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Is FDR's New Deal the answer?

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Did President Franklin Roosevelt and his "New Deal" shorten the recovery from the Great Depression? Was government intervention in the economy helpful or hurtful or both? Some economists suggest the government manipulated market forces too much and actually prolonged the recovery.

President Roosevelt put into effect his recovery plan immediately after his inauguration in 1933, calling Congress into a special 100-day session with a whirlwind of new programs. He believed the recovery required what he called "government partnerships" with the private sector. But, in his zeal to speed the recovery, some economists suggest he was wrong believing that competition inappropriately drove prices and wages down and that the government had to manipulate the economy to artificially force prices and wages up.

Congress gave him broad powers over banking, farming, industry, and transportation. This allowed him to force those higher prices and wages and to limit or remove competition in some industries, promoting legal anti-trust activities.

He created many programs to reach his goals, including the controversial National Industrial Recovery Act (NIRA). This act established the Public Works Administration that created jobs in construction but allowed companies to set prices in collusion. Answering his critics during his May 7, 1933 "fireside chat" he said, "It would be wholly wrong to call these measures . . . control (of private industry); rather (they are) a partnership between Government and private industry."

Despite advice that the NIRA and other programs he pushed through Congress were unconstitutional, he continued undeterred, convinced government had to manipulate the economy to hasten the recovery. Then

came Black Monday, May 27, 1935, when the Supreme Court struck down three of his programs in one day. His New Deal was in jeopardy; even the three most liberal justices voted against his programs. The NIRA was one of the programs declared unconstitutional on that Monday, although the illegal price-fixing practices it sanctioned continued for several more years.

President Roosevelt was sincere in his wish to help the recovery; however, two UCLA economic professors, Harold Cole and Lee Ohanian, showed that some of Roosevelt's policies prolonged the depression by seven years. They specifically blame the NIRA anti-competition and pro-labor measures enacted on June 16, 1933 that exempted industries from antitrust laws if they agreed to a collective bargaining agreement. This led to artificially high prices and wages, nearly 25 percent higher than market forces would have allowed if left alone. He forced the "free" market in the opposite direction of what it would do in an economic downturn if allowed to work without interference. The professors assert that this single anti-market Act was responsible for 60 percent of the weak, slowed recovery.

Even so, President Roosevelt did create some wonderful programs that helped individuals survive, setting up the Works Progress Administration (WPA) that gave people jobs rather than "relief" checks. He believed in giving people productive work, not handouts. The WPA and other programs put people to work building schools, roads, bridges, parks, playgrounds, swimming pools, and the like. And as these programs developed, he ended relief programs that had been giving money to able bodied poor saying, "To dole out money in this way is to administer a narcotic. The federal government must and shall quit this business of (this type of) relief."

Roosevelt's aide Harry Hopkins said, "The federal government should never return to a direct relief program. It is degrading to the individual; it destroys morale and self respect; it results in no increase in the wealth of the community; it tends to destroy the ability of the individual to perform useful work in the future; and it tends to establish a permanent body of dependents."

Roosevelt, although wrong in his belief that government had to manipulate the economy to hasten the recovery, had common sense views on work and welfare. Again speaking of the WPA he said, "The wages should be larger than the amount now received as a relief dole, but at the same time not so large as to encourage the rejection of opportunities for private employment." Roosevelt wanted to help people; but he wanted to help them become self-sufficient, so they could provide for themselves rather than relying on a parental government.

Economists Cole and Ohanian showed that the recovery did not flourish until the Department of Justice expanded enforcement of antitrust cases nearly four-fold, allowing natural market forces to do what the government could not - recover the economy. They showed that the recovery would have been rapid had the government not interfered with market forces.

Perhaps we should heed the lessons of history. Perhaps President Ronald Reagan was correct when he said, "The nine most terrifying words in the English language are: 'I'm from the government and I'm here to help.'"

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