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Burton W. Folsom, Jr.

New Deal or Raw Deal? How FDR's Economic Legacy Has Damaged America

The Making of the Myth: FDR and the New Deal

On May 9, 1939, Henry Morgenthau, Jr., the secretary of the treasury and one of the most powerful men in America, had a startling confession to make. He made this remarkable admission before the influential Democrats who ran the House Ways and Means Committee. As he bared his soul before his fellow Democrats, Morgenthau may have pondered the irony of his situation.

Here he was—a major cabinet head, a man of great authority. The source of his power, of course, was his intimate friendship with President Franklin Delano Roosevelt. Morgenthau was the president's longtime neighbor, close confidant, and—would be for over a decade—his loyal secretary of the treasury. Few men knew the president better, talked with him more, or defended him more faithfully. Eleanor Roosevelt once said Morgenthau was one of only two men who could tell her husband "categorically" that he was wrong and get away with it. Roosevelt and Morgenthau liked to banter back and forth at cabinet meetings, pass each other secret notes, meet regularly for lunch, and talk frequently on the phone. Morgenthau cherished a photo of himself and the president in a car, side by side, friends forever, with Roosevelt's inscription: "To Henry," it read, "from one of two of a kind."

But in May 1939, Morgenthau had a problem. The Great Depression—the most devastating economic catastrophe in American history—was not only persisting, in some ways it was getting worse. Unemployment, for example, the previous month had again passed the 20 percent mark. Here was Morgenthau, the secretary of the treasury, an expert on finance, a fount of statistics on the American economy during the 1930s; his best friend was the president of the United States and the author of the New Deal; key public policy decisions had to go through Morgenthau to get a hearing. And yet, with all this power, Morgenthau felt helpless. After almost two full terms of Roosevelt and the New Deal, here are Morgenthau's startling words—his confession—spoken candidly before his fellow Democrats on the House Ways and Means Committee:

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> We have tried spending money. We are spending more than we have ever spent before and it does not work. And I have just one interest, and if I am wrong . . . somebody else can have my job. I want to see this country prosperous. I want to see people get a job. I want to see people get enough to eat. We have never made good on our promises. . . . I say after eight years of this Administration we have just as much unemployment as when we started. . . . And an enormous debt to boot!

In these words, Morgenthau summarized a decade of disaster, especially during the years Roosevelt was in power. Indeed average unemployment for the whole year in 1939 would be higher than that in 1931, the year before Roosevelt captured the presidency from Herbert Hoover. Fully 17.2 percent of Americans, or 9,480,000, remained unemployed in 1939, up from 16.3 percent, or 8,020,000 in 1931. On the positive side, 1939 was better than 1932 and 1933, when the Great Depression was at its nadir, but 1939 was still worse than 1931, which at that time was almost the worst unemployment year in U.S. history. No depression, or recession, had ever lasted even half this long.

Put another way, if the unemployed in 1931 under Hoover would have been lined up one after the other in three separate lines side by side, they would have extended from Los Angeles across the country to the border of Maine. In 1939, eight years later, the three lines of unemployed Americans would have lengthened, heading from the border of Maine south to Boston, then to New York City, to Philadelphia, to Washington, D.C., and finally into Virginia. That line of unemployed people from the border of Maine into Virginia was mostly added when Roosevelt was president.

We can visualize this hypothetical line of unemployed Americans, but what about the human story of their suffering. Who were some of them, and what were they thinking? In the line at Chicago, we would encounter salesman Ben Isaacs. "Wherever I went to get a job, I couldn't get no job," Isaacs said of the prolonged depression. "I went around selling razor blades and shoe laces. There was a day I would go over all the streets and come home with fifty cents, making a sale. That kept going until 1940, practically." Letters to President Roosevelt tell other stories. For example, in Chicago, a twelve-year-old Chicago boy wrote the president, "We haven't paid the gas bill, and the electric bill, haven't paid grocery bill for 3 months. . . . My father he staying home. All the time he's crying because he can't find work. I told him why are you crying daddy, and daddy said why shouldn't I cry when there is nothing in the house." In our hypothetical unemployment line at Latrobe, Pennsylvania, we might see the man who wrote in 1934, "No home, no work, no money. We cannot go along this way. They have shut the water supply from us. No means of sanitation. We cannot keep the children clean and tidy as they should be." From Augusta, Georgia, in 1935 came this letter to the president: "I am eating flour bread and drinking water, and no grease and nothing in the bread. . . . I aint even got bed[d]ing to sleep on. . . ." But even he was better off than the man from Beaver Dam, Virginia, who wrote the president, "We right now, have no work, no winter bed clothes. . . . Wife don't even have a winter coat. What are we going to do through these cold times coming on? Just looks we will have to freeze and starve together."

High unemployment was just one of many tragic areas that made the 1930s a decade of disaster. The *Historical Statistics of the United States,* compiled by the Census Bureau, fills out the rest of the grim picture. The stock market, which picked up in the mid-1930s, had a collapse later in the decade. The value of all stocks dropped almost in half from 1937 to 1939. Car sales plummeted one-third in those same years, and were lower in 1939 than in any of the last seven years of the 1920s. Business failures jumped 50 percent from 1937 to 1939; patent applications for inventions were lower in 1939 than for any year of the 1920s. Real estate foreclosures, which did decrease steadily during the 1930s, were still higher in 1939 than in any year during the next two decades.

Another disaster sign in the 1930s was the spiraling national debt. The United States had budget surpluses in 1930 and 1931, but soon government spending ballooned and far outstripped revenue from taxes. The national debt stood at $16 billion in 1931; by the end of the decade the debt had more than doubled to more than $40 billion. Put another way, the national debt during the last eight years of the 1930s, less than one decade, grew more than it had in the previous 150 years of our country's existence. From 1776 to 1931, the spending to support seven wars and at least five recessions was more than offset by the debt acquired during the 1930s. Put yet another way, if Christopher Columbus, on that October day when he discovered the New World, could have arranged to put $100 a minute in a special account to defray the American debt, by 1939 his account would not yet have accumulated enough cash to pay for just the national debt acquired in the 1930s alone. In other words, if we were to pay $100 a minute (in 1930s dollars) into a special '30s debt account, we would need more than 450 years to raise enough money to pay off the debt of that decade.

The economic travail of the New Deal years can also be seen in the seven consecutive years of unbalanced trade from 1934 to 1940. Much of our government spending during the decade went to prop up prices of wheat, shirts, steel, and other exports, which in turn, because of the higher prices, made them less desirable as exports to other countries. From 1870 to 1970, only during the depression years plus the year 1888 did the United States have an unfavorable balance of trade.

Hard times are often followed by social problems. The United States in the 1930s was no exception. For example, the American birthrate dropped sharply, and the country's population increased only 7 percent in that decade. During the more prosperous 1920s, by contrast, the birthrate was higher and the country's population increased 16 percent.

For many Americans, the prolonged Great Depression of the 1930s became a time of death. As one eighty-year-old wrote, "Now [December 1934] there are a lot of us [who] will choose suicide in preference to being herded into the poor house." Apparently, thousands of Americans agreed with her, because suicides increased from 1929 to 1930 and remained high throughout the 1930s. Equally sad were the people who gave up on life after prolonged despair and took their lives more subtly, through an accidental fall, reckless driving, or being hit by a train. All three of these categories hit record numbers of deaths per capita during the New Deal years.

The loss of the will to live was also reflected in life expectancy during the 1930s. When Franklin Roosevelt became president in 1933, life expectancy in the United States was 63.3 years. Since 1900, it had steadily increased sixteen years—almost half a year each year of the first third of the twentieth century. In 1940, however, after more than seven years of the New Deal, life expectancy had dropped to 62.9 years. Granted, the slight decline during these years was not consistent—two of the seven years showed an increase over 1933. But the steady increase in life expectancy from 1900 to 1933 and from 1940 to the end of the century was clearly interrupted only during the New Deal years.

The halt in improved life expectancy hit blacks even harder than whites. In 1933, black Americans could expect to live only 54.7 years, but in 1940 that had dropped to 53.1 years. Both before and after the Great Depression, the gap in life expectancy between blacks and whites had narrowed, but from 1933 to 1940 it actually widened. Strong indications are that blacks suffered more than whites during Roosevelt's first term as president.

Someone might survey the wreckage from the 1930s and say, "Okay, maybe the whole decade of the thirties was a disaster. But since the Great Depression was a worldwide catastrophe, doesn't that diminish America's blame for its bad numbers?" The Great Depression did, of course, rock most of the world, but some nations performed better than others in limiting damage and restoring economic growth. Fortunately, the League of Nations collected data from many nations throughout the 1930s on industrial production, unemployment, national debt, and taxes. How did the United States compare with other countries? The answer: in all four of these key indexes the U.S. did very poorly, almost worse than any other nation studied. Most nations of Europe weathered the Great Depression better than the United States did.

In a decade of economic disaster, such as the 1930s, a decline in morality is a significant danger. If record numbers of people are hungry, out of jobs, and taxed higher than ever before, will the charity, honesty, and integrity necessary to hold a society together begin to crumble as well? The *Historical Statistics of the United States* offers some help in answering this question. Homicides increased slightly during the 1930s. There were more than 10,000 murders a year only seven times from 1900 to 1960, and all seven years were in the 1930s. Arrests during this decade roughly doubled: almost 300,000 were made in 1932, and this steadily increased, reaching a peak of almost 600,000 in 1939. Divorce rates increased as well, especially during the late 1930s, and the number of cases of syphilis treated almost doubled, although cases of gonorrhea were roughly constant.

Statistics can't tell the whole story of the changing mores of the 1930s. Many persons openly threatened to steal—or thought about stealing—to make ends meet during the Great Depression. Joblessness also led to "jumping trains" either to find work elsewhere or just to roam the country. R. S. Mitchell of the Missouri Pacific Railroad testified before the U.S. Senate that young men who jumped trains often encountered "hardened criminals" on these rides, who were a "bad influence" on the character of these youths. The *Historical*

Statistics further shows that deaths to trespassers on railroads were at their highest ever during the depression years of 1933 to 1936.

Roosevelt and the Historians

Did the New Deal, rather than helping to cure the Great Depression, actually help prolong it? That is an important question to ask and ponder. Almost all historians of the New Deal rank Roosevelt as a very good to great president and the New Deal programs as a step in the right direction. With only a few exceptions, historians lavish praise on Roosevelt as an effective innovator, and on the New Deal as a set of programs desperately needed and very helpful to the depressed nation.

An example of this adulation is the appraisal by Henry Steele Commager and Richard B. Morris, two of the most distinguished American historians of the twentieth century. Commager, during a remarkable career at Columbia University and Amherst College, wrote over forty books and became perhaps the bestselling historian of the century. From the first year of Roosevelt's presidency, Commager lectured and wrote articles in defense of the New Deal. Richard Morris, his junior partner at Columbia, was a prolific author and president of the American Historical Association. Here is Commager and Morris's assessment of Roosevelt and the New Deal:

> The character of the Republican ascendancy of the twenties had been pervasively negative; the character of the New Deal was overwhelmingly positive. "This nation asks for action, and action, now," Roosevelt said in his first inaugural address, and asked for "power to wage war against the emergency." . . .
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> It is the stuff of good history, this—a leadership that was buoyant and dynamic; a large program designed to enable the government to catch up with a generation of lag and solve the problems that crowded upon it; a people quickened into resolution and self-confidence; a nation brought to realize its responsibilities and its potentialities. How it lends itself to drama! The sun rises on a stricken field; the new leader raises the banner and waves it defiantly at the foe; his followers crowd about him, armies of recruits emerge from the shadows and throng into the ranks; the bands play, the flags wave, the army moves forward, and soon the sound of battle and the shouts of victory are heard in the distance. In perspective we can see that it was not quite like that, but that was the way it seemed at the time.

Commager and Morris's assessment highlights four main points of defense for Roosevelt and the New Deal that have been adopted by most historians for the last seventy years: first, the 1920s were an economic disaster; second, the New Deal programs were a corrective to the 1920s, and a step in the right direction; third, Roosevelt (and the New Deal) were very popular; and fourth, Roosevelt was a good administrator and moral leader.

These four points constitute what many historians call "the Roosevelt legend." Since the works of Arthur M. Schlesinger, Jr., and William Leuchtenburg have been essential in shaping and fleshing out this view of Roosevelt, I will quote from them liberally. . . .

In fact, the most recent Schlesinger poll (1996) ranks Roosevelt and Lincoln as *the* greatest presidents in U.S. history. He and his New Deal have become American idols. As Conlin writes, "From the moment F. D. R. delivered his ringing inaugural address—the clouds over Washington parting on cue to let the March sun through, it was obvious that he was a natural leader." Even before Roosevelt died, Conlin notes, "he was ranked by historians as among the greatest of the chief executives. . . . No succeeding generation of judges has demoted him." Leuchtenburg concludes, "Few would deny that Franklin Delano Roosevelt continues to provide the standard by which every successor has been, and may well continue to be, measured."

Of course, historians are often nigglers and all students of Roosevelt and his presidency have some complaints. What's interesting is that most of these complaints are that Roosevelt should have done more than he did, not less. "The havoc that had been done before Roosevelt took office," Leuchtenburg argues, "was so great that even the unprecedented measures of the New Deal did not suffice to repair the damage." Therefore, to Leuchtenburg and others, the New Deal was only "a halfway revolution" that should have gone further. Some historians say FDR should have done more deficit spending during the recession of 1937; some chide him for not supporting civil rights more strongly; some point to abuse or corruption in some of the programs; and some say he should have done much more to redistribute wealth. The New Deal was, many historians conclude, a conservative revolution that saved capitalism and preserved the existing order. Some New Deal historians of the 1980s, 1990s, and 2000s—loosely called the "constraints school"—argue that the New Deal did promote many needed changes, but that Roosevelt was constrained in what he could accomplish and therefore he did as much reform as circumstances would permit.

These recent criticisms of Roosevelt and the New Deal slightly alter but do not diminish the Roosevelt legend. The four points of defense are currently intact, and are usually found in most histories of the New Deal and in virtually all of the American history textbooks today. . . .

After his 1996 presidential poll, Schlesinger was more confident in Roosevelt than ever. Of the thirty-two experts consulted, thirty-one gave FDR the highest rating of "Great" and one ranked him "Near Great," the second highest rating. "For a long time FDR's top standing enraged many who had opposed his New Deal," Schlesinger wrote. "But now that even Newt Gingrich pronounces FDR the greatest president of the century, conservatives accept FDR at the top with stoic calm." Along these lines, historian David Hamilton, who edited a book of essays on the New Deal, observed, "Conservative critiques [of the New Deal] have drawn less attention in recent years. . . ." In other words, according to Schlesinger and many historians, the debate is over as the Roosevelt legend is established even among conservative historians.

The historical literature tends to support Schlesinger. The books and articles on Roosevelt and the New Deal are now so extensive, however, that it is almost impossible to read it all. Historian Anthony Badger has come as close as any modern historian to mastering the New Deal literature, and his book *The*

New Deal: The Depression Years, 1933–1940 is an essential tool to the modern historian trying to sort out all the writing on the subject. Badger looks fondly at Schlesinger and Leuchtenburg, the two key historians to shape the historical writing on the New Deal:

> At a time when there were few specialist monographs, both authors [Schlesinger and Leuchtenburg] displayed a remarkably sure touch in identifying the critical issues at stake in the most diverse New Deal activities. Both demonstrated an enviable mastery of a vast range of archival material. No one is ever likely to match the richness of Schlesinger's dramatic narrative. No one is ever likely to produce a better one volume treatment of the New Deal than Leuchtenburg's.

Thus, the Roosevelt legend seems to be intact. And as long as it is intact, the principles of public policy derived from the New Deal will continue to dominate American politics. As historian Ray Allen Billington noted, the New Deal "established for all time the principle of positive government action to rehabilitate and preserve the human resources of the nation." Yet, as we have seen, there is that nagging observation in 1939 by Henry Morgenthau, the secretary of the treasury, the friend of Roosevelt's and the man in the center of the storm. With great sadness, he confessed, "We are spending more than we have ever spent before and it does not work. . . . We have never made good on our promises."

Since national unemployment during the previous month of April 1939 was 20.7 percent, Morgenthau's admission has the ring of truth to it.

Is it possible that the Roosevelt legend is really the Roosevelt myth?. . .

What Finally Did End the Great Depression

If Roosevelt's New Deal programs did not break the Great Depression, then what did? Most historians have argued that America's entry into World War II was the key event that ended it. Federal spending drastically increased as twelve million U.S. soldiers went to war, and millions more mobilized in the factories to make war material. As a result, unemployment plummeted and, so the argument goes, the Great Depression receded.

William Leuchtenburg, who has written the standard book on the New Deal, claims, "The real impetus to recovery was to come from rapid, large-scale spending." Roosevelt, according to Leuchtenburg, was reluctant to take this step. When, at last, Pearl Harbor was bombed, "The war proved that massive spending under the right conditions produced full employment."

Recently, David M. Kennedy, in his Pulitzer Prize-winning book on Roosevelt, echoed Leuchtenburg's argument. "Roosevelt," Kennedy insisted, "remained reluctant to the end of the 1930s to engage in the scale of compensatory spending adequate to restore the economy to pre-Depression levels, let alone expand it." At the end of his book, Kennedy concluded, "It was a war that had brought [Americans] as far as imagination could reach, and beyond, from the ordeal of the Great Depression. . . ." More specifically, "The huge expenditures for weaponry clinched the Keynesian doctrine that government spending could underwrite prosperity. . . ."

Economists, Keynes notwithstanding, have always been less willing to believe this theory than historians. F. A. Hayek, who won the Nobel Prize in economics, argued against this view in 1944 in *The Road to Serfdom*. Economist Henry Hazlitt, who wrote for the *New York Times* during the Roosevelt years, observed, "No man burns down his own house on the theory that the need to rebuild it will stimulate his energies." And yet, as historians and others viewed World War II, "they see almost endless benefits in enormous acts of destruction. They tell us how much better off economically we all are in war than in peace. They see 'miracles of production' which it requires a war to achieve." Thus, in Hazlitt's argument, the United States merely shifted capital from private markets, where it could have made consumer goods, to armament factories, where it made tanks, bombs, and planes for temporary use during war.

Along these lines, economist Robert Higgs has observed, "Unemployment virtually disappeared as conscription, directly and indirectly, pulled more than 12 million potential workers into the armed forces and millions of others into draft-exempt employment, but under the prevailing conditions, the disappearance of unemployment can hardly be interpreted as a valid index of economic prosperity." A supporting point for this idea is that real private investment and real personal consumption sharply declined during the war. Stock market prices, for example, in 1944 were still below those of 1939 in real dollars.

If not World War II, what did end the Great Depression? This question is still open to research and original thinking. Higgs argues," It is time for economists and historians to take seriously the hypothesis that the New Deal prolonged the Great Depression by creating an extraordinarily high degree of regime uncertainty in the minds of investors." Roosevelt, as we have seen, regularly attacked business and steadily raised income tax rates, corporate tax rates, and excise taxes during the 1930s. He added the undistributed profits tax and conducted highly publicized tax cases that sent many investors to prison. During World War II, Roosevelt softened his rhetoric against businessmen, whom he needed to wage the war, but he did issue an executive order for a 100 percent tax on all personal income over $25,000. When Roosevelt died, and Truman became president, the hostile rhetoric toward businessmen further declined and no new tax hikes were added. During the war, in fact, Roosevelt had switched from attacking rich people to letting big corporations monopolize war contracts. Under Truman, businessmen were even more optimistic. They expanded production, and the U.S. economy was thus able to absorb the returning soldiers and those who had previously worked to make war equipment.

That, in a nutshell, is Higgs's thesis, and he has two persuasive pieces of evidence on his side. First, many leading industrialists of the 1930s openly explained how the president's efforts to tax and regulate were stifling the nation's economic expansion. For example, Lammot Du Pont, who revolutionized the textile industry in the 1940s with the invention of nylon, was one of many businessmen who complained about Roosevelt's policies. "Uncertainty rules the tax situation, the labor situation, the monetary situation, and practically every legal condition under which industry must operate," Du Pont protested in 1937. "Are new restrictions to be placed on capital, new limits on profits? . . . It is impossible to even guess at the answers."

Second, Higgs cites poll data that show a sharp increase in optimism about business after Roosevelt died and Truman became president. For example, the American Institute of Public Opinion (AIPO) did solid polling of attitudes on business and its findings are impressive. In March 1939, for example, AIPO asked a national sample, "Do you think the attitude of the Roosevelt administration toward business is delaying business recovery?" More than twice as many respondents said "yes" as said "no." In May 1945, however, one month after Roosevelt's death, the AIPO pollsters asked, "Do you think Truman will be more favorable or less favorable toward business than Roosevelt was?" On this poll, Truman had eight times more yeses than nos. *Forbes* and *Fortune* also did polls of businessmen and found similar results. What that meant was that after the war, American businessmen expanded production and thereby absorbed into the workforce the returning soldiers. The Great Depression was over at last.

Other nations recovered from the Great Depression more quickly than did the United States. During the late 1930s, the League of Nations collected statistics from the United States and from many other nations on industrial recovery. Much of that data support the idea that Roosevelt's New Deal created economic uncertainty and was in fact uniquely unsuccessful as a recovery program. In the table below, we can see some of the aftermath of the depression within a depression in 1937, when the stock market lost one-third of its value. During late 1938, the United States had some recovery, but in early 1939 recovery again lagged. By May 1939, unemployment again reached 20 percent, industrial production had fallen about 10 percent from the first of the year, and Henry Morgenthau confessed, "We are spending more than we have ever spent before and it does not work."

. . . The U.S. economy was in a tailspin six years after FDR became president and the country suffered more unemployment than most of the other ones studied by the League of Nations.

Some historians, trying to defend Roosevelt, point out that unemployment in the United States slightly dropped each year from 1933 to 1937, which suggests some progress in fighting the Depression. Unemployment was 25.2 percent in 1933, 22 percent in 1934, 20.3 percent in 1935, 17 percent in 1936, and 14.3 percent in 1937. That 14.3 percent, however, is alarmingly high and—outside of the 1930s—was only exceeded for a brief period in all of American history during the Panic of 1893. What's worse, the business uncertainty during Roosevelt's second term stifled that modest recovery of his first term.

To be fair, if we describe the downward move of unemployment during Roosevelt's first term, we must present the steady upward move of unemployment during most of his second term. Unemployment was 15.0 percent in September 1936, 15.1 percent in January 1937, 17.4 percent in January 1938, 18.7 percent in January 1939, and 20.7 percent in April 1939. Thus, more than six years after Roosevelt took office, and almost ten years after the stock market crash of 1929, unemployment topped the 20 percent mark. The League of

Industrial Production in the United States *Date (1929 = 100)*	
June 1938	65
December 1938	87
January 1939	85
February 1939	82
March 1939	82
April 1939	77
May 1939	77
June 1939	81

Sources: League of Nations, *World Economic Survey, 1938/39* (Geneva, 1939), 110–11.

Nations study, which tried to explain the poor performance of the U.S. economy, cited the "uneasy relations between business and the [Roosevelt] Administration." As Yale economist Irving Fisher bluntly wrote Roosevelt, "You have also delayed recovery."

Why was the performance of the U.S. economy—especially relative to other nations—so miserable? What were some of the ingredients in America's unique "regime uncertainty"? The first place to start is tax policy. One reason that the United States lagged behind other countries in recovery from the Great Depression is that Roosevelt strongly emphasized raising revenue by excise taxes. According to another League of Nations study, the U.S. increased its revenue from excise taxes more rapidly than did any of the other nine nations surveyed. Britain and France, for example, decreased their dependency on excise taxes from 1929 to 1938. Japan, Germany, Italy, and Hungary did increase their excise revenues, but only slightly. The United States, however, had a whopping 328 percent increase in excise revenue from 1929 to 1938. "The very large increases of yield [in tax revenue] which are shown in the case of Belgium [310 percent] and the United States [328 percent] are due to substantial increases in the rate of duty," the study concluded. Since these taxes fell heavier on lower incomes, that may have contributed to the poorer rate of recovery from the Great Depression by the United States.

Other tax problems contributed to "regime uncertainty." Corporate taxes went up, the estate tax was increased to a top rate of 70 percent, and the United States alone among nations passed an undistributed profits tax. Businessmen watched the top rate of the federal income tax increase from 24 to 63 percent in 1932 under Hoover and then to 79 percent in 1935 under Roosevelt. The president regularly castigated businessmen and threatened to raise rates further. On April 27, 1942, Roosevelt issued an executive order that would tax all personal income over $25,000 at 100 percent. All "excess income," the president argued/should go to win the war." Furthermore, Roosevelt's use of the IRS to prosecute wealthy Americans, especially Republicans, created incentives for businessmen to shift their investments into areas of lesser taxation. All of this created "regime uncertainty," and the Great Depression persisted throughout the 1930s. As we have seen in the League of Nations study, in 1929 the United States had the lowest level of unemployment of any of the sixteen nations surveyed. The U.S. dropped to eighth place by 1932, eleventh place in 1937, and then to thirteenth place in 1938.

In retrospect, we can see that Roosevelt's special-interest spending created insatiable demands by almost all groups of voters for special subsidies. That, in itself, created regime uncertainty. Under the RFC, for example, the federal government made special loans to banks and railroads; then the AAA had price supports for farmers; soon the operators of silver mines were demanding special high prices for their product. At one level, as we have seen, Roosevelt used these subsidies as political tools to reward friends and punish enemies. But beyond that, where would the line be drawn? Who would get special taxpayer subsidies and who would not? As Walter Waters, who led the veterans' march on Washington in 1932, observed, "I noticed, too, that the highly organized lobbies in Washington for special industries were producing results: loans were being granted to their special interests and these lobbies seemed to justify their existence. Personal lobbying paid, regardless of the justice or injustice of their demand."

Roosevelt became trapped in a debt spiral of special-interest spending. He often did not try to escape because of the political benefits received when he supported subsidy bills to targeted interest groups. In 1935, when the veterans came clamoring again for a special subsidy, Roosevelt cast only a tepid veto—how could he justify the cash to all the other groups, but deny the veterans? Therefore, an obliging Congress voted the veterans a special bonus of $2 billion—a sum exceeding 6 percent of the entire national debt. As the *St. Louis Post-Dispatch* observed, "Here is a superb example of how a powerful minority, in this case the veterans' organizations, has been able . . . to win Congress over to a proposition in defiance of logic, good sense and justice." Such an unwarranted subsidy was, the editor feared, a "grave defect in our system." We can better understand Henry Morgenthau's frustration in May 1939. He could just as easily have said, "We have tried spending and it creates frantic lobbying and a never-ending cycle of more spending."