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## Tough Questions for Defenders of the New Deal

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This year marks the 70th anniversary of the launching of Franklin Delano Roosevelt's New Deal, so it's a good time to debate his policies, which have had an immense influence and which remain controversial.

On the Oct. 29 Wall Street Journal editorial page, Canadian newspaper publisher Conrad Black credits FDR for "swiftly reviving the American banking system" and helping to "banish the Depression." The biggest problem was to revive private sector unemployment -- median joblessness was 17% throughout the New Deal era; but Mr. Black claims welfare recipients should be counted among the productively employed and therefore "unemployment was eliminated." He says, "I know of no serious criticism of the Roosevelt administration's" many policies. But as I report in "FDR's Folly," dozens of economists, including two Nobel Prize winners, have evaluated the bad consequences of New Deal policies, and empirical research at leading universities raises tough questions:



1. *Why did FDR triple federal taxes during the Great Depression?* Federal tax revenues more than tripled, from \$1.6 billion in 1933 to \$5.3 billion in 1940. Excise taxes, personal income taxes, inheritance taxes, corporate income taxes, holding company taxes and "excess profits" taxes all went up. FDR introduced an undistributed profits tax. Consumers had less money to spend, and employers had less money for growth and jobs.

2. *Why did FDR discourage investors from taking the risks of funding growth and jobs?* Frequent tax



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hikes (1933, 1934, 1935, 1936) created uncertainty that discouraged investment, and FDR further discouraged investors by denouncing them as "economic royalists," "economic dictators" and "privileged princes," among other epithets. No surprise that private investment was at historically low levels during the New **Deal** era.

3. *Why did FDR channel government spending away from the poorest people?* Little New **Deal** spending went to the South, the poorest region; most went to political "swing" states in the West and East, where incomes were more than 60% higher. The South was already overwhelmingly on FDR's side.

4. *Why did FDR make it more expensive for employers to hire people?* By enforcing above-market wages, introducing excise taxes on payrolls and promoting compulsory unionism, the New **Deal** increased the costs of employing people about 25% from 1933 to 1940 -- a major reason why double-digit private sector unemployment persisted throughout the New **Deal** era.

5. *Why did FDR destroy all that food when millions were hungry?* FDR promoted higher food prices by paying farmers to plow under some 10 million acres of crops and slaughter and discard some six million farm animals. The food destruction program mainly benefited big farmers, since they had more food to destroy than small farmers. This policy and subsequent programs to pay farmers for not producing victimized the 100 million Americans who were consumers.

6. *Why did FDR make everything more expensive during the Depression?* Americans needed bargains, but FDR signed the National Industrial Recovery Act to establish some 700 industrial cartel codes that forced consumers to pay above-market prices for goods and services. Moreover, he banned discounting by signing the Anti-Chain Store Act (1936) and the Retail Price Maintenance Act (1937).

7. *Why did FDR break up the strongest banks?* FDR broke up the strongest banks, which diversified with both commercial banking and investment banking. FDR's federal deposit insurance didn't stop bank failures, but it transferred the cost to taxpayers. About 90% of bank failures occurred because of unit banking laws that prevented small banks from diversifying through branches. Canada, free from branching restrictions, didn't have a single bank failure during the Depression.

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8. *What was the point of New **Deal** securities laws that made it harder for employers to raise capital and didn't help investors to do better?* Employers desperately needed to raise capital, but FDR made this harder. New **Deal** securities laws led to costly regulations for issuing stocks. These laws impeded the raising of capital. The rate of return from new stock issues failed to improve after the SEC was established.

9. *How did the Tennessee Valley Authority become a drag on the economy?* FDR taxed 98% of the American people who didn't live in the Tennessee Valley, then used this revenue for the TVA power-generating monopoly, exempt from federal and state taxes and regulations. But non-TVA Southern states such as North Carolina and Georgia grew faster than TVA states, because there was a faster exodus out of farming and into manufacturing and services, which offered higher incomes.

10. *Why did FDR disrupt companies employing millions?* In 1938, FDR authorized an unprecedented barrage of antitrust lawsuits against about 150 employers and industries. FDR had big employers tied up in court, discouraging investment for growth and jobs.

It's ironic political historians give FDR credit for handling the political crisis of the 1930s, even though the most important factor in the crisis was double-digit private sector unemployment prolonged by FDR's misguided policies.

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