undoubtedly, federal relief in 1933 and 1934 greatly helped poor families, but the whole relief program was makeshift and temporary until 1935 when Congress created the Works Progress Administration. Public works, as distinct from make-work projects primarily for relief purposes, made a lasting contribution to the country's welfare. The PWA ultimately created over four million manhours of work and built millions of dollars' worth of roads, schools, post offices, courthouses, and other public buildings. The most ambitious New Deal public work was the Tennessee Valley Authority (TVA) , the brain-child of Senator Norris. TVA expanded from the Muscle Shoals installation into a huge and complex system of dams that not only provided millions of kilowatt hours of electricity but made possible for the first time a systematic way to control floods in the valley and to help control them downstream in the Mississippi system. As inexpensive electric power became available the Tennessee valley increasingly became industrialized, and the living standards of the region, once near the lowest in the nation, significantly improved. Even with a degree of inflation and federal relief, it was apparent that special legislation for agriculture was essential just as the NRA was special legislation for industry. Increasing the amount of agricultural credit available was one necessary action-this was accomplished by the Emergency Farm Mortgage Act and the FRANKLIN D. ROOSEVELT AND THE NEW DEAL· 159 Farm Credit Act in the spring of 1933 and the Frazier-Lemke Farm Bankruptcy Act a year later-but the essential problem was to increase the prices of farm products so that farming would once again become a profitable enterprise. The scheme adopted by the New Deal, as embodied in the Agricultural Adjustment Act of May 12, 1933, set the pattern of farm policy that the federal government has followed with some modifications ever since. The AAA was not a new idea. It was the culmination of various agricultural proposals going as far back as those of the Populists of the 1890's, and in some respects it was the logical next step after the Federal Farm Board experiment of the Hoover administration. The object of the AAA was to bring about a better balance between the prices of agricultural and industrial products, to bring them to the same ratio that had existed from 1909 to 1914. This ratio, or parity as it was generally called, was to be achieved, it was hoped, by restricting agricultural production. In other words, the method was to increase prices by reducing supply. Individual farmers of basic crops made agreements with the AAA in which they agreed to take some of their land out of production and receive a subsidy from the AAA for the land thus left fallow. The AAA also had authority to buy up surplus agricultural commodities, or to lend funds to producers with the crops as collateral, to peg farm prices. A special tax on processors of agricultural products financed the whole AAA program. The processors, of course, passed the tax on to the consumer. In 1936 the Supreme Court declared AAA unconstitutional because of this special tax, and Congress subsequently rewrote the law in a manner that met the constitutional objection. In a narrow sense, AAA was successful. Helped along by droughts that also lowered production, AAA succeeded in approximately doubling the price of wheat, com, and cotton by 1935. Total farm income increased. by about 53 per cent. But on the other hand the program had deep-rooted difficulties. Crop restriction by putting some land out of production was less than fully effective because farmers could use more fertilizer on the land actually being used and thereby increase their yields. The system also had an unfortunate side effect on cotton-farming sharecroppers. Landlords sometimes failed to share AAA benefits with their tenants and often used their government checks to buy tractors and other equipment which tended to make sharecroppers obsolete. Forced off the land and having no other vocational skills, displaced sharecroppers were a serious social problem until full employment during the war alleviated their plight. 160 . BETWEEN THE WARS: AMERICA , 1919-1941 But the most distressing feature of the program was that it reduced the amount of food and fiber available when people were hungry and ragged, and the idea of calculated wasted potential went against the grain. Yet in more than a generation no one has come forth with a better proposal that is acceptable to both farmer and consumer. The Second New Deal In the late winter of 1934-1935 any objective observer would have had to recognize that in Roosevelt's first two years there had been an improvement in the nation's economic condition. Most importantly, the banks were open and functioning normally and the panic that had characterized Hoover's last and Roosevelt's first weeks had disappeared. There was less unemployment than there had been in March 1933, the farmers were not in as desperate a condition, and the poor were not so close to utter disaster as they had been when Roosevelt took office. Yet the observer would also have noted that the depression was by no means over. Unemployment stood at about ten million, and the number of those who had jobs was only at about the level of 1932. Young people coming into the labor market still went for months, even years, before they were able to find even a poor job. Businessmen, or most of them, did not face annual deficits as they had just two or three years before, but none of them was so foolish as to describe business conditions as good. And reformers, those who had hoped that the New Deal would be the triumph of progressivism, could point to little in the New Deal record that warmed their hearts. The banking legislation, the tax act of 1934 which closed some income-tax loopholes permitting men such as J. P. Morgan, Jr. to escape paying income taxes altogether, the SEC, and the TVA were about all the New Deal measures so far that clearly had reform as their primary intent. The political situation had changed drastically since FDR's inauguration. The urgency of the economic crisis had been so severe in the New Deal's earliest weeks and many Republicans had been so demoralized by recent events that Roosevelt enjoyed something close to a political honeymoon at first. For example, when the Emergency Banking Act was before the House of Representatives on March 9, 1933, the Republican floor leader told his colleagues, " The house is burning down, and the President of the United States says this is the way to put out the fire." The House went on to approve the measure after only forty minutes' FRANKLIN D. ROOSEVELT AND THE NEW DEAL - 161 debate. The Republican press was usually gentle with the new President. The New York Daily News, part of the Patterson-MeCormick group of newspapers, even organized a campaign for raising funds to build a swimming pool in the White House. Roosevelt enjoyed swimming, and it was about the only exercise that his paralyzed legs permitted. The Hearst newspapers, nominally Democratic because of their owner's adventures in that party, supported Roosevelt in 1933. Soon they would become shrill critics of the White House editorially. In 1934, conservative newspaper attacks on the New Deal and the organization of the American Liberty League in August of that year indicated that the right wing had recovered from its depression shell-shock and was prepared for counterattack. The honeymoon was obviously over. Wealthy men, most of them in the Du Pont family or officials in the Du Pont-controlled General Motors Corporation, financed the Liberty League, but a group of conservative Democrats who had once led their party got most of the publicity. Al Smith was the prize speaker for the Liberty League, and he categorically described the New Deal's laws as " socialism:' The Liberty League pulled out all the stops for Republican candidates in the 1934 elections but was unable to bring the party through. Republicans lost fourteen more House seats in that election and won only eleven of the disputed senatorships. There were only seven Republican governors after the 1934 elections. Roosevelt regretted the end of the truce by the political right although he probably anticipated it. He was more seriously concerned with what was happening within his own coalition. Democratic members of Congress, under pressure from home, were pushing for reform of the economy as well as greater relief and bolder recovery policies. Significant numbers of voters who had been for FDR in 1932 believed that the New Deal had not yet done enough and they were increasingly following new leaders, some of them with odd programs, who demanded more radical departures. In the upper Mississippi Valley progressive Democrats and La Follette Republicans kept talking of a new national Farmer-Labor party although they always stopped short of forming one and deserting the Roosevelt coalition. Labor-union leaders, not yet as strong as they would be after the great organizing campaigns of 1936 and 1937 but still influential, frequently expressed disillusionment with FDR. Most alarming to FDR were Upton Sinclair's capture of the Democratic party in California, the growing strength of Senator Huey Long's Share Our Wealth organization, and the immense popularity of the Townsend plan. 162 . BETWEEN THE WARS: AMERICA, 1919-1941 Sinclair, a well-known novelist and a member of the Socialist party for most of his life, entered the Democratic primary for governor in 1934 and ran on a program he called EPIC, End Poverty in California. EPIC proposed a $50-a-month pension for the indigent over age sixty and a system of " production for use" workshops for the unemployed, partly producer-cooperative, partly socialistic in scope . Despite great opposition from the party machine, Sinclair won the primary rather easily. In the general election, the campaign against Sinclair was intense, heavily financed by Hollywood figures, and low in its tactics. FDR refused to support Sinclair, and prominent Golden State Democrats worked for the Republican candidate. Although he lost to the Republican, Sinclair still ran a strong race. Huey Long was the epitome of the back-country demagogic politician, but in the mid-1930's political demagogues found economic radicalism rather than anti-Bolshevism or racism the best way to attract followers. Long's slogan was " Every Man a King," and he promised everyone a homestead worth $5, 000 and a $2, 500 annual income to be derived from the confiscation of large fortunes. Francis E. Townsend, a retired physician of Long Beach, California, proposed the Old Age Revolving Pension. The plan called for a $200 pension to be paid to all unemployed people over sixty, with the requirement that the recipients spend the entire amount within a month in order to be eligible for the next payment. Townsend thought a 2 per cent tax on all financial transactions would be sufficient to finance the scheme. The plan was very popular among the aged all over the country, and in 1934 the Townsendites succeeded in electing a congressman from southern California. That some of these proposals were odd, perhaps even dangerous, only more sharply dellneated the widespread dissatisfaction many voters felt toward the accomplishments of the New Deal. With the political right having come back to life and with apparently large sections of Roosevelt's electoral support deserting toward the left or the pseudo-left, it was obvious that the administration must change direction if it were to remain politically strong. Recovering the right was probably impossible, but if it could be accomplished it could be only at the expense of greater defections to the left. The only thing to do was for the administration to shift toward the left and take the wind out of the sails that had been bearing men such as Sinclair, Long, and

Townsend with such vigor. FDR debated with himself for weeks in the late winter, but in the spring of 1935 he began to accept, even began to urge, proposals that had been advocated by the more progressive FRANKLIN D. ROOSEVELTAND THE NEW DEAL· 163 members of Congress for many months. The result was that in 1935 Congress passed and the President signed a most unusual slate of progressive legislation. The year 1935 may be said to have been progressivism's high tide. The shift in the way the White House was leaning was indicated by word passed to Congress that the President was for a great increase in spending for public works and relief. One of the conservative arguments against the New Deal was that it cost too much and failed to balance the federal budget. Many New Dealers argued that large-scale government spending was necessary " to prime the pump." Economists who followed the theories of Britain's John Maynard Keynes argued that government dollars spent had a " multiplier effect," that for every dollar spent by the government there would be an increase in GNP between two and three dollars. They also argued that federal deficits were at least in the short run beneficial during depressions because through bankpurchased government bonds they increased money in circulation and loosened credit. In early April 1935, Congress passed the Emergency Relief Appropriation Act with an appropriation of $4, 888, 000, 000, a new high for public works and relief. The following month FDR established the Works Progress Administration (WPA) under the act and put Harry Hopkins in charge. Most of the money went for construction and conservation. Before the end of 1936, 1, 497 new water-works had been completed, hundreds of new roads and sewage-disposal plants, and scores of bridges, levees, and airports. About one fifth of the funds went for community-service projects of all kinds, some of which employed jobless artists, musicians, and actors. In the six years that the WPA was active it employed over eight million different individuals (about one sixth of the labor force) and spent $11. 4 billion. WPA wages varied according to degree of skill required and from region to region, but the average monthly wage in 1936 was $52. 14. The same law that created the WPA also provided for the National Youth Administration (NYA) . NYA's main purpose was to provide part-time employment for students in high school and college, but it also had a small program for young people who were not in school. Huge numbers of students were thus enabled to continue their education and remain off the labor market. In 1940, 100, 000 college undergraduates and over 1, 500 graduate students were on NYA rolls. Congress in 1935 also doubled its appropriation for the cec. A 1935 law that had far-reaching implications for the oper- 164 . BETWEEN THE WARS: AMERICA, 1919-1941 ation of the economy was the National Labor Relations Act, often called the Wagner Act for its sponsor, Senator Robert F. Wagner of New York. At first trade unionists had been elated by the labor provisions of NRA, but the law in practice fell far short of their expectations. There were two difficulties with Section 7(a) from the unions' point of view: a company union (not a genuine union, but one dominated and financed by the employer) enabled companies to circumvent the purpose of the law, and such unions more than doubled in number during the NRA years; and the law permitted more than one collective-bargaining agent for men in the same shop, even those doing the same work, which enabled employers to playoff one union against another. Labor unions grew in strength under NRA, but the basic labor law was a continual frustration. Throughout 1934 Senator Wagner worked for a new labor law more conducive to union growth and strength. He got no support from the White House and was unable to get his bill through without the President's help. He reintroduced his bill in the new Congress. After he had successfully fought off amendments to the bill that would have weakened it considerably, the Senate passed the proposal on May 16 with only twelve dissenting votes. Still FDR offered the measure no support. On May 24, three days before the Supreme Court voided NRA, Roosevelt at last gave the Wagner bill encouragement, probably because he thought it would pass Congress anyway. Less than a month later the House passed the bill. Although businessmen were almost unanimously opposed to it, the House approved it overwhelmingly without even a roll call. The Wagner Act created the National Labor Relations Board and asserted that all employees had a right to join or form a union and through the union to bargain collectively with their employers. A union that won a majority of employee votes in a NLRB-conducted secret-ballot election became the workers' sole bargaining agent, and the law required employers to bargain with the union in good faith. The law also enumerated and prohibited employer " unfair practices," among them firing men for union activity and subsidizing company unions. For the first time, federal law was favorable to trade-union growth, and unions quickly capitalized on the opportunity and organized basic industries such as automobiles and steel. Another 1935 law at least equal to the Wagner Act in its modification of the economy was the Social Security Act, which became law in August. The idea behind social security was by no means new. Theodore Roosevelt had advocated old-age pensions in

FRANKLIN D. ROOSEVELT AND THE NEW DEAL· 165 1912, and by the 1930's about half the states had some kind of a pension or unemployment-compensation system. Very few of the state laws even approached adequacy, and most were of little help at all. Popular demand for a social security system was strong, particularly after the Townsend plan caught the imagination of aged people. In 1934 Congress could not decide between two social security bills, and Roosevelt proposed a special committee to study the problem and report back to Congress. The committee made its report in January 1935. That Congress would pass some kind of legislation soon was a foregone conclusion; the only real disagreement was over details. In the final votes only six senators and thirty-three representatives opposed the law. A very complex law, the Social Security Act primarily provided for old-age pensions and compensations for the unemployed. Through a payroll tax on both employers and employees-at first only 1 per cent on the first $3, 000 of employee income, but to be gradually increased-the act created a fund from which retired workers aged sixty-five or more would receive monthly pensions. The first payments were to begin in 1942 and would be $10 at a minimum and $85 at a maximum, depending upon how much the retired worker and his employer had contributed. For those who had already retired and were at least sixty-five, the federal government would share the costs of pensions with the states. The unemployment-compensation provisions also involved federal-state cooperation, but the law established a minimum weekly compensation and the minimum number of weeks during which those who lost jobs could receive payments. The original law was far from satisfactory to everyone. Farm laborers, domestic and casual workers, public employees, and those on the payrolls of educational and religious institutions did not come under the provisions of the act, and the old-age pensions were inadequate for a decent living standard if the beneficiary had no other income. The unemployment-compensation provisions were of no help to those who were already unemployed. One had first to get a job and then lose it to receive compensation. But, clearly, once the basic idea of federal social security was enacted the benefits could be increased and extended to further categories of employees, and the law has since been amended several times. The new labor and social security laws were the later New Deal's most basic reform legislation, but there were other reforms as well. Marriner S. Eccles, whom FDR had appointed chairman of the Federal Reserve Board, urged passage of a law to enlarge 166 . [BETWEEN THE WARS: AMERICA, 1919-1941 the powers of the Board so that it could more readily and more effectively take compensatory action against fluctuations in the business cycle. The Banking Act of 1935 did not contain all that Eccles wished, but it was the most important revision of the Federal Reserve System since it had been established in the early Wilson administration. The law transferred from the twelve regional Reserve Banks to the central Board the power to raise or lower the discount rate and gave the Board additional power to determine the reserve requirements of all banks in the system and to conduct its open-market operations. The law also extended the kinds of commercial paper against which Federal Reserve notes could be issued and raised the maximum FDIC-insured account to $5, 000. The law has since been used many times to offset cyclical tendencies, to raise the discount rate when undesired inflation seemed likely, for example, and to lower it and thereby make credit easier when a downswing in the cycle seemed imminent. A new tax law in 1935, passed after FDR sent Congress a message in which he urged tax revision " encouraging a wider distribution of wealth ," earned the vigorous opposition of conservatives who called it a " soak the rich" measure. The new law by no means made it impossible to amass great wealth nor to pass it on to heirs, but it did increase inheritance taxes sharply and established a new surtax on net incomes of over $50, 000 a year. The reform measure of 1935 that had the most difficult road to passage was a law passed in August forbidding further development of holding-company empires in public utilities, such as the Insull system, and providing for the gradual breakup of holdingcompany pyramids that already existed in public utilities. Lobbyists for power companies were extremely active in resisting the law, but when Senator Black brought forward the information that the flood of telegrams against the bill received by members of Congress were actually from lobbyists and not from those whose names appeared on them, the lobbyists received a setback. The law empowered the SEC to limit holding companies to a single integrated system with no more than one layer of holding company. The Rural Electrification Authority (REA) created by executive order in May 1935 with already appropriated funds did much to improve living conditions and lighten work loads on the nation's farms. At that time, only 10 per cent of American farms had electricity, less than most European countries, Within a few years REA electric cooperatives and privately owned electric com- FRANKLIN D. ROOSEVELT AND THE NEW DEAL' 167 panies, spurred at last to action, brought electricity to all but the most remote farm areas. Electric automatic pumps on farm wells made running water feasible-no inconsiderable aspect of the narrowing differences between urban and rural life. The New Deal's shift toward the left brought the results anticipated. The electorate, it became obvious in the next elections, overwhelmingly approved the measures and ceased to follow leftof-New Deal leaders in significant numbers. Sinclair's EPIC faded to complete obscurity. The Townsend movement continued but with less steam. Long's movement failed to survive his assassination in September 1935. Roosevelt's conservative opposition was more vigorous than ever, despite FDR's announcement in the fall of 1935 of a " breathing spell" for business, but the President well understood that he and his party would have received few votes from conservatives in any case. But before considering the 1936 elections let us look briefly at the methods the New Deal took to alleviate the depression through foreign policy. New Deal Foreign Policy Remarkably seldom do those who study the past recognize that certain foreign policies of the Roosevelt administration were part of its program to effect economic recovery. A nation's foreign affairs, one must remember, are not conducted in a vacuum; domestic conditions and pressures play a major role in determining a country's policies with other nations. Until at least the late 1930's, when questions of war and peace came to dominate the New Deal's conduct of foreign affairs, the administration's main concern in foreign policy was to increase markets for American products abroad. Actually, in one way of looking at it, the whole attack on the Great Depression was one of increasing markets, both domestic and foreign. If the United States could sell wheat or steel or automobiles abroad, American investors got a better return and labor had jobs. With the advent of the depression American exports had shrunk very badly. Exports had amounted to $5, 240, 995, 000 in 1929; they fell to $1, 611, 016, 000 in 1932, the lowest year, a decline of roughly two thirds. (Imports declined similarly. The United States had an excess of exports over imports throughout the depression, although in some years the excess was quite small.) Both the administration and business leaders recognized that regaining these foreign markets would have a stimulating effect upon the domestic economy. The Roosevelt administration's means to achieve this goal were many, among 168 . BETWEEN THE WARS: AMERICA, 1919-1941 others recognition of theretofore unrecognized foreign regimes so as to facilitate commercial relations, loans with which to purchase American products, and, most important, a new scheme of tariffs. President Wilson had refused to extend diplomatic recognition to the new regime in Russia after the Bolshevik revolution in 1917, and each of his successors in the 1920's had continued the nonrecognition policy. Hoover had been under some pressure to recognize the Soviet Union because there were some businessmen who wanted to sell their products to the Communists and thought that regular diplomatic relations would facilitate commerce, but Hoover had committed himself against recognition and would do no more than arrange for the RFC to underwrite some cotton exports to Russia. Roosevelt had made no commitment against recognition, and a few weeks after his inauguration he began correspondence looking toward formal recognition. FDR, of course, had more than commercial considerations in mind, but hoped-for sales to the Soviets were no minor motivating factor. Formal recognition came on November 16, 1933. Early the next year the administration created the Export-Import Bank, under authority of the

National Industrial Recovery Act and financed originally with RFC funds. Ex-Im, as it is commonly called, began to underwrite the financing for sales to the Soviets. Despite the expectations of 1933 and 1934, however, the Russian market did not develop significantly. The Russians were balky in the negotiations over the bonds owned by Americans that the Czarist government had issued, the USSR refusing to honor the prerevolutionary debt, and relatively little American production went to Russia until the Lend-Lease exports of World War II. Ex-1m lay dormant after the Russian debt negotiations fell through, but Congress revived it in 1935 on a two-year basis. Congress subsequently extended its life periodically, and Ex-Im has grown into a major international credit agency that today materially stimulates American sales abroad. It became a permanent agency in 1945. It is important to realize that Ex-Im foreign loans are not sums that the receiving nation is free to spend indiscriminately and wherever it chooses. The purposes of the loans are spelled out in detail, and all, or practically all, of the loan is in the form of credits from American firms. Thus loans extended by an agency of the federal government are used to purchase American production. In 1938 Ex-Irn began to make development loans to economically underdeveloped nations, which to the degree that the loans led to an increase in the bon-owing nation's GNP made further exports possible. Some Ex-Im loans FRANKLIN D. ROOSEVELT AND THE NEW DEAL' 169 were for military strategic purposes; a 1938 loan to China of $25 million was for the Burma Road, which was essential in the war against Japan. Ex-Im was not the only federal agency engaged in foreign loans designed to stimulate American foreign sales. In 1934, for example, the RFC lent China $15 million with which to purchase United States cotton, wheat, and flour. By the end of 1941 the RFC had authorized the spending of $47, 301, 000 for financing exports of agricultural surpluses. . The reciprocal trade agreement program was the New Deal's most ambitious effort to increase American foreign markets. The enabling law, passed in June 1934, expressly stated in its preamble that its purpose was to expand " foreign markets for the products of the United States." Reciprocity, an old idea, was a pet project of Secretary of State Cordell Hull, who was long an advocate of low tariffs. To lower tariffs across the board while jobs were scarce would have been political dynamite, but the more selective tariff reduction of reciprocal agreements was less likely to arouse domestic opposition, and shrewdly bargained agreements were often a considerable boon to American exports. Even so, those who advocated traditionally high tariffs objected strenuously. The Republican platform of 1936 singled out, of all the New Deal's measures, only the reciprocity program for repeal . The Reciprocal Trade Agreements Act of 1934 granted the executive branch the power to negotiate arrangements with other countries in which American customs duties could be lowered by as much as 50 per cent in exchange for reciprocal reductions by the other powers. Such agreements were not treaties, did not require ratification by the Senate, and could go into effect immediately upon their signing. The original act of 1934 authorized such agreements for a period of three years, and Congress thereafter extended the measure for two or three years at a time. The problem in negotiating the agreements was to persuade the other nation to reduce its duties on products that the United States had in abundance and for which it needed a bigger market and, in exchange, to lower American duties on articles that would not be in competition with domestic production. Of course, the same problem presented itself to the other power at the negotiating table, and the negotiations were slow and difficult. Nevertheless, by 1942 the United States had signed reciprocal trade agreements with twenty-three nations, largely with Latin American countries but also with Canada (1936 and 1940), Sweden (1935), France (1936), and Great Britain (1939). One feature of the Reciprocal Trade Agreements Act led to a 170 . BETWEEN THE WARS: AMERICA, 1919-1941 general lowering of the tariff: the law provided that agreements contain a " most favored nation" clause. Thus, any lowering of duties arrived at by an agreement between the United States and any second power would automatically be extended, for the products covered in the agreement, to all other powers of the world except those that the chief executive stated were discriminatory in their commercial relations with the United States. An example: the 1936 agreement with Brazil lowered the American duty on coffee; it thereby decreased the American duty on coffee imported from all other nations that had " most-favored-nation" status. Roosevelt excepted only Nazi Germany (and Australia very brieRy) from the general decrease in tariff rates emanating from trade agreements, and the agreements therefore worked to bring about a significant scaling down of the United States tariff wall. Calculating how much precisely the trade agreements reduced the general tariff level was a formidable mathematical exercise, but in 1942 the government estimated that the agreements, together with the generalizing effect for " most favored nations," had reduced the tariff level by 29 per cent since 1933. It is impossible to say exactly how much reciprocal trade agreements extended American markets because there were too many variables, too many other forces operating which also extended the export market . But the market did increase. Exports increased to $3, 349, 167 in 1937, fell off a little in the recession of 1938, and then climbed again to $4, 021, 146 in 1940, the last full year before the beginning of Lend-Lease. Exports of most nations increased simultaneously, of course, as the world depression became less serious, but it is significant that until the recession American exports increased more rapidly than did those of oth~r nations. In other words, the United States increased its share of the world's markets, and the increase probably was due to advantages bargained for in the trade agreements. Although much that has been written about Roosevelt's wellpublicized Good Neighbor policy toward Latin America has emphasized United States diplomatic maturity and its growing sense of international responsibility, an emphasis that is valid, those who developed and directed the policy nevertheless had a strong concern for American economic interest. United States trade with Latin American nations declined approximately 70 per cent between 1929 and 1932. Growing anti-Yanqui sentiment in Latin America threatened North American investments and discouraged them for the future. Quite obviously, if the United States during the Great Depression had continued Theodore FRANKLIN D. ROOSEVELT AND THE NEW DEAL· 171 Rooseveltian, interventionist, and high-handed Latin American policies, it would not have been doing itself an economic favor. The Hoover administration moved in the direction of the Good Neighbor policy with its publication of the Clark memorandum on the Monroe Doctrine in 1930. This memorandum omitted reference to the Theodore Roosevelt corollary to the doctrine. But the United States still had not renounced armed intervention in Latin American nations on other grounds until the Montevideo Conference of American States in December 1933, where Secretary of State Hull explicitly renounced the right to intervene. Immediately after the end of the conference, FDR said publicly that opposition to armed intervention was "... the definite policy of the United States from now on." In 1936 the State Department agreed to a protocol that forbade intervention " directly or indirectly, and for whatever reason," and the Senate approved the action. Actions accompanied words. Washington refrained from armed intervention in Cuba in that island's troubles in 1933 and abrogated the Platt Amendment the following year. Also in 1933 the Roosevelt administration agreed to withdraw American marines from Haiti, and when the last unit left the following summer it was the first time in decades that marines had not been garrisoned somewhere in a Latin American republic. The biggest test of the Good Neighbor