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The Aberdeen Advocate

THE TRUTH IN BLACK AND WHITE

On the subject of...

Food for thought from a very bright lady

As I wrap up my vacation this week, I'm using this space to offer up some historical background and perspective provided by the nice folks at Hillsdale College. The words that follow aren't mine. They are excerpts from a speech given on the campus of Hillsdale College in July of this year and reprinted here by permission.

The speaker, Amity Shales, is a syndicated columnist for Bloomberg and a Senior Fellow in Economic History at the Council on Foreign Relations. She is a graduate of Yale University and pursued postgraduate studies at the Free University in Berlin. In the 1990s, she served as a member of the editorial board of the Wall Street Journal.

In 2007, she won New York's Deadline Club Prize for Commentary. In 2003, she was J.P. Morgan Fellow in Finance and Economics at the American Academy in Berlin. In 2002, she was co-winner of the Frederic Bastiat Prize, an international award for free-market journalism. She is the author of two national bestsellers: The Greedy Hand, a profile of the tax code; and the currently best-selling history of the Great Depression, The Forgotten Man.

See you all next week! VEM

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What makes the current field of candidates so timid? It is clear listening to figures from both parties this year that they still believe Social Security is untouchable. This despite the fact that bringing Social Security into solvency is a relatively easy task. When it comes to the more serious fiscal burdens upon our grandchildren, the candidates are likewise timid. This despite the fact that those burdens only become heavier as we delay. We speak of 2008 as an election year, but it is also the year when the tide of Social Security cash begins to recede with the retirement of Baby Boomers.

But where is the origin of the problem? Traditionally historians have focused on the slow rise of American progressivism over the past century and a half. I'm going to do something different, and undertake an almost artificial exercise. Here I will compress history and argue that this destructive hesitation comes out of a single political campaign, the presidential campaign of 1936. This campaign marked the virtual end of old-fashioned American federalism and the rise of a new kind of politics. It was 1936 more than any other campaign that created modern interest groups and taught us that Washington should subsidize them.

Pinning blame on a single campaign (and its run up) may seem facile. Still, the story is well worth telling.

The Run Up

In 1932, total federal spending was still only five percent of gross domestic product. Spending by states and local governments represented by contrast 10 percent of GDP. Even well into the Depression, it was to state and local governments that many looked for a means to recovery. There was no big tax redistribution. The word "liberalism" still signified a belief in individual liberty rather than paternalistic government. Nor did American workers view themselves so much as a class in those years. They viewed themselves as moving up and down the economic ladder. Even our greatest union, the American Federation of Labor, was more of a craft and trade union than a class union. But all this was soon to change.

In his 1932 campaign, Franklin D. Roosevelt had talked about helping someone he called "the forgotten man." He was thinking of the poorest man, or as he put it—invoking the time of the pharaohs—"the man at the bottom of the economic pyramid." His speechwriter, Ray Moley, had inserted the phrase into an address on *The Lucky Strike Hour*. Moley wrote to his sister Nell that he didn't know where the phrase came from. But in fact it did have a provenance. It came from an essay (and later a book) written decades before, called *The Forgotten Man.* Written by a famous Yale professor named William Graham Sumner, this essay defined "the forgotten man" differently.

Sumner employed an algebraic formula to explain what he meant: A and B want to help X, he wrote. This is the charitable impulse. The problem arises when A and B band together and pass a law that coerces C into co-funding their project for X. Sumner identified C as the forgotten man. He is the man who works, the man who prays, the man who pays his own bills, the man who is "never thought of."

But this did not matter to Roosevelt, who, of course, won handily in 1932 without thinking much about the phrase again. He spent the next few years trying to help the poor through the now famous New Deal measures. But three years into his presidency, his efforts were still failing. The New Deal was having mixed results. Unemployment in May 1935 stood at what we today would compute to 20.1 percent—a large share of Americans were still

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forgotten men. The Brookings Institution wrote a nearly 1,000-page report on the New Deal's centerpiece, the National Recovery Administration, concluding that it "on the whole, retarded recovery." The Dow was stuck in the low hundreds, nowhere near even the 250 it had been in 1930 under Hoover, well into the downturn. As a result, in July 1935— the year before the 1936 election—Roosevelt made a decision to give up on trying to help the general economy. Instead, he decided to refine his definition of "the forgotten man." No longer would this man be simply the poor person at the bottom of the economic pyramid. The forgotten man would now be the member of certain defined constituency groups—groups like senior citizens, farmers, writers and artists, and union members.

Federal Largesse

Critical to FDR's plan was to invent ways to alter the bonds of towns and individuals with their states and establish bonds with Washington, D.C. One of the first important institutions through which this was accomplished was an old office that we rarely talk about anymore, the Public Works Administration or PWA. The PWA was placed under the control of Secretary of the Interior Harold L. Ickes—father of Harold M. Ickes, the prominent Democratic strategist who has worked with Bill and Hillary Clinton. The PWA's role was to fund buildings, bridges, and other structures in towns and villages all over America.

The PWA went to counties and towns to offer them a combination of grants and loans to build schools or dams or power plants, or any kind of public buildings. PWA regional offices sent all bids for structures back to the national office, where Ickes reviewed them. Then, every week, with a manila envelope, he went to the White House and Roosevelt looked them over personally, just as he looked, say, over his stamp collection in the evenings.

On the local end, the experience was a pleasant one for mayors or officers of the county. They were able to allocate the cash, to pick the architect and even the contractors. The money made them feel empowered.

The scale of the spending of the PWA was unprecedented. Its budget was $3 billion in its first few years, or half the size of the federal budget in any given year. Ickes himself was stunned by the magnitude: "It helped me to estimate its size," he wrote, "by figuring that if we had it all in currency and should load it into trucks, we could set out with it from Washington, D.C., for the Pacific Coast, shovel off one million dollars at every milepost," and at the end "still have enough left to build a fleet of battle ships." It is hard now, when we have become accustomed to imperious Washington bureaucrats, to imagine the high of the brand new experience Ickes was enjoying. Riding up and down the East Coast and across the country on a train with the President—in special cars with a new luxury that Ickes in his diary calls "cooled air"—he felt that his job gave him the ability to reshape the country. And indeed, the pyramid image appeared again: people called Ickes a pharaoh. And in fact, the PWA enabled him to be like a pharaoh—simultaneously grandiose and petty. On each PWA structure were placed the words: "Harold L. Ickes, Secretary of the Interior."

There were more than 3,000 counties in the United States, and all but 33 of them received a PWA project. Many received several. At Michigan State University alone—just up the road from Hillsdale—nine PWA buildings went up.

What did the country think of it all? The critic Frederick A. Gutheim wrote an article at the end of the 1930s complaining that the entire PWA produced "not one architectural masterpiece." But that in a way was the point. Roosevelt knew that masterpieces were not what was needed for his purpose. On the contrary, a masterpiece from Washington might stand out too much in small town America. This was a task of ingratiation.

The goal was to make the towns feel that the buildings were theirs, to get people used to Washington's hand being involved in projects that formerly were entirely local. Relatedly, Ickes was attacked on all sides for the pickiness with which he reviewed PWA projects. But Roosevelt told Ickes that he did not mind. "This slowness did not displease him," Ickes wrote. "On the contrary, he said to me, 'I do not want you to move any faster.'" The extra months that the process took were extra months of activity that held the eye, evidence that Roosevelt the candidate was doing something.

With this advertisement campaign in place, Roosevelt went on to connect with all his targeted groups. The Wagner Act, the Public Utilities Law, the Social Security Law, and the Works Progress Administration—WPA, not to be confused with PWA—were all passed in great haste, beginning in the summer of 1935. Senator Arthur Vandenberg of Michigan was so aghast at the scale of WPA spending that he decried the "four or five billion worth of lost liberty."

The WPA served much the same purpose as the PWA. Many here will recall those humble, high quality WPA guidebooks to cities, states and regions. They were another way of making the new federal role seem less threatening. Just like the building projects of the PWA, they symbolized a new relationship between the federal government and the counties and localities, from which states are cut out.

The WPA also developed a direct form of propaganda: writings and theater that supported the New Deal. In October 1935, the Agency announced that it was producing a play in New York about agriculture called Triple A Plowed Under (Triple A was a New Deal agency). The WPA also produced Power, a Marxist play that caricatured private-sector utilities executives as old men who exploit American households. The New Deal produced some real art—we all remember the compelling photo of the migrant mother by Dorothea Lange. But it also produced pure propaganda.

It is hard for us now to overestimate how welcome it was for so many journalists, photographers, artists, sculptors, and actors, to be on the Washington payroll. There was no Hatch Act in those days, no federal law precluded political activity by government of

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today moving, after a market crash, to put the staffers of Slate and Google on its payroll as bloggers.

Even by the end of 1935, what the federal government was doing was so changed that it would have been scarcely recognizable to someone from the minimalist 1920s. Washington spent $5.6 billion for the year, double the level of 1930—and this was before the first Social Security check was cut.

Interest Group Politics

It is worthwhile to pause and consider what all these New Deal programs were doing. They were not bringing the economy back to health. Indeed, they frightened participants in the economy. Utilities, for example, were seeing increased use of electricity, even in the Depression. But utility stocks were not booming because Roosevelt was attacking utility companies as enemies of "the forgotten man." In fact, Ickes was giving towns power plants in exchange for heir commitment to use government power instead of private power. The Dow, as mentioned before, was still in the 100s. Unemployment was still through the roof—19 percent in March 1936. Nonetheless, Roosevelt saw what his work at identifying groups to receive federal largesse would do: it would get votes. He continued to reach out to the mythical figure of "the forgotten man" through the spring, summer, and fall of 1936. Interestingly, people especially preferred the projects that were not for the poorest—the ones that instead helped the middle class along, not with relief, but with work and entitlements. This foreshadowed our own attitudes today.

Toward the end of the 1936 campaign, near the elections, Roosevelt moved into a frenzy, reaching out even to those groups he might have neglected before. He announced a $2 million expansion at Virginia State College, a black institution. In late October of 1936, days before the vote, he told an audience at Howard University that there are "no forgotten men and no forgotten races." By the last days of the election Roosevelt therefore had cemented his party's position vis-àvis his revised "forgotten man"—now a member of a group, not an individual. The job of everyone in the "unforgotten" groups henceforward would be to pay for the larger Washington that in turn would pay for the "forgotten" ones.

In 1936, federal spending moved to nine percent of GDP, up from two-and-a-half percent in 1929. If the gift to the 1932 electorate had been liquor—with the promise of Prohibition's repeal—federal spending was the gift in this election cycle. Historian Jim Couch of the University of North Alabama has shown the precision of the targeting of this money as a way of buying votes. He documents that Roosevelt poured money into battleground states and gave short shrift to safe states, including those of the poor South. Richard Vedder of the University of Ohio has data that suggests that the creation of jobs was also targeted politically. Reckoning unemployment rates month-by-month for 1930 to 1939, he found that though the average for 1935 or 1936 is between 15 and 20 percent, there is one month where unemployment dropped to 13.9 percent: November 1936, the month of the election. It went below that, and then rose again.

In other words, it is true that FDR was at his most popular in 1936, taking 46 of 48 states; but that fact cannot be credited entirely to his radio voice. Nor to the heroic popularity of an ailing president leading a nation through World War II—as we now, anachronistically, remember the 1930s elections. That would come later. In 1936, Roosevelt's was also the popularity of a leader who had invented a new way to reward the constituencies that he needed to win.

* * *

The overall lesson of this is that we can continue to respect many aspects of Roosevelt's presidency today. But we shouldn't have false nostalgia about it. After all, it was Roosevelt's political machinations in the 1936 campaign—symbolized by the PWA—that gave us the "earmarks" that bedevil Congress today, on both sides of the political aisle. Action is more important today because of our fiscal challenge—the new forgotten men are the grandchildren who will pay if we do not give up some of that costly nostalgia. John Marini was right when he said, right here at Hillsdale and earlier this year, that the country must choose now between Reagan and Roosevelt. That Reagan himself did not have to choose was because of demography. Unfortunately, now we must.

When I was writing my book on the Great Depression, I kept thinking back to William Graham Sumner, who originated the idea of "the forgotten man." Sumner was a Victorian who died in 1910. But I continued to hear him in the background as I studied Roosevelt and Ickes, and what Sumner said continued to apply—both to the 1930s and to our current political life. He spoke prophetically about the voter who was not included in preferred interest groups—the man or woman who everyone fails to think about. He spoke of the forgotten voter for whom there is "no provision in the great scramble" for federal largesse. Our elections are not good elections until they welcome back that voter, too.

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