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Exam in Historical Studies, New School for Social Research

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**1. What was the New Deal? Please articulate, develop, and defend your own interpretation of the New Deal.**

I.

The New Deal is the next logical step in the Progressive Era of the American project, a follow-on in form, narrative and function from President Harding's New Era (Barber 1985, Beito 2000, Higgs 2013). It should be noted here too that this period in American history (and in the history of the West) is a derivative of the Romantic Age, where we less emphasize the rights of the individual and the rule of law as in the preceding Age of Enlightenment and more for that of collectivist national will as manifested in the State, concomitant with the emergence of the nation-states and therefore a sense of nationalism, a sense made material in World War One (Anderson 1991, Berlin 1965, 1978, Cameron and Neal 2003, Welch 2013). In the United States Romanticism took the form of pragmatic philosophy, prioritizing action and experience over ideas and ideology. This sense of nationalism and action, in government, in a nutshell is the New Deal, more on which of course below. Additionally Robert Higgs (2013) emphasizes how many of the Hoover and Roosevelt programs are based on the war production institutions and personnel during the Great War.

John Maynard Keynes wrote "The End of Laissez-Faire" in 1926 but we know that for in the United States this in fact occurred earlier, with the 1921 *Report of the President's Conference on Unemployment*. This report was an open call for the "lifting power"<sup>1</sup> of government-funded public works spending and was commissioned and directed by Commerce Secretary Hoover (the "Great Engineer") in response to the recession of 1920-21 (Barber 1985, Howenstine

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<sup>1</sup> This "lifting-power" engineering analogy became the Keynesian "multiplier" in post-war (sic) mainstream economics as taught through today and as used by the economist Christine Romer in justification of the Obama Administration fiscal stimulus in reaction to the 2007-2008 financial crisis.

1946). (The then President Hoover again applied this approach to counter the economic crisis of 1929, this itself a historiographic problem, the “do-nothing” President Hoover narrative, Kennedy 1999 revises the historical record as making Hoover more ‘activist’, believed to be a good thing under pragmatism). The end of laissez-faire means an active role for government in shaping society, with the emergent use of science and in our case economic science and statistics.<sup>2</sup> (Note that the word *statistics* has its root in the word *state*, the 1930’s era being an exercise in “state-craft.”<sup>3</sup>)

We can’t discuss the New Deal without the larger context of what preceded and proceeded the Roosevelt Administration, a periodization we find common in the canon (Barber 1996, Brinkley 1995, Cohen 2008, Katznelson 2013, Kennedy 1999, Klein 2003, Parker 2007, Smith 2006). It is for this reason I prefer, following Harris (1995)<sup>4</sup> to call this period of American History “the 1930’s era.” The era begins for our case here with the economic recession of 1920-21. The new (1914) Federal Reserve Bank countered this recession, as is its mandate, with monetary

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<sup>2</sup> We focus on the economic in this immediate case as we are looking at the relationships between society and the state during a period of economic crisis, and, to quote Smith (2008) who quotes J.A. Schumpeter, we find, “The budget is the skeleton of the state, stripped of all misleading ideologies” (523, fn 6). We might also surmise that the government budget is also a mirror of the underlying society which it represents.

<sup>3</sup> See Katznelson (2013) for the development of national income accounting and use of statistics for planning the United States’ economy by the New Dealers, especially Lewis Mumford. Mumford was concerned about the “dustbowl” in the Southwest and other conservationist issues and was instrumental in building the Hoover Dam (Kennedy and Larkin 2009).

See Smith (2008) for an example of one of the unintended consequences of the New Deal. Funding for public works averaged between 3 and 6% of the national economy from 1933 to 1944 and created “some of the largest and most significant structures ever built in human history” (525). However, ‘They [architecture historians] charge that the New Deal’s large hydroelectric projects promoted an imperialist view of resources, leaving nature to be exploited by a coercive, undemocratic power elite composed of technically-minded engineers and narrow-minded bureaucrats (ibid., 527). “The TVA was an unusual entrance of government into business....But the New Deal’s organization of the economy was aimed mainly at stabilizing the economy, and secondly at giving enough to the lower classes to keep them from turning a rebellion into a real revolution.” (Zinn 2005, 393).

<sup>4</sup> Please note that I am drawing upon references from both the “Historiography of the 1930’s Era in the United States” and the “Art and Nationalism” bibliographies.

expansion.<sup>5</sup> This stimulus helped in leading to the “roaring twenties”<sup>6</sup> as well as to the rapid rise in the stock market in the United States (and elsewhere).<sup>7</sup> Then in order to prevent (more) inflation the Fed started to reduce the monetary stimulus, this, for some (Higgs 1987, Rothbard 2000) helped lead to the stock market crash of 1929. Then, unfortunately (Friedman and Schwartz 1963, Parker 2007), the monetary contraction continued on until the early 1930’s,<sup>8</sup> helping to prolong the economic downturn, despite (or perhaps abetted by) Hoover’s deficit spending on public works.

During the four years of the Hoover Administration the Federal debt increased from 20% of the economy to over 40% of the economy (Carter et al. 2006), yet unemployment increased from 9% in 1930 to 25% in 1933 (Parker 2007). Part of FDR’s campaign against Hoover in 1932 was against debt-creation and public works spending, “government, like any family, can for a year spend more than it earns, but you and I know that a continuation of that means the poor house,” and, public works “do not relieve the distress,” and are only a “stopgap” (in Flynn 1944, 175).

[Brinkley (1995) writes that it was only during the latter part of the New Deal (the *President’s Budget of 1939*) when FDR accepted the Keynesian deficit spending proposed by Hopkins and Eccles over the need for “business confidence” proposed by Morgenthau.<sup>9</sup> In other words five years after taking office. However we do know that FDR used public works spending immediately in his “first 100 days”

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<sup>5</sup> The economics presented here are drawn from Higgs (2013), Parker (2007), Prescott (1999) and Rothbard (2000). We address Romer (1992) later.

<sup>6</sup> Which Higgs 2013 calls a “myth.”

<sup>7</sup> We might also say that the monetary stimulus of the 1920’s helped to fund the beautiful art-deco buildings in New York City. The “Austrian” economics explanation of monetary stimulus effects on large-scale building is now part of mainstream economic thought to such an extent that there is a wiki entry for the “skyscraper index.”

<sup>8</sup> Monetary contraction ended when FDR made an executive decision to pull-out of the gold standard in 1933 (Parker 2007), this itself an enduring legacy of the New Deal, with fiat money it is not necessary to balance the federal budget in the long-term allowing for debt-creation payable by future generations for government programs in the current (voting) generation. The gold standard order was upheld by the Supreme Court.

<sup>9</sup> It is for this reason that Romer (1992) writes that fiscal stimulus did not play a role in ending the Great Depression.

with the public works Civilian Conservation Corps.<sup>10</sup> We discuss a periodization of the New Deal in more detail below.]

What is an underlying theme in many if not most writings on the 1930's era is the fear caused by the economic depression, in fact the term *depression* itself to describe a prolonged economic downturn emerged during the 1930's era, a period of "crisis psychology" (Garraty 1973).<sup>11</sup> What most concerned most people at the time were the bank failures after the stock market crash (Kennedy 1999, Higgs 1987, Smith 1990). We have already learned that one of the reasons for the bank failures was a contracting money supply, the Fed failing in its mandate to provide liquidity. Another reason was the way the banks in the United States were regulated, a historically-derived hodge-podge of state-regulated banks and federally-regulated banks, and then a newly-created central bank (which is contracting the money supply).

Vera Smith (1990) writes that one of the main reason for the bank failures was the fact that bank regulation prevented branch-banking, the banks were not able to geographically diversify their risk. Because of the contracting money supply and the financial crash many banks became illiquid causing panic (fear), especially "the small state-chartered banks in rural areas" (Barber 1996, 111). Agricultural liquidity was one of the main arguments for creating the central bank, with its twelve regional branches on the ground.<sup>12</sup>

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<sup>10</sup> The CCC was FDR's favorite program (Russell 2010) and "one of the most popular of all the New Deal's innovations" (Kennedy 1999, 144).

<sup>11</sup> We find along with the common themes of fear (and therefore a need for security) in the New Deal historiography, a theme of national emergency (Higgs 2013) and war metaphor.

I assume unhesitatingly the leadership of this great army of our people....In the event that Congress should fail...I shall ask Congress for the one remaining instrument to meet the crisis – broad executive power to wage a war against the emergency, as great as the power that would be given to me if we were in fact invaded by a foreign foe (FDR's first inaugural, from Garraty 1973, 932).

<sup>12</sup> One of FDR's first acts upon taking the presidency is to declare a national bank holiday (half the banks were liquid, half were not, Vera Smith 1990), which of course does nothing but create more fear. This lends credibility to Flynn's (1944) belief that FDR was a cynical opportunist. To be fair, the central bank didn't even know enough to realize it was contracting the money supply (Friedman and Schwartz 1963), let alone act as a provider of emergency short-term liquidity at penalty rates of interest which was classical central bank theory at the time, so how could we expect the new President to know what to do. State Governors were declaring bank holidays, so

Another reason for the continuation of the economic downturn was a retreat to (economic) nationalism.<sup>13</sup> In the first instance there is a perceived crisis in American agriculture, where it was seen that free-trade suppresses the price of agriculture commodities, thus reducing what has become known as the aggregate demand (“lifting power”) needed to provide the necessary economic growth to create employment. For Hoover and the Republicans in Congress the solution to this is protectionism in international trade for these commodities.<sup>14</sup> This idea then grew, due to rent-seeking (Krueger 1974), as other politicians sought protectionism (economic nationalism) for the special-interest groups in their jurisdictions.<sup>15</sup>

The 1930 tariff act, named for Reed Smoot, a Utah Republican Senator, and Wills Hawley, a Republican representative from Oregon, covered more than twenty thousand items and produced the highest tariffs in American history (Katznelson 2013, 262).

This tariff policy then leads to reciprocal nationalism on behalf of the U.S.’s trading partners, helping to prolong an international economic crisis, thus more fear in an international political economy as stressed by Ira Katznelson (2013).<sup>16</sup> World trade in 1935 was half of what it was in 1930 (Cameron and Neal 2003).

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why should not the President who promises the needed nationalism to raise the spirits of a depressed people.

<sup>13</sup> In the Appendix you will find a screen print of the Google Books “n-gram viewer” showing the frequency of the use of the word “nationalism” over time in their books database (which ends in the year 2000 due to a copyright compromise). The first use of the word “nationalism” in English is 1868 with Francis Lieber’s *Nationalism and Inter-Nationalism*. We see remarkable spikes around WWI, a decrease after the war, a long spike during the Great Depression, a decrease after WWII, a rise with the start of the Cold War, a decline around 1970, then an increase around the time of Anderson (1983). This is just anecdote.

<sup>14</sup> I personally will never understand why policy-makers would want to keep food prices high while people are starving in the bowery.

<sup>15</sup> The main proponents agitating for the tariff were, “the Progressive bloc, the three leading farm organizations, and the American Federation of Labor” (Rothbard 2000, 241). More on the New Deal’s treatment of wage labor later.

<sup>16</sup> The thesis of Katznelson (2013) is that FDR was motivated by fear in the international scene. He was concerned about fascism, corporatism and worldwide economic depression. This fear drove his state-craft to create a defensive state. “This national security state – a state premised on the idea that the largest threats to American democracy were located outside the country’s boundaries – offered a mirage image of the state of public procedures and private interests that had rejected economic planning and a national corporatist role for labor” (Katznelson 2013,

President Hoover (and later President Roosevelt) believed in what is now known as the “high wage doctrine,” also a form of pre-Keynesian aggregate demand management (Barber 1996, Higgs 1987). It is believed if the purchasing power of those earning a wage is kept high that this will also increase demand and growth. However, this view is countered by Nobel-Laureate Edward C. Prescott.

The Great Depression in the United States was largely the result of changes in economic institutions that lowered the normal or steady-state market hours per person over 16. The difference in steady-state hours in 1929 and 1939 is over 20 percent (Prescott 1999, 25).<sup>17</sup>

This is a reasonable estimation in that unemployment averaged around 15% during the 1930’s, and given the fact that Prescott’s baseline 1929 data is inflated due to the monetary expansion of the 1920’s. In other words for Prescott (and Rothbard 2000, Schlaes 2007, Higgs 2013 and Powell 2003, and at times Kennedy 1999) it was the federal government’s interventions into the labor and other markets in the 1930’s era which prevented the needed reduction in unemployment, and thus the hoped-for security in the form of freedom from fear caused by the contemporary national emergency.<sup>18</sup>

Wage labor<sup>19</sup> is a cost of production and if real wages increase (as they were during the 1930’s era because prices are decreasing under monetary contraction and, under Hoover, many employers voluntarily agreed not to lower wages as many employers also subscribed to the high-wage doctrine. Under FDR the NIRA

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409). We can juxtapose this finding with Garraty (1973) who makes the claim the New Deal policies (especially the NIRA and the AAA) were themselves a form of corporatism, and, with Smith (2008) that the end result of the New Deal was a “mixed” economy. Smith (and other traditionalist historians) also says that the New Deal saved capitalism, by this we can only mean from the overt fascism or communism of the 1930’s era.

<sup>17</sup> The “liquidationists” were not heard, neither in the Great Depression nor the Great Recession.

<sup>18</sup> Robert Higgs states, “Always susceptible to the fallacy of *post hoc ergo propter hoc*, the masses concluded that Roosevelt and his policies saved the country. It would never due, they thought, to risk return to a regime of economic freedom, a regime most people believed responsible for the Great Depression” (2013, 193). The fallacy of the idea of WWII ending the depression falls into this same category. We forget that WWII causes destruction, conscription and rationing.

<sup>19</sup> For a critique of wage labor see John Huston’s *The Misfits* (1961) starring Clark Gable, Marilyn Monroe, Eli Wallach and Montgomery Clift and written by Arthur Miller for Monroe. Clift’s character is offered “wages” by his step-father to work on his father’s farm, something the character finds egregious.

and the NLRB mandated high wages, in return employers were freed of anti-trust regulations and were able to cartelize to keep the prices of their product high.) When the cost of an input to production is increasing, less of that factor of production is used, in this case leading to high unemployment. We will explore in more detail the New Deal's interventions in the labor market, one of its more important lasting legacies in American socio-economic life and politics, below.

Another legacy carried over from Hoover to Roosevelt is the Reconstruction Finance Corporation.<sup>20</sup> Hoover blamed the stagnating economy, due to the lack of capital investment<sup>21</sup>, on hoarders and bankers so in 1932 he created the RFC to act as lender of last resort (Barber 1985). The activities of the RFC were to be secret so that panic would not ensue when it was found out which companies/corporations (mostly banks and railroads, institutions with relatively high levels of debt-issuance and stock market capitalization) were illiquid enough to require government funding.<sup>22</sup> When a public outcry is heard as it is discovered that 80% of RFC financing is going to banks and railroads, the RFC expands into agriculture credit institutions and lending (and later grants) to the states for relief and works (Powell 2003).

Under the FDR administration the RFC continues to fund public works and channel money to the 48 states, states (and then onward municipalities) which of course are important for the New Deal electoral coalition (Neumann, Fishback and Kantor 2011).<sup>23</sup> The lasting legacy of the RFC today is that it is seen as acceptable to "bailout" bankrupt businesses with good political connections during times of national crisis as we saw not so long ago with the second George W. Bush administration and the first Barak Obama administration after the financial crisis of

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<sup>20</sup> The RFC was also a carry-over from WWI, the War Finance Corporation Act was amended to change the name of the corporation to the RFC (Higgs 2013).

<sup>21</sup> Higgs (ibid.) proposes the concept of "regime uncertainty" to explain the negative capital accumulation of the 1930's era. Entrepreneurs and investors are wary of the many political interventions into the markets so do not invest for the long-term.

<sup>22</sup> Powell (2003) and Rothbard (2000) note how under Hoover many Republican bankers receive RFC financing and under FDR how many Democrat bankers receive RFC monies.

<sup>23</sup> Jim Powell finds that, "The RFC turned out to be the behind-the-scenes banker for the New Deal," made possible by expanded powers created with the Emergency Banking Act of 1933 during the FDR administration (2003, 93).

2007-8.<sup>24</sup> We can also view the RFC legacy as a major change in the fiscal federalism of the United States, with the federal government guiding the states spending policies through transfers and mandates, but following Jason Scott Smith (2006, 2008) we will assign this role to the largest federal program to-date, the Works Progress Administration, more on which below.

## II.

With unemployment around 25% the Republican Hoover was not-reelected and the Democrat Roosevelt won the 1932 presidential election taking office in early 1933. In a periodization of the New Deal (which for our purposes here is synonymous with the FDR administration<sup>25</sup>) we have the “first” New Deal (the first 100 days

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<sup>24</sup> The housing market-caused financial crisis leading to the Great Recession is itself a legacy of the mortgage policies of the 1930’s era, but it is beyond the scope of this exam to discuss this in the necessary detail.

<sup>25</sup> When the New Deal ends is of interest to scholars of the period. Katznelson (2013) believes the New Deal ends with the election of Eisenhower in 1952, Smith (2008) writes that the New Deal ends with the Keynesian budget of 1939 (which was drafted in 1938) as does Brinkley (1995) who sees the end of the “reform” debates among the New Dealers with this Hopkins and Eccles-supported Keynesianism of 1938.

There are also those who believe the New Deal has lasting legacies through today and thus did not “end.” Klein (2003, 93) sees the legacy of the New Deal continuing through today in the form of the “social security” provided by private insurers. “Insurance companies became behind-the-scenes promoters of the government program [she is discussing the second New Deal’s Social Security Act of 1935, historiographical consensus is that the “second” New Deal of 1935 is about social reform, although Brinkley writes that “reform” is an understudied third New Deal], believing that each would legitimize and affirm the other.” This of course has borne true as witnessed with the Patient Protection and Affordable Care Act of 2010, which turned over, through rent-seeking, around 15% of the US economy to health insurance companies and state and federal bureaucracies. “Commercial purveyors of ‘social security’ thus saw that they could thrive within the welfare state” (Ibid., 92). The roll-out policies and consequences of the 2010 ACA is a very good example of what Higgs (2013) calls regime uncertainty, due to the opaqueness of the Act and thus the discretionary power this gives to the State.

Further to our periodization of the New Deal we should discuss this “third” New Deal. As stated we see that Klein believes the New Deal transformation as continuing through today, as does Smith (2006, 2008) with his “public works revolution” and “New Deal Order” brought on by the Works Progress Administration and its predecessors (for Smith the New Deal ends but its spawn, centralized public works planning, continues). We can see this is true with the current transportation bill and its federalization of infrastructure spending based on grants, loans, subsidies and mandates and as directed by politicians and bureaucrats in Washington and other

are an attempt at economic recovery), the bank holiday, the CCC (under the newly created Public Works Administration), the federalization of regulation in the securities industry with the Truth in Securities Act<sup>26</sup>, and importantly and which represent significant transformative interventions beyond that of the Hoover administration, the Agriculture Adjustment Act (AAA) and the National Industrial Recovery Act (NIRA), industry and agriculture of course are the largest sectors in the US economy in the 1930's era.<sup>27</sup>

The AAA represents a major intervention into the agricultural markets with price and output controls, the idea again is to keep prices high so that aggregate demand (farmers' spending power) can create the needed growth to revive the moribund economy (we have already seen the effect of the 1930 Smoot-Hawley tariff

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special interest groups through lobbying (see Flanagan 1999, for example, on how the New Deal has permanently affected fiscal federalism).

In 1936 FDR won a landslide election and therefore thought he had the power (the "national will" in our narrative to describe social structure) to re-organize the Supreme Court which had overturned the AAA and the NIRA as overreaching the limits placed on the central government by the US Constitution. This "court-packing" led to a political backlash and an oppositional congress in 1938, so Amenta and Halfmann (2001) believe the New Deal ends when this Congress reduces funding for New Deal programs. However this writer is sympathetic to Higgs (2013) who believes that the most transformational structural changes in US society came about with the Supreme Court upholding the gold standard's demise with FDR's fiat and with the upholding of the National Labor Relations Act of 1935, which contained many elements of the NIRA (more on which above). "Afterwards virtually any federal economic regulation whatsoever would be free of constitutional constraint" (Higgs 2013, 192). Flanagan (1999) writes that the third New Deal was an *attempt* at a consolidation of power (witness the "court-packing"), whereas this writer agrees with Robert Higgs that the New Deal *realizes* a vast increase in federal power, repercussions from which we have seen through today.

<sup>26</sup> The newly-created Securities Exchange Commission, through rent-seeking, granted monopoly privileges to the three largest rating agencies extant in the New Deal period, privileges which led to the under-reporting of risk for the US government-guaranteed mortgage-backed bonds which are at the heart of the financial crisis of 2007-8 (again a detailed discussion of this is beyond our scope here). Also as is well-known Bernie Madoff reported dutifully to the SEC for many years without the SEC arresting his frauds. The inability of remote regulators to adequately police direct market participants is known as the Hayekian knowledge problem, this leads to regulatory capture as in the 1930's era bond-rating monopolies and Bernie Madoff (and Enron) examples.

<sup>27</sup> We hope to illustrate here that the New Deal was radically transformative giving many powers to the central state and its cronies, and not just a conservative attempt to "save capitalism." Klein (2003) finds that the American usage of the terms "liberal" and "conservative" are adopted in the 1930's era. Note that this nicely conforms with the American two-party democratic system.

towards this end.). Although overturned by the courts, the thinking endeared by the AAA leads to the price supports we see today in the US agricultural bill and in continued trade-protectionism for agricultural products.<sup>28</sup> “It favored the larger farmers as the NRA favored big business” (Zinn 2005, 393). Sharecroppers and the family farm are crowded-out by the AAA policies and under Mises’ Law, one intervention leads to another, so we get later in the New Deal the Resettlement Administration (to become the Farm Security Administration) with its well-known black and white photo propaganda of the rural poor (Ewen 1996, Kennedy and Larkin 2009, Stott 1971) and its coercive powers to force people to relocate.

The next transformational intervention of the first New Deal is the National Industrial Recover Act, which formed the National Recovery Agency.<sup>29</sup> We find that, again from Howard Zinn,

The NRA “was designed to take control of the economy through a series of codes agreed upon by management, labor, and the government, fixing prices and wages, limiting competition. From the first, the NRA was dominated by big business and served their interests....The unorganized public, otherwise known as the consumer, along with the fledging trade-union movement, had nothing to say about the initial organization of the National Recovery Administration, or the formulation of basic policy” (Zinn 2005, 392).<sup>30</sup>

The NRA codes<sup>31</sup> are brilliantly propagandized by the New Dealers, creating a “with us or against us” mentality, again the war and nation emergency metaphors

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<sup>28</sup> The “farm bill” is endorsed annually (usually after some meaningless demagoguery) by both Republicans and Democrats. Democrat politicians vote for subsidies to the large agriculture firms so long as Republicans vote for food stamps, and vice versa. The 1930’s era mentality of (economic) nationalism and trade-protectionism for agriculture products persists in the West through today as witnessed by the failure of the Doha round of trade talks under WTO, to the detriment, for example, of African subsistence farmers.

<sup>29</sup> The only reason the NIRA is transformative over the long-term is because, after it was declared unconstitutional two years after passage, again an example of the regime uncertainty occurring in the 1930’s era, is because some of the ideas contained in the bill were applied to the upheld National Labor Relations Act of the second New Deal (Higgs 2013). Higgs also warns against over emphasizing too many differences between the first two New Deals.

<sup>30</sup> Lizabeth Cohen finds that the NIRA was “the New Deal’s most proindustry program,” though when it was negated, “employers breathed a sigh of relief” (2008, 282).

<sup>31</sup> “The NIRA empowered the President to approve any privately drafted ‘codes of fair competition’ or, lacking an acceptable privately rendered code, to impose one of his own design for every industry. The antitrust laws were explicitly set aside” (Higgs 2013, 178). Needless to

(Ewen 1996, Powell 2003, Schivelbusch 2006). As we find above the regime uncertainty during the formation of these codes must have reduced entrepreneurial risk-taking and capital investment (and thus the demand for hiring the unemployed). Again prices are kept high and not allowed to adjust to most efficiently allocate resources during the Great Depression (at this point unemployment is 25%).

### III.

After the first New Deal of 1933 we have the second New Deal of 1935 (Kennedy 1999, Higgs 2013). Here the major transformational New Deal initiatives are the National Labor Relations Act, the creation of the Works Progress Administration and the Social Security Act

The WPA as we have discussed was the largest program of the New Deal, and at one time or another employed around 25% of the labor force until it was disbanded during WWII (U.S. Federal Works Agency 1947). We find that this creates a shift in American federalism giving the central government authority to direct public works funds (fiat money), under the guise of fiscal Keynesianism (Smith 2006, 2008, Flanagan 1999) to politically important geographical areas of the country (Neumann, Fishback and Kantor 2011), as opposed to infrastructure decisions being made locally and autonomously. Jason Scott Smith also finds that the physical works themselves, being built in almost every county in the nation, inculcates in the minds of Americans a larger role for the central state in their daily lives. We also find that the US government has now assumed the role of an employer of last resort, as witnessed by the Employment Act of 1946.<sup>32</sup> Lastly here we have laid the foundation for the “administrative state” (Flanagan 1999).<sup>33</sup>

The NLRA (Wagner Act) creates the NLRB and removes jurisdiction for redress against strike actions from the civil court system to administrative law and this

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say this is a very good example of an opportunity of rent-seeking. Krueger (1974) writes that if there is enough rent-seeking into the market, eventually there will come a point when the market stops working to allocate most efficiently society’s scarce resources.

<sup>32</sup> This mentality too turns over immense power to the Federal Reserve Bank which reduces society to an interest rate and to the economists with the federal government who reduce society to a rate of growth of GDP and an (easily manipulated) employment statistic. This also sets in mind the notion of “jobs” as opposed to avocation or vocation.

<sup>33</sup> It is debatable however if indeed it took the New Deal to create the administrative state, Alexis de Tocqueville had found vestiges of soft-despotism in America by 1835.

gives labor unions tremendous political power. Unionization almost triples from 1935 to 1945, from around 11% of non-agriculture employment to more than 32% (Carter et al. 2006) and the relationship between unions and the Democrat party is cemented (Kennedy 1999). The *idea* of unions in American lives has changed, causing fiscal grief for American cities (Rusche 2014), uncompetitive auto and steel industries requiring nationalist interventions (Cameron and Neal 2003), an increase in well-paid bureaucrats toiling within the administrative state in the District of Columbia (Borcherding 1977), higher unemployment for those not lucky or savvy enough to get a union position (Powell 2003) and a federal state which is now constitutionally unrestrained in its socio-economic ambitions (Higgs 2013).

The SSA is our last category for the transformations in American life brought upon by the 1930's era. We have learned that this notion of "security" (freedom from fear, both domestically and internationally) is the nationalist undercurrent of the narrative of the New Deal. The prime agitator for a national retirement system was Secretary of Labor Frances Perkins<sup>34</sup>, the first female cabinet level appointment in US history.<sup>35</sup> Perkins and Justice Harlan Stone were having tea one day in 1934 and Perkins expressed her doubts that a federal government insurance program would pass the Supreme Court. Stone "leaned over and whispered" that "yes, it will, call it a tax and not an insurance program." "The taxing power of the federal government my dear; the taxing power is sufficient for everything you want and need." Perkins decided not to mention taxes in the SSA but rather calls the program "an account," but a safer one than that of a private bank.

When Perkins shortly thereafter discusses this with FDR, FDR replies, "but this is the same old dole under another name. It is almost dishonest to build up an accumulated deficit for the Congress of the United States to meet to meet in 1980. We can't do that. We can't see the United States short in 1980 anymore than in 1935." Roosevelt is known to change his mind and does so regarding "social security." The SSA passes the Supreme Court.

The SSA also introduces another form of dole into American society, Aid to Dependent Children.<sup>36</sup> Spalter-Roth and Hartman claim the purpose of this program is to keep mothers at home in order to raise children capable of

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<sup>34</sup> The Labor department building in Washington, DC is named after Perkins.

<sup>35</sup> This account is from Amity Schlaes (2009: 228-9).

<sup>36</sup> Now called TANF.

“contributing to society” (1994: 190). Russell takes this idea a little further and states that ADC is to create “obedient citizens,” citizens willing and able to work and willing and able to fight wars (2010:156).<sup>37</sup> Suzik states that the purpose of the CCC<sup>38</sup> is to create “citizen-soldiers” (1999: 256). This comes in handy when the United States was to enter into in our last phase of the New Deal, World War Two.<sup>39</sup>

### III.

From the beginning, then, New Dealers built a state that was both far more powerful and substantially less liberal than historians have realized: more powerful, in scale and scope of the federal government’s commitment to economic development and less liberal, in the sense that the New Deal state was focused on state-sponsored economic development, and not, in contrast, centrally occupied with tasks like implementing its social security program (which began making payments only in 1942), or with more radical goals such as the direct redistribution of wealth through tax policy (Smith 2008, 525).

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<sup>37</sup> Welch (2013) finds that it is in the State’s interest to have healthy citizens for the labor market both during times of peace and in times of war.

<sup>38</sup> The CCC was patterned after a similar program in National Socialist Germany (Garraty 1973, Russell 2010, Schivelbusch 2006).

<sup>39</sup> The Department of Defense is segregated, “conservative” Southerners are very important to the New Deal electoral coalition (Katznelson 2013, Zinn 2005).

**Appendix: Google Books “ngram viewer” for the word “nationalism” with smoothing of 1.**

