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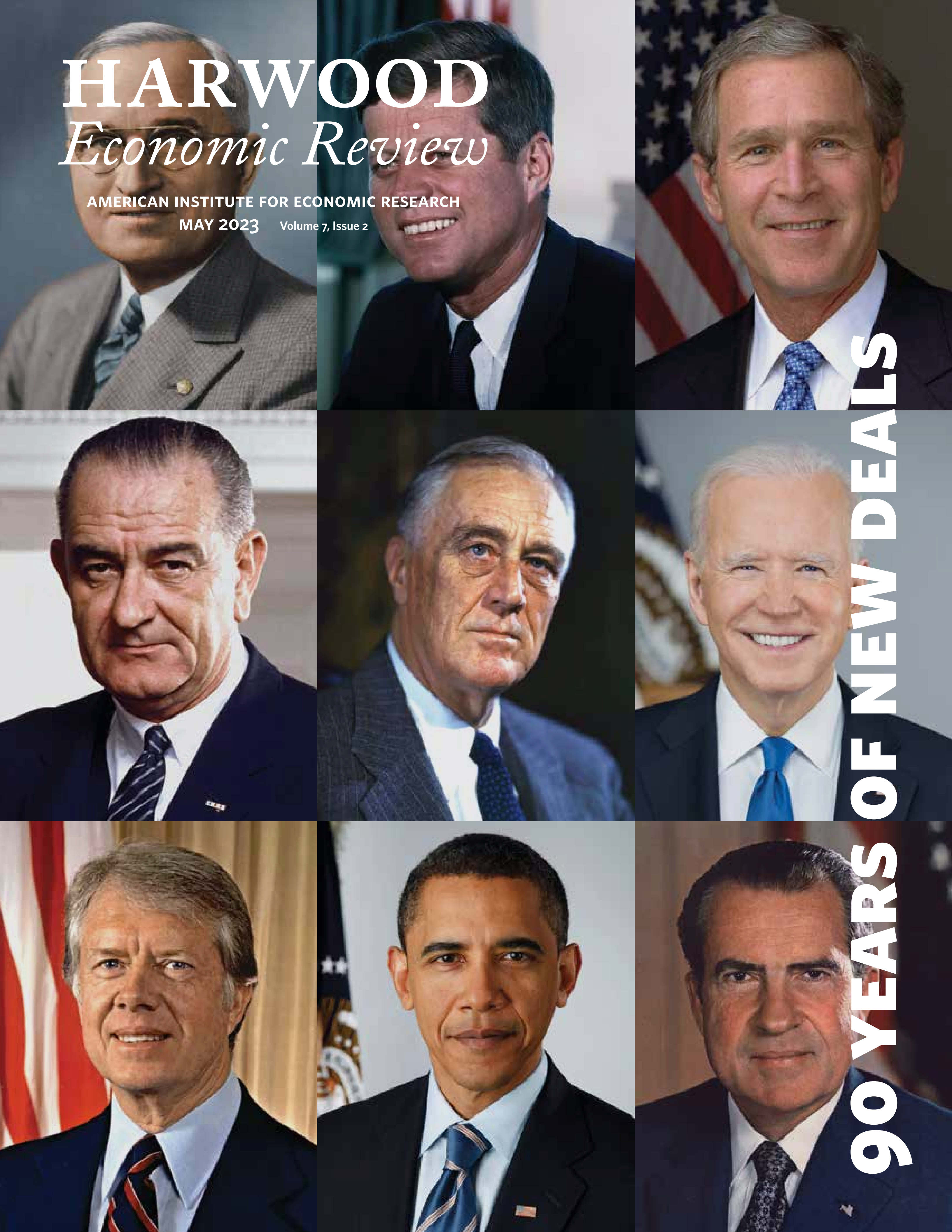

90 YEARS OF NEW DEALS

Harwood Economic Review

AMERICAN INSTITUTE FOR ECONOMIC RESEARCH

A Letter from the Managing Editor

Peter C. Earle

Greetings from the Berkshires! Our institute is humming with activity. Research, articles, publications, media events, and educational programs are flowing at an unprecedented rate. And at the end of May our largest-ever crop of visitors will begin arriving: twelve interns, five graduate fellows, and twenty long- and short-term visiting fellows.

This year, the American Institute for Economic Research commemorates the 90th anniversary of its founding. The surroundings into which this institution was born, however, were far from celebrative. In 1933, unemployment reached 25 percent, GDP stood 30 percent lower than its 1929 levels, and some 7,000 banks had failed over the prior three years. Generations of savings, built upon hard work and sacrifice, vanished completely. The simultaneous collapse of retail and wholesale prices destroyed countless business enterprises of all sizes and types.

Indeed, the US economy laid prostrate, with little being created besides economic and social engineering schemes in the minds of intellectuals and politicians. The culmination of those ideas calcified into the New Deal, a gargantuan collection of agencies, programs, and projects that irrevocably expanded the size, scope, and reach of the US government. Alarmed by this, a young Army officer named EC Harwood established AIER to combat the mounting dangers of ill-conceived economic policies and political demagoguery of the day.

The Brain Trust and Blue Eagle are long gone, but the New Deal lives on. Far more important than its considerable physical legacy—buildings, bridges, dams, airports, and so on—are its asomatous descendents. Cultivated by activist historians, the received account of the Roosevelt Administration's response to the Great Depression vindicates a host of principles once anathema to the American ethos.

Central planning, massive bureaucratic structures, redistribution, and exorbitant spending have become the default government response to every travail that emerges. In addition to such political fixtures as the Social Security Administration, the Securities and Exchange Commission, and the Ex-Im Bank, the more recent American Recovery and Reinvestment Act (2009), Coronavirus Aid, Relief, and Economic Security Act (2020), and so-called Inflation Reduction Act (2022) are nothing if not modern instantiations of New Deal thinking. In this edition of the *Harwood Economic Review*, we focus on the spirit of the New Deal still lingering with us today. In addition to a handful of articles, we are extremely pleased to have a guest introduction written by Dr. George H. Nash, esteemed historian and close friend of AIER.

The intellectual progeny of the New Deal continue to surface regularly in economic and political discourse: the Fair Deal, the New Frontier, the Great Society, the Freedom Agenda, Build Back Better, and others. But just as upon our 1933 inception we fiercely opposed their progenitor, ninety years later AIER remains every bit in the fight. Your generous support makes this possible. Thank you.

Peter C. Earle
Managing Editor, *Harwood Economic Review*

The New Deal Revolution Reconsidered
An Introduction

George H. Nash

In the autumn of 1932, as he campaigned unsuccessfully for reelection, President Herbert Hoover lashed out at the statist regimentation he sensed would be at the heart of Franklin Roosevelt's proposed New Deal. Hoover contrasted the traditional "American system" (as he called it) of "ordered liberty," individual initiative, equality of opportunity, and "self-government of the people outside of government" with the radical measures envisaged (he said) by his opponents: massive governmental expenditures, currency inflation, intrusion by government into the power industry, and more. These measures, he asserted, would "endanger or destroy" the American form of government. They would lead to "enormous expansion" of the federal bureaucracy and to "vast" concentration of power. They would "crack the timbers of our Constitution" and poison "the roots of liberalism." Economic freedom was threatened, he said, and it "cannot be sacrificed, if political freedom is to be preserved."

In a powerful address in Madison Square Garden, as the campaign approached its climax, Hoover warned that the election was "more than a contest between two men" or "two parties." It was "a contest between two philosophies of government", and its outcome would determine "the course of our Nation" for "over a century to come." For the rest of his life, he regarded this speech as one of his most prophetic.

For Roosevelt, also, the choice that November was ideological. For months he had presented his campaign as a "call to arms" and "crusade" for a "New Deal" that would bring relief to "the forgotten man at the bottom of the economic pyramid." The Democratic candidate angrily denied Hoover's charge that the New Deal sought to change "the fundamental principles of America." Instead, Roosevelt countered, it aimed to "bring those principles into effect." But FDR had a very different understanding of what those principles were. Just days before the election, he declared in a speech that the "American system" of government was "founded on the principle that many men from many States with many economic views and many economic interests" might work for "national harmony, national unity, and independent well-being" through "the medium of a national government." To Roosevelt, government was a mechanism for implementing the agenda he was now proposing, which included a "broad policy" of "national planning and of national building." And among the "indispensable principles", he said, "without which government. . . cannot forever live" were these: "social justice for all, and relief for those who are in need."

Roosevelt won the ensuing election in a landslide—and thus won the power to actualize his expansive vision. In March 1933, shortly after taking his oath of office, he called the recently elected and overwhelmingly Democratic Congress into special session to cope with the national banking emergency. But Congress (with FDR leading, and sometimes following) did not stop there. During the next one hundred days, it engaged in a frenzy of legislative activity unprecedented in American history and unsurpassed since. "Congress," said the cowboy humorist Will Rogers, "doesn't pass legislation anymore—they just wave at the bills as they go by."

The first Hundred Days of the New Deal have become part of the folklore of American politics. Still, it is instructive to ponder anew the extraordinary breadth and audacity of what came to be called the "Roosevelt Revolution." Among the principal bills that FDR signed into law between March and June 1933 were measures that led to the following federal initiatives:

the Civilian Conservation Corps, which soon employed more than 250,000 young men who were assigned to camps operated by the US Army;

the Federal Emergency Relief Administration, which devised and financed work relief projects that provided jobs for millions of unemployed Americans between 1933 and 1935;

the Agricultural Adjustment Administration, which sought to raise the depressed prices of certain farm products by paying farmers to curtail their acreage under cultivation;

the Tennessee Valley Authority, a federally owned corporation which, among other things, brought the federal government into competition with private utility companies for the first time;

the first broad federal regulation of the sale of securities;

the creation of the Federal Deposit Insurance Corporation and the mandatory separation of commercial and investment banking;

the Federal Emergency Administration of Public Works, later called the Public Works Administration, which eventually spent four billion dollars (in 1930s money) on the construction of highways and public buildings across the land;

the mighty National Recovery Administration, a soon-to-be-controversial agency that issued thousands of edicts and oversaw the enforcement of codes of "fair competition" in hundreds of industries.

All this occurred during the first three months of Roosevelt's first term.

The significance of the New Deal transcended the particularities of this legislation. The events of early 1933 signaled what a later critic, Whittaker Chambers, identified as a fundamental change in "the power relationships within the nation": the replacement of "the power of business" by "the power of politics". And not just any form of politics, but a brand increasingly centered on the presidency and the burgeoning executive branch of the federal government: the administrative state, as we have come to call it. As the executive branch, based in Washington, DC, grew in size and assertiveness during the Roosevelt years, it moved (in the libertarian author Garret Garrett's words) to "reduce all forms of rival authority," including Congress, the Supreme Court, and the state and local governments. The Roosevelt administration's battles against these competing loci of power comprised much of the political history of the New Deal.

To be sure, one can find antecedents for these centralizing tendencies. The "activist" presidencies of Theodore Roosevelt and Woodrow Wilson come to mind. Nevertheless, in sheer scope, intensity, and duration, the New Deal was a watershed in American history: a revolution in consciousness about the federal government's powers and purposes—a revolution constrained, at times, in later years, but never fully reversed.

Ninety years later, the New Deal system and mindset remain very much with us. Indeed, the current President of the United States unabashedly admires the New Deal and its presidential paladin, and has been urged by left-of-center historians to emulate him. Today, a large portrait of Franklin Roosevelt hangs in the Oval Office in the White House: symbolic evidence that the mystique of the Hundred Days (and its afterglow) continues to excite the liberal/progressive imagination.

Which brings us to the essays that follow. Since the late nineteenth century (as someone has observed), the Free Market and Government Regulation have defined a polarity in our public discourse. Which is the problem? Which is the solution? If one judges by today's headlines, the Regulators are currently ascendant. Yet, for all its institutional and rhetorical strength, the Roosevelt/New Deal approach to government remains contested. As the essays in this volume remind us, it raises political, economic, and philosophical questions that continue to agitate the American public square.

In an era in which a "Green New Deal" is one of the leading public policy options put before us, it is appropriate to reexamine past New Deal initiatives and their costs. Out of such reappraisals may come the wisdom and "checks and balances" that will enable Americans to live in a society that is both prosperous and free.

George H. Nash is a professional historian, lecturer, and author of several volumes and many articles about the life of Herbert Hoover. His other publications include The Conservative Intellectual Movement in America Since 1945 and Reappraising the Right. He has a Ph.D in history from Harvard University. He is a former President of the Philadelphia Society and a recipient of the Richard M. Weaver Prize in Scholarly Letters.

The Nightmare Fairyland of the Green New Dealers

Richard M. Ebeling

When a small child runs around waving their arms saying, *I'm a bird, I'm a bird*, we often will say what a creative imagination they have. If an adult runs around doing the same, we usually say that that person needs help because they are clearly out of touch with reality. Anyone who takes the time to read the proposed Green New Deal legislation can only conclude that the authors are living in a fairyland that is also deeply out of touch with reality.

Read through the list of desired and, indeed, demanded activities the congressional sponsors say they want the federal government to undertake over the next decade. The sponsors resemble a child running around the toy store saying, *I want that, and that, and that, and that, and. . .* while all the time completely oblivious to the fact that everything they want costs money that their parents do not have an unlimited quantity of.

The child may very well throw a temper tantrum when they are told that not everything they want can be had, or at least not right now all at the same time. What the child is not yet fully cognizant of is the existence and meaning of scarcity, costs, and trade-offs. Food, clothing, a room in which to sleep, and various other nice things from their parents just seem to be there. So why can't they just have all these other things as well, and just for the asking?

The Green New Deal's Grab Bag of Desired Things

House Resolution 109 (February 7, 2019), *Recognizing the Duty of the Federal Government to Create a Green New Deal*, has a long list of sponsoring congresspersons who seem to be not much different from that child in the toy store. I want an end to climate change; and I want an end to poverty; I want an end to social injustice, and an end to racism, sexism, and ethnic discrimination; I want a fossil fuel–free environment with renewable-energy sources and high-speed railways; I want everyone to have a well-paying, secure, and meaningful job, guaranteed by the government; I want everyone to have good, inexpensive, government-supplied housing; I want everyone to have a free education all the way to the PhD level; I want manufacturing and agriculture to be balanced through government support and subsidies; I want happy and respected indigenous peoples; and I want guaranteed and comfortable government-secured retirement pensions for everyone; plus, I want everyone to have guaranteed vacations.

In addition, each of the sponsors of the legislation says, I also want labor unions to have the power to determine work conditions and set wages; and I want all the groups in society, and most especially the ones that I consider to be underprivileged and under-represented and not treated nicely, to sit at the table of governmental decision-making and make sure that every one of these groups gets what I know they want and deserve. And I also want the US government to guide and subsidize the rest of the world to do the same. And I want the government to do it now, before the oceans rise, the sky falls, and greedy capitalists who don't care about anything other than their selfish profits destroy all living things on the planet.

Then with beautiful little birds chirping in the air in a clear blue sky, we will all live happily ever after in the Green New Deal paradise. The End.

Ignoring Criticisms to Pursue Political Purposes

A variety of critics has pointed out that the potential financial costs if the government attempted to implement all of this would likely run into the tens of trillions of dollars, looking over the next few decades. Others have calculated that the possible environmental benefits in monetary terms between now and the end of the 21st century most likely would be way too small to justify the lost growth in the overall American economy. And still others have reminded people of the dangerous loss of personal freedom and decision-making that would result from shifting to the required government central planning, if the Green New Deal were to be fully implemented. (See my article *The Green New Dealers and the New Socialism*.)

That most of the politicians who have signed up in support of the Green New Deal seem unconcerned by these consequences should not be too surprising.

First, they are spending other people's money—that is, money to be taxed from the American people or borrowed with future taxpayers expected to foot the bill. Besides, once one is talking in terms of trillions of dollars, one loses all sense of reality. Who can even picture in their mind what those kinds of sums really mean? It all seems like play money in a Monopoly game.

Second, all those politicians suffer from electoral near-sightedness. Their vision extends no further than the next election. For members of the House of Representatives this is only two years after the last election, which means they were already running for re-election even before they were sworn in to their term of office in early January 2019. Their mindset is that of *Après nous, le deluge* (After us, the flood). The full, long-run effects of vote-getting short-run policies will only emerge much later, possibly long after many of them are no longer in office. And if they are still in government when some of those longer-run consequences start to appear, who will go back and check their voting record from decades earlier to prove that it's really all their fault? The finger can be so easily pointed in other directions.

Third, far too many of them are guided by an ideological zeal that is accompanied by a power lusting for remaking the world in their own image. Which one of them does not suffer from the hubris of the would-be social engineer, the redesigner of society according to his/her own presumptuous conception of how people should live, work, and interact with their fellow human beings? Nary a one demonstrates any modesty or hesitation in believing that they know better how humanity should live than all those actually living out their individual lives in the world according to their own lights concerning what would be best for them and their families.

Few Politicians Know the Meaning of Bottom Lines

According to the Congressional Research Service in its December 2018 profile of Congress, less than 40 percent of all members of the House of Representatives and less than 30 percent of those in the Senate had any prior experience in business. Before winning their congressional positions, the large majority had careers in state or local government offices, or in the law profession, or in teaching.

Many in Congress have had little or no experience in running an enterprise, satisfying customer demands, meeting employee payrolls, or ensuring that a company's bottom line remains in the black in the face of market competition. This does not mean that law or teaching are not worthy occupations, nor that they preclude someone from having a good understanding of the market process or the value of securing individual liberty; after all, I'm in the teaching profession myself. But those who have operated a business are likely to be more aware of the reality and workings of financial costs and benefits, uncertain investment decision-making, the need for making inescapable trade-offs, and the personal risks of success and failure that occur in the world of competitive private enterprise.

Of course, having been a businessperson before entering politics does not ensure that someone is immune to the power-lusting or social-engineering bug, nor does it prevent such a person from easily falling into the mindset of spending other people's money. Even those who claim to be for

free enterprise, individual freedom, and limited government too often show themselves cut from the same political cloth as any others running for or holding political office. Indeed, those businesspeople who end up in political positions too frequently seem badly infected by the interventionist and welfare-statist viruses. (See my articles *If Political Candidates Advocated Liberty* and *Donald Trump the Corrupt Creation of America's Bankrupt Politics*.)

Green New Dealers' Scarcity-Free Fairyland

It is not really surprising that those who have most enthusiastically signed on to the Green New Deal are those in the *progressive* wing of the Democratic Party, and especially those who are the self-declared democratic socialists among them. Only a socialist can still believe that government planning can solve all the problems of the world, that merely commanding resources and directing people can take care of humanity's economic and social shortcomings, and all within a decade of setting the plan in motion.

Read through House Resolution 109, and not once do you find any reference to limits, scarcity, trade-offs, costs, or consumer choice and private-enterprise decision-making. Like a throwback to the Stalinist five-year plans of the 1930s, great transformations will be conjured up: new infrastructures in the form of roads, transportation, buildings, energy, and production will be redesigned and introduced in every corner of society with merely the will and command to free the world of fossil fuels and their effects. To be fair, they have shown greater modesty than the Stalinist enthusiasts of that earlier time; the Green New Dealers have given themselves a decade to perform these miracles, rather than work within the frame of a Soviet-style five-year plan.

They admit at several points that there may be the constraints of what science and technology will allow to be physically achieved; but they also propose the necessary government funding for research and development so that even nature should not serve as an inescapable obstacle to Utopia. The government experts will surely know which technologies deserve support to meet the targets and goals laid out in the economy-wide, encompassing, green central plan.

Nor should there be any concern about the money for all this, because that is what taxing the rich and government borrowing are for; and last but certainly not least, the money to pay for it can always be created, since that is what central banks are for. The latter, especially, may have to be used, since America is also to guide and subsidize similar green plans in the other parts of the world. Who said American progressives and democratic socialists don't believe in making America great again? What could be greater than Americans paying for all that may be needed to save the entire planet? If that does not make you proud to be an American, what does?

Listen to their responses to those who challenge their green plan. Again, like the immature child, they pout and stamp their feet that the only problem is that the rich don't want to pay up what they owe society. Or the racists and sexists want to maintain the existing social order of things so they can have the power to oppress the victims of their exploitive profit-seeking. If not for the enemies of the good, all would be possible without limit or natural constraint.

Green Planning and the Abolition of Rational Calculation

Is it really necessary, nearly 100 years after the publication of Austrian economist Ludwig von Mises' famous essay *Economic Calculation in the Socialist Commonwealth* (1920), to point out that it is not enough to know, in technological terms, what you would like to do or achieve? It is fundamentally essential, in a world of inescapable scarcity of the means to attain our various desired ends, to know in value terms what are the competing and most highly valued uses to which the limited factors of production might be applied.

How will the Green New Dealers know whether they have invested too much in a high-speed railway line in Nebraska compared to one in Idaho? Or how will they know whether either one has been worth it, at that time and in those places, compared to solar panel constructions in North Dakota or wind turbines in Mississippi? How will they know whether a government housing project in Boston has really been affordable in comparison to a new *free* medical clinic in Tucson, Arizona? How will they know any of this in relation to a vast and complex variety of consumer items that citizens all around the country would have been willing to buy, if their incomes had not been taxed and there had been a competitive free market in the production and sale of finished consumption goods?

The answer is, there will be no real and meaningful answer. Without a private competitive market for the factors of production (land, labor, capital) in which private enterprisers offer factors prices based on their alternative entrepreneurial judgments about the types and quantities of consumer goods that market demanders might be willing to buy in the future at particular anticipated prices, there is no way to know whether the means at society's disposal (that means all of us as individual buyers and sellers) have been cost-efficiently used to attain as many of the alternative and competing ends we would like to see possibly achieved. (See my article *Why Socialism Is Impossible*.)

But the proposed Green New Deal implicitly does away with a functioning, competitive price system. Instead, what the Green New Dealers offer is a free-for-all of political plundering through interest group horse-trading and pandering. That's what they say in the proposal: *A Green New Deal must be developed through transparent and inclusive consultation, collaboration and partnership with frontline and vulnerable communities, labor unions, worker cooperatives, civil society groups, academia, and businesses.* The government, labor unions, and stakeholder groups will also acquire equity ownership in the private enterprises that, clearly, now will be producing for environmental-sustainability and social-justice outcomes rather than for self-interested profit guided by market-based prices to satisfy consumer demands.

Green New Dealers Ignore How Little They Really Know

Is it also necessary, nearly 75 years after the publication of Friedrich A. Hayek's classic essay *The Use of Knowledge in Society* (1945), to remind people who should know better that it is the height of arrogance to presume that the designers of the Green New Deal and any others appointed to detail and implement such a grand epoch in American central planning, that there is more dispersed, decentralized, and ever-changing knowledge possessed in the minds of all of humanity combined than any group of social engineers can ever hope to master and integrate to solve the various problems of society?

Here, too, is an instance of the infantile ignorance of the green social engineers who believe that, like Olympian gods high above the ordinary mortals of humankind, they can direct the best future for not only all those in the United States but the entire population of the world. Straitjacketing everyone within the confines of the green plan means that hundreds of millions of people are prevented from deciding how best to use what they know that many others do not, and in ways that in the competitive, price-guided market process enables all to benefit from what everyone else knows. (See my article *F.A. Hayek and Why Government Can't Manage Society*.)

The Green New Deal Leads to Planned Chaos

With the implementation of the Green New Dealers' dreamland, America will begin the transition from a system of price-guided production, serving and satisfying market-based consumer demand, to what Ludwig von Mises called the *planned chaos* of waste-creating surpluses of unneeded and wrongly made goods along with life-frustrating shortages of desired and essential consumer items and producer commodities.

No longer singularly directed by competitive prices, the forms and types of production will increasingly be determined by the political dictates of the coalition of *inclusive* groups participating in the democratic decision-making of remaking America into the green world of the future. But precisely because of the direct and indirect supply-chain interdependencies of sectors of the economy in a social system of division of labor, resulting imbalances and distortions in one sector will have inescapable spillover effects on many other sectors.

A component part needed for one production process is lagging in availability because of manufacturing delays in the factory supplying that part because its energy supplies are dependent upon faulty solar panels caused by inferior inputs allocated to its manufacture under the green plan.

In another part of the country, highways are crisscrossed with newly installed electric-car powering stations, which are underutilized or not used at all because far fewer electric-powered automobiles have been produced than the planners had planned. Or the traffic flows in that area of the country have turned out to be far less than the green planners had projected because of other mismatches between central plan and local realities.

The types of competitive, market-based flexibilities in resource allocations and production adjustments that are constantly adapting the supplies to the demands in the face of unexpected and changing circumstances in a system of private, free enterprise under the incentives of profit and loss are all lacking under the green plan.

Prices and wages cannot adapt to the changing circumstances because various politically connected stakeholders in these imbalanced corners of the economy insist on preserving their socially just standards and locations of living while numerous historically *victimized* groups insist that any change that does occur must protect or improve upon their existing material or social status in society; to not

listen to these groups would imply continuing residues of racism, sexism, and social injustice. And there are, of course, the diehard Green New Deal ideologues who insist that personal sacrifices must be happily made because there is no going back to *capitalism*. It's either the green plan or an end to the planet.

With each passing day, every passing month and year, the dislocations in the economy grow with accompanying acrimonious accusations, buck-passing rationalizations and excuses, and grandiose political justifications for the increasing shortages, decreasing qualities, and lagging achievements in all the green plan had promised.

There are outspoken complaints by more and more people; here and there groups of consumers and workers and disappointed members of old or new victimized groups publicly demonstrate with anger and insistence that something better be done. They are met with the green planners promising plan corrections and social improvements, along with accusations about shadowy and dangerous enemies of the beautiful green world being built.

Green Planning Equals Political Plunder

The *democratic* socialism about which its new proponents almost lyrically sing is really an extended political plunderland of all those groups listed in the proposed legislation whose leaders will get together and decide how much of other people's money, social positions, and future life opportunities will be divvied up among their assigned followers at the expense of others in society. It is a gangster politics of coercively imposed outcomes that reduces both victims and recipients of redistributed booty to the status of slave-like dependents of those in governmental power who are determining their fates.

In spite of the colorful rhetoric of the common good, the general welfare, and social justice, the political arena is populated with those hungering for political power, with those wanting to take from others what they cannot peacefully acquire, and with those who dream dreams of remolding the human matter of society into a better world of their fanciful imaginations.

Everyday democratic politics is corrupt and wealth-inhibiting enough in the context of the modern interventionist welfare state. But if the Green New Dealers have their way, this will be taken to an entirely new and more destructive level as one great plan for global salvation is imposed on everyone, everywhere, with no avenues of escape in our age of electronic Big Brother surveillance and control. Once embarked on, history suggests that such central-planning systems are very difficult to reverse without great and costly hardships to nearly everyone in society.

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FDR's Forgotten Tax on the Poor

Phillip W. Magness

The Great Depression is usually remembered for introducing extremely high progressivity into the federal income tax system. This shift actually began as a misguided revenue measure by Herbert Hoover, who raised the top marginal rate from 25% to 63% in 1932 in a failed attempt to combat growing budget deficits.

But Franklin Delano Roosevelt made the progressive tax structure into a permanent feature of New Deal policy, premised on the redistribution of wealth from the rich to the poor. Roosevelt signed legislation hiking the top marginal rate to 77% in 1936, and successive increases raised it to an astounding 94% by 1944 (although wealthy earners seldom actually paid these statutory rates due to a much lower effective tax rate, particularly after 1940).

Among progressives, Roosevelt's package of taxing the wealthy to finance a redistributive welfare state remains his most celebrated legacy. Historians have been comparatively reluctant to acknowledge another tax legacy of the New Deal though, as FDR was also responsible for a radical expansion of the federal income tax base on the backs of the lowest income earners.

Breaking the Limits

At its conception in 1913 until the late 1930s, the federal income tax was intended to apply only to the wealthiest earners in society. This intentional policy sought to exempt lower income earners from the burdens of paying for the government's operations. Single filers could exempt the first $1,000 of their earnings (roughly $15,000–$18,000 today) from taxation, with an extra $500 exemption between 1925 and 1931. Married filers enjoyed roughly double that amount in most years. The eligible taxpaying public hovered around roughly 10–15% of all income earners (measured as *tax units*) prior 1939.

This all changed beginning in 1940, as FDR marshalled through a rapid succession of tax measures that simultaneously (1) raised rates across the board, (2) lowered the exemption level, and (3) ramped up tax enforcement by the IRS. While these measures slightly increased the already-high rates upon the wealthy, the bulk of their burdens actually fell upon the poor—mainly working-class people who previously paid no income taxes due to falling below the exemption threshold.

Between 1939 and 1942, Roosevelt cut the personal exemption in half. Single filers now had to pay taxes on income earnings above $500 (roughly $8,000 today). Married filers saw their exemption drop from $2,500 to $1,200 by 1942, and again to only $1,000 in 1944. The revenue strains of World War II provided an important impetus for these policies, but Roosevelt's actions both preceded US entry into the war and persisted as a permanent feature of the tax code after the return of peace in 1945.

From Some to Everyone

This federal income tax base expansion had dramatic consequences that persist to this day. Whereas the pre-war income tax applied to only about 10% of all earners in 1939, this number jumped to 90% by 1946 and has remained there ever since. The bulk of FDR's income tax policies actually fell not on the wealthy, but rather the middle class and the poor.

In addition to lowering the personal exemption and expanding the tax base onto lower income earners, Roosevelt aggressively expanded the IRS's tax collection and enforcement powers. The most famous of these policies involved the introduction of automatic payroll deductions in the 1943 and 1944 tax years. This now-standard procedure policy tasked employers with automatically deducting the taxed portion of your income from each paycheck, with adjustments coming in the form of a refund check or additional payment due at the end of the tax year. Prior to 1943 however, most income earnings were self-reported at the end of the year, subject to auditing.

War on the Poor

The fascinating thing about payroll deduction is that it did not primarily affect the wealthy. The wealthiest earners already faced an audit risk from the government due to their income levels and the associated revenue streams. The self-reporting system was imperfect, but a wealthy individual who consistently underreported on his or her tax return would eventually attract unwanted attention from IRS agents tasked with identifying scofflaws and recovering missing tax revenue.

Contrast that with the case of lower income earners. Suppose as a single filer in 1939 you made $1,200 a year, when the personal exemption was $1,000. Assuming you had no further deductions, you would be legally liable to pay taxes on income above the exempt amount. Prior to payroll withholding though, underreporting on your taxes was a low-risk proposition.

The tax auditors would take notice of a multi-millionaire who neglected to report hundreds of thousands in taxable income. Chasing down the tax payment on that extra $200 from a mechanic, farmer, or factory worker, by contrast, was probably not worth an IRS auditor's effort. In short, lax enforcement allowed the poor to skip on their modest tax burden with minimal risk.

We can actually see the effect of automatic payroll deductions (along with other accompanying war-time revenue and enforcement measures) in filing patterns among the lowest tax brackets. The figure below depicts the annual number of filers by bracket for incomes between $0 and $5,000. After three decades of stability in which only a small percentage of persons in these income categories had to pay taxes, the number of reported filings in the same brackets suddenly skyrocketed between 1940 and 1944.

While economic recovery, an associated increase in earnings, and postwar inflationary effects likely explain some of this pattern, the majority of it comes from FDR's tax base expansion onto the poor. Millions of previously exempt low-income workers suddenly found themselves added to the tax rolls and under the watch of an IRS that had the power to automatically withhold income from their paychecks.

Regressive Effects

While the war provided the political climate and revenue needs to drive this policy, FDR's tax base expansion had transformative effects on the way the federal government raises revenue. It converted the income tax from a narrowly applied revenue measure paid only by the wealthy elite into a mass tax paid by the entirety of the working public. The effects of this shift were anything but progressive, as can be seen in the figure below.

Until 1940, the top 1% of taxpayers consistently supplied over 70% of federal income tax revenue to the government. That number dropped to the mid-30s by 1943, as new additions to the tax rolls from the middle and lower classes found themselves eligible to pay under the New Dealers' tax legislation—a pattern that has only started to reverse under the tax code overhauls of the last 30 years. While the Roosevelt administration had profound effects upon the income tax system of the United States, its *progressive* reputation is largely a myth. Rather, the real story of New Deal income tax policy is a revenue grab sustained by the expansion of income tax eligibility and enforcement onto the masses.

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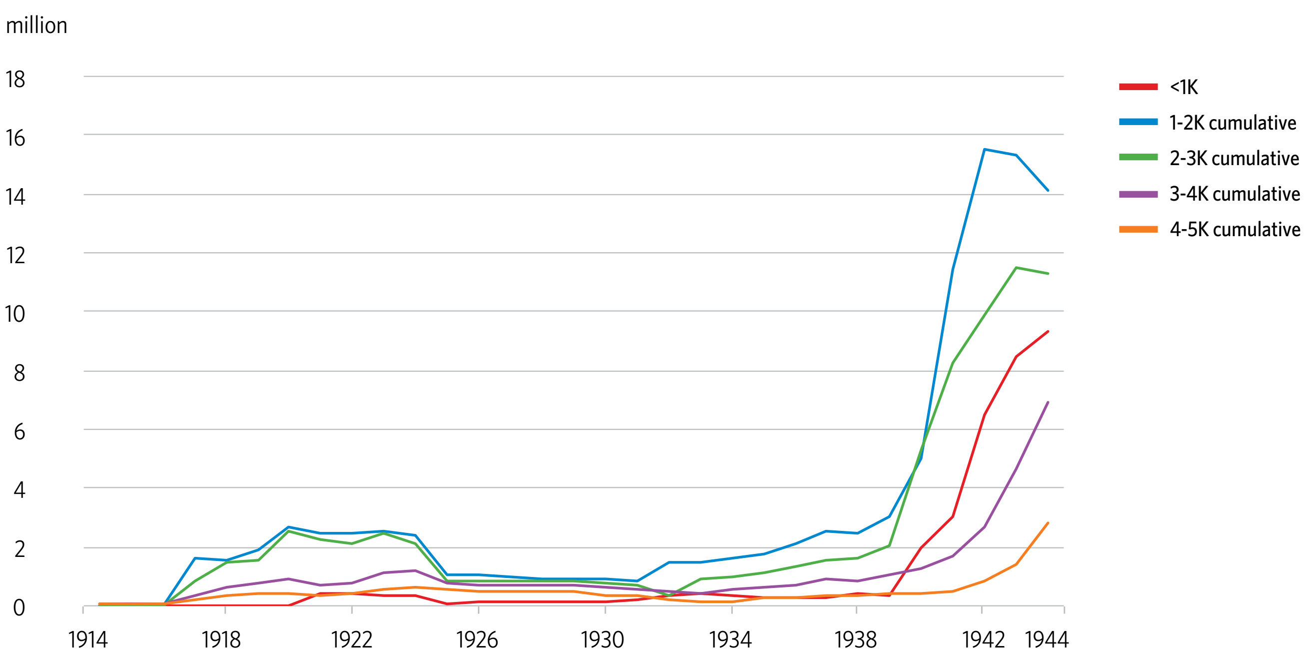
https://www.aier.org/article/fdrs-forgotten-tax-on-the-poor/

Total Number of Tax Returns Filed, Lower Income Brackets



The Twitter Files and FDR's Blue Eagle

Robert E. Wright

If you haven't been following the *Twitter Files* saga, the gist of it is that the US federal government routinely pressured pre-Musk Twitter, and likely other social media giants including Alpha (YouTube) and Meta (Facebook and Instagram), to stymie the dissemination of important information related to a certain infamous laptop, an important public health declaration, and various public disturbances in 2020 and early 2021, among other policy-relevant news items.

The Twitter Files may expose one of the greatest breaches of the First Amendment in recent history, but there is plenty of precedent for federal government coercion of businesses, large and small. Almost 90 years ago, for example, the US government used a different blue bird, The Blue Eagle, to coerce company complian ce with the worst type of disinformation of all: that related to prices.

America was then in the throes of the Great Depression, a steep downturn in economic activity exacerbated by deflation, or a declining price level. To bust out of the downward spiral of less production and ever-lower prices, the new administration of Franklin Delano Roosevelt (FDR) implemented a suite of policies known as the First New Deal.

One of those policies, passed 16 June 1933, was the National Industrial Recovery Act. It authorized FDR to create a National Recovery Administration (NRA), which he charged with keeping prices artificially high by forcing most industries to adopt commercial codes that set minimum prices, wages, and output quotas. In other words, it suspended antitrust laws and allowed US industries to form cartels that were not only legal, but enforced by the government.

When the aptly named Liberty Bakery had the audacity to charge customers only 5 cents for a loaf of bread instead of the cartel price of 6 cents, for example, the NRA Compliance Division induced the owner to sell his bakery rather than face its regulatory wrath, which included stiff fines and even jail time. But the NRA knew it could not monitor all prices all the time, so in July 1933 it created the Blue Eagle emblem as a badge of compliance with cartel codes and certain *voluntary* nationwide labor regulations, called the President's Reemployment Agreement (PRA), that set minimum wages per hour and maximum hours of work per week.

FDR himself then turned the Blue Eagle into a form of virtue signaling by urging Americans to only buy goods where they saw the Blue Eagle emblem displayed. To shop elsewhere to save a few pennies constituted an unpatriotic act that only miscreants would dare even consider.

To ensure that everyone got the message, FDR's administration mobilized the Post Office and encouraged private organizations to pitch in. Some, like the Boy Scouts, sent canvassers door-to-door to convince housewives to boycott non-compliant businesses. Other organizations staged Blue Eagle rallies and ticker-tape parades, including a 9.5 hour affair in New York City on 13 September 1933 attended by an estimated 1.5 million. In addition, sympathetic newspapers published *honor rolls* of PRA-compliant companies and ran articles and op-eds vilifying laggards and defiers.

The psy-op worked at first. For a time, lack of a Blue Eagle on shop windows or in advertisements decreased sales, making many businesses eager to speed cartel formation and to rat out competitors, like Liberty Bakery, that tried to cheat. Consumers also clamored for the right to display Blue Eagle paraphernalia on their clothes, homes, and cars. In the second half of 1933, Blue Eagle pins and stickers proliferated almost as quickly as mask, needle, and Ukrainian flag emojis did on social media accounts in 2020, 2021, and 2022.

Nevertheless, not all industries embraced the Blue Eagle's socialistic *we do our part* ethos. While some industries, like concrete, adopted detailed cartel codes, others, like yarn producers, produced only very general agreements. Some industries agreed to codes by July 1933 while others did not agree until 1935. The code for the median industry (the 279th of the 557 industries to adopt a code) was not approved by the NRA until February 1934, when the Blue Eagle was already showing signs of suffering from avian flu, or rather the effects of economic irrationality.

Numerous businesses, including Ford Motor Company, fought the PRA and NRA by refusing to display the Blue Eagle even when in compliance. There was even a failed attempt to cancel Ford, although everyone knew that he paid his workers far more than other domestic automakers did. Other businesses defied their respective industry codes, creating a compliance crisis in many industries by the spring of 1934.

Once news spread that the NRA Compliance Division could not keep up with alleged violations, consumers began to discount the notion that the Blue Eagle emblem (like the old Twitter Blue Check system) signaled compliance (tweet quality). That allowed them to stop boycotting non-Blue Eagle establishments and induced compliant companies to stop seeking competitive advantage by advertising with the Blue Eagle. Money remained so tight for most households that it was difficult to forego bargain prices even in the face of lingering social ostracism. In late May 1935, Schechter Poultry won its Supreme Court (SCOTUS) case against the NRA in a unanimous decision that held that the NIRA unconstitutionally delegated too much power to the President. After 710 days of existence, the NIRA was finished and newspaper editors throughout the nation pronounced the increasingly clawless Blue Eagle dead.

The lesson for today is that the federal government's censorship of expression via Twitter is vulnerable on at least two fronts, its obvious affront to the First Amendment and its delegation of vast powers to executive branch agencies like the FBI. But a word of warning is in order, even if SCOTUS clearly quashes government censorship via social media companies. Some industries continued to self-enforce their NRA codes even after Schechter because it was profitable and they knew FDR's administration would not prosecute them on antitrust grounds, and might even favor them. So it's possible that some social media companies could continue to censor information on behalf of the government, perhaps by taking cues from White House spokespersons, in return for regulatory and tax quid pro quo. Just as Chief Justice John Marshall noted that the power to tax is the power to destroy, so the power to regulate is the power to control.

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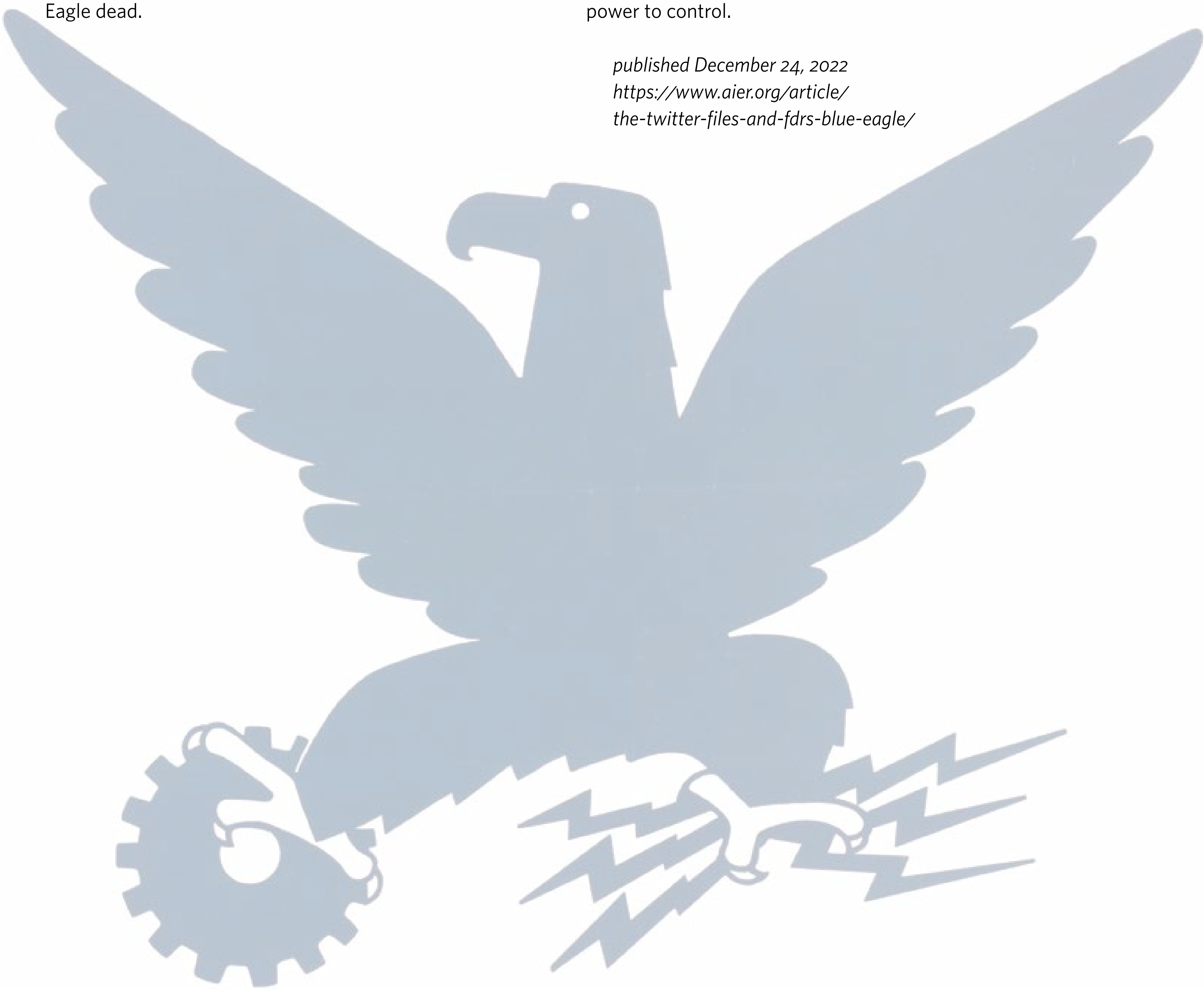

No, We Don't Need A New Reconstruction Finance Corporation

Peter C. Earle

A crisis virtually ensures that bad ideas will be touted out at some point or another. Particularly bad ideas will become proposals. But the worst ideas of all are not only endorsed, but have actually been tried time and time again, and somehow their insufficiency (or outright failure) goes unnoticed.

It's not surprising that with bailout numbers ranging from $2 to $6 trillion being thrown around, intellectuals on both the left and the right are angling for support of pet projects while decrying the efforts of their ideological opposites as cronyism or outright corruption. The stimulus bill which Speaker of the House Nancy Pelosi proposed a few days back included, among other items which seem curiously disconnected with stopping the spread of COVID-19: $35 million for the Kennedy Center. (Fortunately, the highly principled Republicans who stand for fiscal responsibility and lean budgets stood their ground . . . and only allowed $25 million.)

With the initial parameters of the stimulus package mostly fleshed out (although more will assuredly follow), the conversation has shifted to how the proceeds will be meted out. Treasury Secretary Mnuchin has stated that the lending program will operate through a Treasury-Fed partnership, the prospect of which puts both political partisans and more general skeptics of bailouts on alert: as John Cassidy wrote in a recent article in The *New Yorker*, the administration of these lending programs must be undertaken in a *reasonable and transparent manner that minimizes the scope for political cronyism*.

His proposal: a revival of the Reconstruction Finance Corporation.

Predictably, this is not the first time that this recommendation has been made. Just last year, when the idea of a Green New Deal was still being thrown around, mention was made of an RFC-type government institution through which its programs would be administered. In 1980, it was suggested that a new Reconstruction Finance Corporation would be an appropriate vehicle through which the decline of US cities could be mitigated. (Two bills were introduced in Congress that year to re-establish it.) It also was proposed on the Senate floor in 1974 as a corrective to the alleged inability of laissez faire policies to address the stagflationary slump. In March of 1971, the re-introduction of the RFC was also invoked in conjunction with the rescue of the Penn Central. And it has come up time and time again.

Origins

The Reconstruction Finance Corporation (modeled after the earlier War Finance Corporation) was created in early 1932 under the Hoover Administration as what amounted to the *discount lending* facility of the Federal Reserve System: it would lend to financial institutions chartered by states and in rural areas. (It replaced a less successful agency, the short-lived National Credit Corporation.) With the election of Roosevelt and its inclusion in the policy implementations of the New Deal, the size of the RFC expanded—as, predictably, did its reach. Among its broadened powers were the ability to purchase stock in banks and extend loans for everything from agricultural projects to disaster relief.

When the Roosevelt Administration set its sights upon devaluing the dollar, the RFC was the agency through which part of the operation was accomplished: it began quietly purchasing gold in global markets when the price was approximately $31.36 per ounce. In doing so it slowly lifted the gold price to $34 per ounce and then set a floor at $35 per ounce, which was announced as the new official dollar price of gold in January 1934.

It expanded vastly further in 1940, to prepare the way for American entry into World War II, but was abolished by an act of Congress in 1953, completing its dissolution in 1957.

And today, as has become a perennial exercise, The *New Yorker*'s Cassidy recommends the formation of an independent, transparent, and crony-free Coronavirus Finance Corporation—citing the *success* of the original Reconstruction Finance Corporation.

The Real Record of the Reconstruction Finance Corporation

Initially, the transparency which is often cited as one of the RFC's attributes was not in place. And by several accounts, during those first five opaque months of operation—before taxpayers could see what it was up to—the activity of the Reconstruction Finance Corporation was an unabashed, quintessential purveyor of cronyism:

> *The successor to [Charles G.] Dawes as head of the RFC was the Hon. Atlee Pomerene. . . Under Pomerene's aegis, the FRC promptly authorized a $12.3 million loan to the Guardian Trust Company, of Cleveland, of which Pomerene was a director. Another loan of $7.4 million was made to the Baltimore Trust Company, the vice-chairman of which was the influential Republican Senator Phillips L. Goldsborough. A loan of $13 million was granted to the Union Guardian Trust Company of Detroit, a director of which was the Secretary of Commerce, Roy D. Chapin. Some $264 million were loaned to railroads during the five months of secrecy. The theory was that railroad securities must be protected, since many were held by savings banks and insurance companies, alleged agents of the small investor.*
>
> *Of the $187 million of loans that have been traced, $37 million were for the purpose of making improvements, and $150 million to repay debts. One of the first loans, for example, was a $5.75 million grant to the Missouri Pacific to repay its debt to J.P. Morgan and Company. A total of $11 million was loaned to the Van Sweringen railroads (including the Missouri Pacific) to repay bank loans. $8 million was loaned to the Baltimore and Ohio to repay a debt to Kuhn, Loeb and Company. All in all, $44 million were granted to the railroads by the RFC in order to repay bank loans. . . In the case of the Missouri Pacific, the RFC granted the loan despite an adverse warning by a minority of the Interstate Commerce Commission, and, as soon as the line had repaid its debt to Morgan, the Missouri Pacific was gently allowed to go into bankruptcy.*

That blizzard of highly questionable loans completed, in June of 1932 the RFC began extending emergency loans under a new mandate of transparency, publicly posting the names of banks and other firms which received its aid.

And this is where the myth of the RFC's success is put to rest. The move to transparency, of course, was self-defeating: the public perception of a firm (in particular, financial firms) having requested and received government support was sufficient to undermine any remaining commercial viability it might have had. Thus in some cases, the newly translucent Reconstruction Finance Corporation actually caused, rather than quelled, bank runs; and in virtually all cases, confidence in the loan beneficiary vanished.

(This dynamic, incidentally, is what led the crafters of 2008's Troubled Asset Relief Program to essentially force certain large financial institutions to receive aid—whether or not they were in need.)

In addition,

> *Although the rate of bank failures temporarily slowed down after the corporation began lending, this was probably a coincidence. . . By early 1933 banks again began failing at an alarming rate, and RFC loans failed to avert the banking crisis. The ineffectiveness of the RFC was most apparent in February 1933, when the banks in Michigan collapsed despite the efforts of the RFC directors to save the leading banks of Detroit.*

In addition to its directors not understanding the effect of transparency on financial institutions dependent upon public confidence, the practice of taking a bank's strongest assets as collateral for a loan is at odds with principles of sound banking, and served to fundamentally weaken many of its borrowers.

These are the characteristic mistakes of appointed bureaucrats.

Additionally, the RFC's crony capitalism tendences didn't end after that short (but shamelessly enthusiastic) period in 1932. In the late 1940s, it loaned money to Northwest Orient Airlines in what was suspected as a favor to Boeing, who'd supported the Presidential campaign of Harry S. Truman; a Congressional investigation was triggered. Worse yet, one of the surviving tendrils of the RFC—the Ex-Im Bank—is nothing if not a veritable slush fund for corporate welfare.

What's the Cure for Cronyism?

The author of The New Yorker piece states, *Unless we are willing to let troubled corporations collapse, which could accentuate the coming slump, we need a way to support them in a reasonable and transparent manner that minimizes the scope for political cronyism.*

Few would disagree with this—no one, I'd bet, other than the handful of beneficiaries on both sides of such inside dealing. Fortunately, there is an alternate way to avoid corrupt lending practices, and it's vastly more affordable, equitable, and time-tested than bilking taxpayers or appointing apparatchiks to distribute taxpayer dollars. Best of all, it carries as powerful an anti-crony feature as one could ask for: the market. Let firms receive aid from other firms, individually or via consortia; or let them liquidate in a swift way, unfettered by the shackles that prevent assets, employees, and know-how from being acquired by financially stronger, better-managed firms.

And in this case, preferential dealing is a matter of private property and the choices of independent managers and directors of firms who are accountable to shareholders and themselves. Taxpayers will emerge unscathed.

The contention behind the repeated efforts to relaunch the Reconstruction Finance Corporation—including this idea of a Coronavirus Finance Corporation—is the same that underpins all policy proposals which tilt toward central planning: that either the current economic situation is too complex for markets to tackle, or that rapid action requires the imposition of bureaucrats. Both of these are provably false: in the former case, only markets have demonstrated the ability to gather, assimilate, and process local information efficiently. And the latter claim is hardly worth taking seriously.

The Reconstruction Finance Corporation was far from the model of a scrupulous, competent, and independent government agency that it is alleged to be. Governments have done enough damage locking down billions of people and crushing commercial enterprise when there have been clear alternatives to doing so from the start. However well-intended, a Coronavirus Finance Corporation would inevitably follow the same path as the RFC did.

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https://www.aier.org/article/no-we-dont-need-a-new-reconstruction-finance-corporation/

Clerks of the Reconstruction of Finance and Commodity Credit Corporation checking and tabulating loans and interest on loans
Harris & Ewing, 1937

Why You Should Include Charity In Your Will

Andrew Palmer

There is a common misconception that only the rich need to make a will. That is not true. A will eases the pain of your passing on those you leave behind, and without a will, regardless of your personal wishes, state laws will determine the transfer of your estate.

There is an even bigger misconception that only the super-rich leave money to charity when they die. That's also not true. The fact is that most gifts by will (bequests) are made by everyday people who want to have a lasting, positive impact on their community.

Without this type of generosity, many charitable institutions couldn't continue their missions into the future. Non-profits need our support to do their good work.

Here are four reasons why you should include a charity in your will:

A Gift By Will Is Easy To Make
A bequest is one of the easiest charitable gifts to make. It is simple to implement, and easy to change should you ever need to. You can give specific property, or designate a dollar amount, or a percentage of your estate. You can also designate a non-profit as a beneficiary of your retirement plan or life insurance policy.

A Gift By Will Does Not Alter Your Current Lifestyle
Making a bequest is a way of demonstrating your commitment to the future of the institution you love that doesn't affect your current asset balance or cash flow. There are no substantial costs, and the gift can easily be modified to address your changing needs.

A Gift By Will Can Change Lives
Non-profits improve our lives every day through their dedicated work, community, and stability. A bequest can help your best-loved charity further its mission and values. It can continue making a difference for generations to come.

A Gift By Will Creates A Lasting Legacy
Including a non-profit in your will is a great way to bring dignity, meaning, and purpose to a life well-lived. You can demonstrate your commitment to the future of the institution you love, and better yet, a bequest can allow you to give to an institution that you may have always wanted to support, but were unable to during your lifetime. Creating a legacy with your gift ensures that you, and your values, will live on.

You don't have to be wealthy to make a difference. Whoever you are, whatever your situation, you can help make a better world by including a charity in your will.

SEE PAGE 23 TO GIVE TO AIER

MONT PELERIN SOCIETY
2023

Liberalism and the Global Economy: Bretton Woods at 80 Years

The American Institute for Economic Research will host the 2023 Mont Pelerin Society Regional Meeting on October 29 to November 1, 2023 in Bretton Woods, New Hampshire, at the historic Mount Washington Resort.

As we approach the 80th anniversary of the Bretton Woods Conference, we will gather to examine the state of the international economic system that emerged in its wake. In addition to formalizing an international exchange rate system for the post-war world that ultimately displaced the gold standard, this event led to the creation of the International Monetary Fund and World Bank, and set into motion the proceedings that produced the General Agreement on Trade and Tariffs in 1947.

2023 also marks the 90th anniversary of AIER. We expect the rich history of AIER, the Mont Pelerin Society, and the Mount Washington Resort will converge to create an important and exciting conference. We are honored to have been selected to organize this special meeting of the Mont Pelerin Society.

Keynote Speakers

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Vice Chairman Lone Star Global Acquisitions

Douglas Irwin
John French Professor of Economics at Dartmouth College

Vernon Smith
Professor of Economics and Law at Chapman University

Planned Giving

Each one of us already has a default estate plan—one dictated to us by the government. The government doesn't know who we are; it cares nothing for our achievements, our principles and beliefs, our ethics, or our commitment to our families. In this plan, hard-earned assets can be unnecessarily taxed and heirs can be left with little or nothing.

The only way to make sure that your estate plan reflects your wishes is to design it yourself with competent counsel. Will your legacy be subsumed by faceless bureaucrats as a windfall profit for government programs that you may believe are antithetical to prosperity and justice? Or will it be a responsible transfer of values held dear by the one who earned the money? Make sure that you are the author of your own personal estate plan.

By making a planned gift to AIER—whether it be through your will, charitable trust, or another giving vehicle—you are making an incredible commitment to true freedom, sound money, and private governance. You not only secure your legacy as a champion of free markets, but you ensure that AIER will continue to fight for the principles you hold dear for generations to come.

We are forever grateful for AIER's planned giving supporters who help to ensure that people around the world will always have access to sound economic research, robust education in free market concepts, and practical training from AIER.

Here are some ideas on how to include AIER in your estate plans:

Your Will

If you already have a will, you can generally amend it to create a bequest for AIER and other charities. If you have elected a living trust rather than a will, you can also include AIER and other charities as trust beneficiaries, similar to creating bequests under a will.

Your Retirement Accounts

Retirement accounts—such as an IRA, 401(k), and others—that are left to heirs are double-taxed because (often but not always) they are subject to the estate tax and heirs are also subject to ordinary income tax on what's left. Retirement accounts left to a non-profit like AIER are not taxed at all.

Your Life Insurance

One of the easiest ways to leave AIER in your estate plans is to simply name AIER as a beneficiary of a life insurance plan. Life insurance proceeds, other than when given to a spouse or to a tax-exempt entity like AIER, are generally subject to the estate tax. Therefore, life insurance policies that are no longer needed for financial security are a good choice for enhancing your philanthropic legacy.

Other Giving Vehicles

Several less-common giving vehicles are typically used in complex estates, but might be worthy of consideration. We recommend you speak with your attorney or financial advisor regarding: Charitable Gift Annuities, Charitable Remainder Trusts, and Charitable Lead Trusts.

To get started

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I followed Colonel Harwood for many years and one thing that came through in all of his writing was that he was a great patriot and a strong believer in an honest currency. Having been in the investment business for 48 years, I think Colonel Harwood's teaching is needed even more now than it has ever been. He had a great impact on my thinking.

—**Arnold Van Den Berg**, Longtime AIER Donor

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[A]s for a quick cure, an easy way out, there simply isn't any. New savings to finance new building of homes and new developments in business, combined with labor willing to accept a low wage, are the mainsprings of recovery; slow, painful processes, hard work, whether that be liked or not. There is nothing spectacular about it, no promise of rose-strewn paths, no catchwords, no panaceas to cure the public's ills. But that is the only way out.

—E.C. Harwood
February 1, 1933