FDR's Biggest Mistake During the Depression

by Jim Powell
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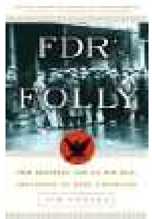
FDR didn't know what to do about the Great Depression he inherited from Herbert Hoover, so he tried everything. He hiked taxes, spent more money, established monopolies, enforced cartels, filed antitrust lawsuits, promoted compulsory unionism, multiplied business regulations, denounced investors, and started welfare programs, public works projects, a big entitlement, on and on.

One theme runs through such misguided policies: the failure to focus single-mindedly on the recovery of the private sector that pays all the bills, including tax bills. FDR was very much a creature of the "progressive" era, when many intellectuals embraced the view that experts could make a better world if only they had enough power. Some of FDR's New Dealers were impressed by Mussolini's fascist corporate state model, others liked Stalin's centralized economic planning in the Soviet Union, and still others just seemed to believe that any problem could be fixed by issuing more laws and regulations. With very few exceptions, New Deal discussions weren't about helping the private sector recover. Discussions were about making government bigger.

The influential newspaper columnist Walter Lippmann observed that New Deal reformers would "rather not have recovery if the revival of private initiative means a resumption of private control in the management of corporate business."

Whatever gave "progressive" intellectuals the idea that government could run an economy? History is littered with government failures.



During the 19th century, Illinois, Indiana, Maryland, New York, Ohio, Pennsylvania and Virginia built canals with taxpayers' money. Almost all were losers. State governments lost money in railroads. Economic historian Clifford Thies noted that "turnpikes were also money-losers." Economic historians Ernest L. Bogart and Donald L. Kemmerer observed that "Most of the enterprises were extravagantly, if not corruptly, managed."

Desperate to pay their debts, states raised taxes and unloaded assets as fast as they could. Altogether, nine state governments – a third of all states – that had spent large sums on all sorts of business ventures defaulted on their debts during the 1840s. Many state constitutions were amended to make sure such disasters didn't happen again.

A couple decades later, Washington politicians tried their hand at business by subsidizing construction of the transcontinental railroad. In 1872, this exploded into the biggest American financial scandal of the 19th century. Principals of Crédit Mobilier pocketed millions of dollars of subsidies, bribed congressmen, and brought on the collapse of the Union Pacific Railroad.

During the late 19th century, a number of western states tried to increase their populations and political clout by attracting people willing to farm in the desert – the most costly kind of farming imaginable. States issued bonds to finance dams and reservoirs for irrigation. Result: lots of corruption and waste.

President Theodore Roosevelt thought past experience didn't apply to him. He taxed people in eastern states, where rainfall made possible efficient farming, to subsidize those who wanted to become farmers in western deserts. In 1902, TR signed the Reclamation Act that established a federal dam-building monopoly, the Bureau of Reclamation. Historian Marc Reisner called it "an unparalleled experiment in federal intervention in the economy." There were few settlers but much corruption. Reisner added, "Every Senator wanted a project in his state, every Congressman wanted one in his district. Politicians didn't care whether they made economic sense or not."

World War I gave most Americans their first opportunity to see what a government-run economy would be like. The feds seized control of industries, fixed prices, and ran everything through big bureaucracies. As historians Samuel Eliot Morrison, Henry Steele Commager, and William E. Leuctenburg reported, "Baby carriages were standardized; traveling salesmen were limited to two trunks; and the length of uppers on shoes was cut down. It was such a regimentation of the economy as had never before been known, and it later served as a model for the New Deal."

So, FDR didn't need to know much about economics to realize that big government was no way to go. He would have done better to remove obstacles – starting with Hoover's obstacles – that interfered with the ability of the private sector to recover and prosper.

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Jim Powell, a Senior Fellow at the Cato Institute, is the author of Wilson's War, How Woodrow Wilson's Great Blunder Led To Hitler, Lenin, Stalin And World War II *(2005),* FDR's Folly, How Roosevelt and His New Deal Prolonged the Great Depression *(2003), and* The Triumph of Liberty, A 2,000-Year History Told Through The Lives Of Freedom's Greatest Champions *(2000).*

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