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Conservative Fiction: The New Deal Sucked!

As we are facing the biggest economic crisis since the Great Depression as a result of conservative deregulation, it's only logical that we would look to how we successfully dealt with the last major economic crisis -- the progressive principles that shaped President Franklin Delano Roosevelt's "New Deal."

The conservative response? Pretend that the New Deal sucked.

Last month Jonah Goldberg wrote on the National Review blog The Corner that the New Deal is to blame for making it a "Great" depression:

...we shouldn't let invocation of the Great Depression -- and our fear of it -- justify all of this New Deal talk. Say it with me: The New Deal prolonged the Great Depression. In fact, if anything it was the New Deal itself that made the Great Depression "Great." By 1938 one in six Americans were still without jobs. It wasn't until WWII, when FDR started describing himself as "Dr. Win the War" instead of "Dr. New Deal" that America finally started to lift itself out of its state-imposed economic stupor.

Yesterday, the Heritage Foundation's Conn Carroll claimed that the New Deal created a wholly separate Depression:

One of the great untold stories about the Depression is that there were really two of them. By the mid-1930's the U.S. economy was well along the road to recovery with the number of unemployed dropping from 13 million in 1933 to 7.6 million in 1936. The the Supreme Court, bowing to the court packing pressure of FDR, approved the Wagner Act and the economy tanked again.

The Wagner Act is that awful, awful law that gave workers the right to join unions, which in conservative world, ruined everything.

Carroll backs up his post with a Wall Street Journal opinion piece from Mark Mix of the anti-union National Right To Work Committee titled, "Labor Unions Prolonged the Depression."

By the mid-1930s, the U.S. economy appeared to be climbing out of the Great Depression. The Dow Jones Industrial Average (DJIA), which had bottomed out at 41 in 1932, was advancing. It increased 73% from the beginning of 1935 through the end of 1936, when it hit 180. The number of unemployed, 13 million in 1933, dropped to 9.5 million in 1935 and 7.6 million in 1936.

Then, in 1937, the DJIA plunged 33% in what is often called "a depression within a depression." Joblessness skyrocketed.

A principal factor in the meltdown that year was the U.S. Supreme Court's surprise 5-4 decision in early April to uphold the constitutionality of the Wagner Act, which had passed two years earlier...

What do all three of these conservative attacks have in common?

They all base their claims on last year's book, *The Forgotten Man: A New History of the Great Depression*, written by Amity Shlaes a former member of the conservative Wall Street Journal editorial board, and found to have used misleading numbers.

UC-Davis history professor Eric Rauchway exposed the dubious underpinnings of the book in *Slate* last year. When the actual economic statistics didn't support her anti-New Deal claim, she used estimates that explicitly disregarded government jobs created by the New Deal. Rauchway writes (emphasis added):

The greatest knock on the New Deal is it did not end the Great Depression. The war did that. Open the authoritative reference work *Historical Statistics of the United States* and you will find that the unemployment rate did not return to its 1929 level until 1943.

But if the New Deal did not end the Great Depression, was it doing some good? *Historical Statistics of the United States* says yes: Except in the 1937-38 recession, unemployment fell every year of the New Deal. Also, real GDP grew at an annual rate of around 9 percent during Roosevelt's first term and, after the 1937-38 dip, around 11 percent.

So on the numbers, the U.S. economy improved briskly during the New Deal. Things that are moving quickly and in the right direction, but still haven't reached their destination after a while, are things that have a long way to go -- which is true of the U.S. economy recovering from 1932. Historians disagree on which part of the New Deal most encouraged economic growth, but at the least the New Deal did not prevent this recovery.

Shlaes makes a different argument about numbers, because she uses different numbers. She starts each chapter with a rat-a-tat of just-the-facts, but instead of GDP, which represents the overall economy, she quotes the Dow Jones Industrial Average,

which represents the maybe 10 percent of Americans who owned stock. And though she quotes an unemployment number, she doesn't quote the figures I've just mentioned. Instead she chooses different estimates of unemployment that (she acknowledges) show a much larger share of Americans out of work during the New Deal.

If you want to know how the New Deal treated ordinary Americans, this choice really matters. Let's look at a figure Shlaes gives twice in her book and again in her Wall Street Journal editorial: She has unemployment at 20 percent in the 1937-38 recession. That's appalling--almost as bad as 23 percent in 1932. Based on such a statistic, you could think the New Deal wasn't alleviating the Great Depression. But that number hides something: A third of the people Shlaes counts as unemployed had a job that the New Deal gave them through its relief programs.

Now, you may say, wait: Those people really shouldn't count as employed--we're not interested in government make-work, we're interested in the real economy. Fair enough--and if you look again at Historical Statistics of the United States, you'll see another measure of unemployment--private, nonfarm unemployment--measuring the real, industrial economy. And on that measure, unemployment again runs markedly lower under Roosevelt than under Hoover. John Maynard Keynes might have explained that the New Deal wasn't just offering make-work, it was stimulating the economy--and Shlaes in fact at one point says the same: "[I]t functioned as Keynes ... hoped it would." Yet of all the possible ways to measure unemployment, Shlaes chooses the only way that hides the effect of New Deal relief programs and makes it look as though the economy performed as poorly under Roosevelt as under Hoover.

Economic journalist David Warsh slammed the book in his economicprincipals.com weekly column, via *Economist's View* (emphasis added):

The result is a book just as fanciful, but much less convincing than Kenneth Roberts' account of Oliver Wiswell's long career as a critic of the first American Revolution. For Roberts never argued that the colonies' War for Independence was a mistake -- rather he showed that it was a very painful ordeal, with good arguments on both sides of the issues. Safely ensconced in Nova Scotia at the very end of the book, Wiswell allows, "Perhaps something great will come even to that rabble... that drove us from our homes."

Shlaes, on the other hand, seems to argue that we would be better off if John Maynard Keynes had never written what she describes as a "license for perpetual experimentation" with macroeconomic policies, if the extension of rights and responsibilities summarized by the phrase "the New Deal" had never occurred. But what about the enormous growth of the American economy since 1946? What about the seventy five years that have passed without another depression?

And New York Times economic journalist David Leonhardt also found Shlaes' argument wanting in his book review (emphasis added):

The great challenge for his critics has always been to come up with an alternate vision that might plausibly be said to have done more good with fewer downsides. Shlaes likes the model offered by Willkie, the Republicans' 1940 presidential nominee, in which the New Deal would have been scaled back and business would have filled the void. She builds her case mostly by implication, through a series of sketches of self-starters who embodied what the free market could have accomplished. There is Bill Wilson, for example, the stock trader who founded Alcoholics Anonymous and in the process "taught Americans that the solution to their troubles lay not with a federal program but within a new sort of entity -- the self-help community," as Shlaes puts it. Mellon shows the power of charity by donating his unrivaled art collection to the country, thereby creating the National Gallery. Even the Good Housekeeping Seal of Approval has a role to play, as an example of how the private sector once took care of quality control. Roosevelt, however, preferred government institutions like the Food and Drug Administration.

In a way, Shlaes's book has come just a little after its time. In the early years of George W. Bush's presidency, conservative critiques of the New Deal served a larger political purpose, as a rationale for the administration's attempts to remake Social Security. Those plans failed, of course, mostly because they found little support among voters.

There is a historical parallel here. Roosevelt may be an icon now, but he faced enormous opposition when he was president. Americans at the time heard the arguments that he was insufficiently capitalist. They saw his missteps and, above all, they lived through the long Depression. Yet in four separate elections, when given a choice between his ideas and those of his critics, they overwhelmingly chose his. Based on what followed -- the great economic boom of the postwar years -- it is hard to doubt their decision now. They understood that the Good Housekeeping Seal of Approval wasn't quite up to defeating the Great Depression.

On the verge of a resounding call for a New "New Deal" -- to right the derailed economy with robust public investment in clean energy, infrastructure and education; stronger worker protections; new rules of the road for corporations and a guarantee of health care coverage for all -- conservatives could choose to debate those ideas with their own new ideas that learn lessons from their failed ideas of the recent past.

Instead, they are stuck in their default position, preferring fictional history to actual history. Refusing to acknowledge what clearly has worked, and what clearly hasn't, in the past. Desperately trying to malign a president widely considered one of America's greatest presidents along with Washington and Lincoln.

If they want to stop a New New Deal, repeating the mistakes that led to one of the worst presidencies in American history is not the way to do it.