Welcome to uncommon knowledge, I'm Peter Robinson. Amity Shlaes is a senior fellow at the Council on Foreign Relations and a columnist from Bloomberg. Her work has appeared in publications from National Review to the New Yorker and she was a member of the editorial board of the Wall Street Journal. She is the author of Germany: The Empire Within, The Greedy Hand: How Taxes Drive Americans Crazy and What to Do About It, and of her latest book, The Forgotten Man: A New History of the Great Depression. A remarkable volume, The Forgotten Man proves that almost everything we thought we understood about the Great Depression and the New Deal is either risibly simplistic or just plain wrong. Why what we think we know is wrong? The Great Depression; from 1929 to 1933, real economic, the United States declines by 30 percent. Unemployment grows from 3 percent to 25 percent, in other words 1 in every 4 workers can't find a job. As late as 1938, it's still 1 in 6 workers who can't find a job and as late as 1940 on the very eve of the war, 1 in 7 workers still can't find a job. Would you please give us what you consider the received wisdom about this terrible episode in American history and how we got ourselves out of it?

Well thank you Peter. There is several received wisdoms. One - there's a least common denominator, basic one is that capitalism broke. This is the example of the time when capitalism broke, and when I was researching this book I was in Germany in Berlin and I could find hundreds and hundreds of books about the American Great Depression because the East German Communists had collected every volume, because this was the global example of the limits of capitalism. So that's the basic one. Then on top of that, maybe you learned more recently, we learned from economists that it was a monetary event; there was a terrible deflation, a shortage of money so little money that people made their own Monopoly money; their own script. That's what we learned. And then we learned that Roosevelt came, there was this sense of terrible inaction, nobody doing anything; Hoover, Kohl.

Hoover's simply overwhelmed.

Kohl, laissez-faire, liquidate, liquidate, liquidate is the phrase you hear quoted from Mellon.

Mellon is the secretary of the treasury?

The secretary of the treasury, sort of Greenspan of the period; different title but same kind of figure as Greenspan. And Roosevelt came and he did something, at least he did something. Somebody had to do something. That's what we learned, and then what Roosevelt did in the received wisdom was mostly good and the important part of it, it inspired us and that pulled us through to the war. I guess that's the short Berlitz version of the standard.

Now that you've made the short version, we'll get to the longer version but give me the short version of what much of that received wisdom is simply mistaken.
The received wisdom says government rescued it. The answer is the rebuttable, government made it worse. Government made the depression great in magnitude. Government made it last until 1940 and that's the thesis of the book.

Alright this book, I'm quoting from the book. This book is the story of A - "the progressives of the 1920's and 30's whose good intentions inspired the country" but it is even more the story of C - "the American who was not thought of". Who's C? Who is in the title, the forgotten man?

The title came to me and it stayed with me. Roosevelt spoke of the forgotten man, the man at the bottom of the economic pyramid; the man way, way down there. That was the C, the poor man. A wants to help C, 'oh I want to help the poor man' and there were a lot of poor men, the bonus marchers of the time; 2 in 10, 3 in 10 unemployed. All are parents and grandparents. But he was, using a phrase, borrowing a phrase from a philosopher named William Grimsinger who also had a forgotten man and his forgotten man was the forgotten man coerced into paying for the progressive project for C. Maybe it wouldn't really help C to send him money, and it's alright for A to want to do that but when he coerces another fellow, maybe B or even a third person, forget about all the algebra, a third person. Is that right? Is it right to coerce another person to help a third party for a good project maybe, but maybe also perhaps a questionable project. And these people thought throughout the 30's about who is the forgotten man. Was it the taxpayer, the Sumner forgotten man, or was it the net recipient - what we would call the welfare recipient? There was this social security recipient, the poor man. And who was right? And that was the tension of the period, the 30's.

Alright so the title The Forgotten Man, you're asking the reader to keep in mind throughout this volume the question; is Roosevelt right, that the forgotten man is the poor, the dispossessed, the farmer who has nothing as a result of the dust bowl? Is that the central figure that you need to bear in mind in understanding the period? Or must you also understand the person who, what was Sumner's ... again the algebra gets confusing, but A wants to help B.

And they coerce ...

And A feels good about helping people. What gets forgotten is that he forces C to pay more taxes, to obey new regulations, and C must be remembered to understand the period correctly.

That is correct. I got the math wrong before. C co-funds the progressive project for X, sorry about his letters and numbers, you get the idea.

Right.

Who is co-funding, who is roped in? And really who is, more generally not everyone paid income tax in the New Deal, far from it. Who pays another way through the costs of the progressive project of the New Deal?
Now our 31st chief executive who'd come to FDR of course, but first Herbert Clarke Hoover. He's elected to succeed his fellow Republican, Calvin Coolidge, takes office in March 1929. The roaring twenties are still roaring, but about 7 months later, October 1929 the stock market crashes and the Great Depression is on. Listen to 2 quotations Amity. The first is from an article Don't Blame Hoover by Stanford historian David Kennedy. "Hoover's struggle against the depression was circumscribed by the institutional and intellectual limitations of the day. The federal government was a scanty, Jeffersonian structure with limited resources. Hoover would play no small part in it's radical transformation". The second from Amity Shlaes in The Forgotten Man, "Hoover's priggish temperament, as much as any philosophy he held, caused him both to misjudge the crash and fail in his reaction to it. Now I ask you to adjudicate between yourself and David Kennedy. Who's right about Herbert Hoover?

We're both right, we're both right. Hoover was a constitutionalist and you see later him fighting with the New Dealers. Harold Ickes, the father of the political advisor, attacked Hoover for having unconstitutional laws and Hoover really called him on that. This was later during the New Deal, he said what I did was constitutional and the court upheld it. And that was truth. Hoover did ... as distinct from FDR who could care less.

He pushes the envelope and goes up to the Supreme Court and gets a number ... we'll come to that, but the Supreme Court throws a number of New Deal legislation out. Go ahead.

So there David is absolutely correct. Hoover lived in the world of the gold standard, he was a commodities person. Remember Hoover was fabulously successful in the right field. Luck makes talent look like genius.

Anyone who works at the Hoover Institution continues to enjoy the success he endowed that institution with.

Right, he was sort of a Bill Gates. Nowadays engineering is hot again but for a long time it wasn't, back then it was very, very hot. He was the best paid young man of his generation, there was an article about that in the paper when he was a young engineer, he was a mining engineer. So he believed in the gold standard because partly he was in the gold business. He got things out of the ground; minerals. And so that was one area where he was sort of contained. He couldn't imagine a world without the gold standard; the gold standard mechanism from which he had benefited when he lived in London, in the great world of trade prior to World War I and II. He was a constitutionalist, he didn't really imagine the federal government going in and rewriting everything.

It occurs to me that you'd better ... I know, we know from our traffic that a lot of the people who watch these interviews are college students and some high school students. You'd better just explain the gold standard; it occurs to me.

Well if you had a dollar you could go to the bank and get a piece of gold for it.
And therefore the amount of currency in circulation always had a physical limit.

It had ...

You could not issue more dollars than could be supported by actual bars of gold.

It's a little bit more complicated than that, because of course banks create money when they lend money but it has to do with trust. If you believe you will always get the gold, then there need be less gold in the safe.

Right.

If everyone is always confident that the amount of gold relative to the amount of currency outstanding need be less, but yes, basically you need to be able to get that gold. And so if the trust falters, then you get runs on the bank and it is difficult if not impossible to liquidate the ... to pump more currency into the economy because the amount of gold is obviously physically limited. Is that correct?

Yes.

It very much circumscribes the ability of the government to push currency out into the economy right?

That's right and the government is sort of is ... doesn't have the power that it has now to just inflate like that. And that was regarded as a great good. So Hoover believed in the gold standard, he also believed in ... he didn't believe the federal government could just do stuff and Hoover Dam is a good example. He went and brokered among all these states, that they would get along and work together and I think there were 7 states involved in the Hoover Dam. Is that correct? And he very carefully and very constitutionally went about making that arrangement; he didn't impose it all from Washington. That's another example of something he thought that government couldn't do, that Kennedy would have called Jefferson in.

Let me give you a couple of Hoover's responses to the Great Depression and very briefly you give me the correct way to think about them. Signed into law June 17, 1930, the Smoot-Hawley Tariff which raises tariffs on some 220,000 rather imported goods to record levels. Smoot-Hawley - Herbert Hoover signs it. What do we make of that?

Well in those days the Republicans were the tariff party so Hoover was sort of like a politician today, a business man who becomes a politician; Mike Bloomberg, Arnold Schwarzenegger, someone from another field who comes into politics because of his tremendous success. So he was ambivalent about even which party to be in. He fit better in the Republicans, he became a Republican, he was elected as a Republican, he had to go along with their platform. It was right there, one of the planks, protectionism 1928 Republicans. So it wasn't that he invented this tariff, which was a significant tariff, the
second post war tariff, but he went along with it and where I chide him in The Forgotten Man is I say, well actually Herbert knew better. Herbert was an international man. He made the first part of his career in Australia, then he went to China, then he went to London, he went to Russia, he saw how bad the Czars were, and he knew that trade was really important; trade and free trade made him rich and prosperous, made him able to take his wife Lou around London and yet he signed a protectionist tariff ...

>> It hurts Americans.

>> Hurts Americans because other countries retaliate, which they did. So it shuts down trade.

>> Shuts down trade and hurts ...

>> Herbert Hoover knew better.

>> He knew better and he signed the tariff and when you go back and look at who protested more than a 1,000 economists signed a document begging Hoover not to sign it. Smoot-Hawley, one of them, was from Stanford, his own school. They said please don't sign this. A Lamont, one of the Wall Street figures said I just went down on my knees and almost begged Hoover not to sign that asinine tariff. Hoover knew better and that's why I'm a little bit hard on him, but it was ...

>> The Revenue Act of 1932.

>> This is a tax increase. Well I think he knew better there too, but again you want to say why did he do it? There's a reason he believed in the gold standard. Government really can't run a deficit in the gold standard because then there's a run, as you described before, so he was being prudent in the terms in which he lived and the gold standard university was another university; we can't just go back and say, it's bad to raise taxes in a down turn. That's Canzion talk, what we're talking, where supplies lie slash Canzion talk. In those days you really did have to balance the budget because otherwise you'd have run on your currency.

>> Now to the 30's and the New Deal. Franklin Delano Roosevelt, accepting the Democratic nomination for president July 2, 1932, "I pledge you, I pledge myself to a new deal for the American people, give me your help not to win votes alone but to win this crusade to restore America to its own people". In a sentence or two, define the New Deal.

>> To reconnection from the federal government right to the individual involving a flow of funds, plus confidence and strong leadership.

>> Alright, Rexford Tugwell, one of FDR's principle advisors and one of the most compelling portraits in The Forgotten Man "practically the whole New Deal was extrapolated from programs that Hoover started". Absolutely critical point; did the New
Deal represent something new in American history, a departure from the norms and standards of American government to that point or was it merely a step or two along a continuum that had already been established?

>> Well Roosevelt went much farther than TR, of course Theodore Roosevelt would be ... earlier progressives - Wilson and certainly Hoover would go. Roosevelt was unconstitutional, they were mostly constitutional so that's the difference but the impulse, it was a strong impulse, in American culture the impulse of progressivism ... there it was. Roosevelt didn't believe in states. If you look at the discussion by FDR, instead of what he did, he was a governor. Why didn't he believe in states? Because he made America his own one state. He was governor of New York, you could take the Tugwell quote "everything we do we took from Hoover" and there are people like Brunner Bellish who have written books. Everything Roosevelt did he took from what he tried already in New York. He just expanded the mandate he assigned to himself including Francis Perkins, for example, his labor secretary and he made it national. And whether that was constitutional or not was less interesting to FDR.

>> So what you're saying is that this impulse, there's kind of an emotional, we'll come to the intellectual underpinnings in a moment, but there's a kind of emotional impulse government must do, it must connect with the people, and you see that much earlier in American history. You see it right after the turn of the century with Theodore Roosevelt, but when you come to the depression the constraints disappear.

>> It's just like Katrina. It's like what's happening in China right now. All bets are off when you have a crisis and a disaster. You move to that part of the brain, that is the disaster mode part of the brain, and you do stuff you normally wouldn't do and maybe it's warranted and maybe it's not. They use the excuse of the emergency of the depression to expand the federal government mightily. Got to.

>> Now let me quote you in The Forgotten Man again, "to justify giving to one forgotten man, the administration found it had to make a scapegoat of another. Roosevelt and his staff were becoming habitual bullies, pitting Americans against one another". Tell the story of the National Recovery Act and the Schecter family.

>> This is a story I stumbled on and I fell so much in love with it that I thought well, this is the book, we'll forget about the rest of the book. The Schecters were the ... center left has their famous lawsuit, Gideon's trumpet, Gideon v. Wainwright; this is the conservative's Gideon v. Wainwright. The Schecters were small businessmen, they were chicken butchers in Brooklyn, they were, didn't speak English very well, they were quite religious, and they ... the authors of the New Deal and the National Recovery Administration which was the law that was the centerpiece of the New Deal. We have our NRA, they have their NRA, written this very strong law to govern all aspects of the business economy and it was quite questionable whether it was constitutional and they knew that, so they sought out a case to test it's constitutionality as set up a case they felt they could win, and they pick these little chicken butchers and one reason they picked them is they're chicken butchers, barely spoke English. There was this cultural bigotry
component; bigotry was much more obvious in those days. They were little Jewish chicken butchers and the big lawsuit came from the Justice Department which had no accent, spoke good English, their business had already been established to be racketeering interstate so therefore the commerce clause might not be a problem. And they were very surprised to be set up, they were set up, and they were charged with many, many counts of violating the law and some of the violations, these crimes that were crazy as concepts such as your prices are too low.

>> Prices are too low? Consumers were able to go in and choose their own chicken.

>> Consumers could choose their own chicken - that was against the rule. Can't choose your own chicken under the New Deal, your people work too much, like that.

>> Right.

>> You're paying them too little, the minimum wage. All these rules that they were breaking and they were astounded because this is an industry, the economy's under inconceivable stress, the industry's under inconceivable stress, and what was so wonderful about the testimonies that all came out there, the lawyers say 'oh you didn't pay enough' and they said 'well I paid as much as I could'. I'm paraphrasing so, or 'you're not a real economist, you're not an agricultural economist', pulling the class rank on the little chicken, and one of the people in the business said 'well I may not be an economist but I'm an economizer and I know'.

>> So the Justice Department shows in the Schecters they chose the wrong people to bully, goes all the way to the Supreme Court, and the Supreme Court rules the National Recovery Act unconstitutional.

>> The Schecters win.

>> The Schecters win. Okay now, your contention is that that kind of bullying takes place throughout the economy.

>> Well that's the story that I found was emblematic but when you think of market's TV today, Peter, and we look at who our stars are; a Greenspan, a Bill Gates, and you can imagine if you're watching market's TV, if all of a sudden Elliot Spitzer came back and he were Attorney General, he decided to target Greenspan very aggressively and also Gates, not just about the one little anti-trust thing, but very big way as in evil man. And the parallel in that day was they targeted their Greenspan who was Andrew Mellon, the former Treasury Secretary, a figure more august in the mind of the market than Greenspan. And they targeted a man named Stan Minsell who was very important to their industry; so constant culture of prosecution.

>> Roosevelt's praise malefactors of great wealth, pointing the finger at business figures. This changes American culture and suddenly a business finds itself on the defensive in the kind of systematic way right? Now so they're bullying chicken butchers at Brooklyn
and they're pushing around the Mellons of the world, major business figures, all of this might be justified maybe, if you could say the New Deal worked, if it put people back to work and revived economic growth in the country. So we now come to the threshold question in talking about the New Deal. Did it work?

>> Well I would argue it's not justified either way. You can do a New Deal without bullying but that calculus was one that the New Dealers made. They had to create scapegoats. Did the New Deal work? I did not work.

>> Roosevelt on the left, Amity Shlaes in The Forgotten Man, "Roosevelt's remedies were often inspired by socialist or fascist models abroad. A number of New Dealers had been profoundly shaped by Mussolini's Italy and especially Soviet Russia. Vera being labeled a red baiter has too long prevented historians from looking into Soviet influence upon American domestic policy in the 1930's". You have known me to fear here at this table Amity, red bait away, no of course not. But give us a couple of specific examples of inspiration being drawn from the Soviet experiment or Mussolini is doing in Italy, and being putting into effect in this country.

>> Well the story that seemed to capture it for me was that many of the future New Dealers went on a trip to the Soviet Union in the 20's, in 1927, in the summer during the time of Sacco and Vanzetti, and they saw the future and it worked in their eyes and one of the characters was ...

>> That's before the crash?

>> That's before the crash, and then they came back and they said 'oh we liked the way they sole to weight the economy'. That was the phrase that they ... wow we like they manage the economy in Russia. So some of the ideas that they saw in Russia or in Italy, and to fair, you want to be fair about this, the right was just as infatuated with Mussolini as the left. So they liked economy of scale, America's a big country, it's ridiculous that we have 100 standards for the size of a bed, let's standardize that, it was Hoover said that also, 'let's micromanage agricultural supply and demand'. Tugwell saw that, he was from a farming family that had been through a lot of ups and downs, farmers in New York had a hard time.

>> Can I just say ... we know that during the 20's the economy in this country was doing well. Were there figures available, widely available that suggested to the intellectuals that the Soviets were making dramatic progress? Or was it pure intellectual's vanity? If we had an operation like the Soviet Union we'd be in charge, therefore let's try to set one up. Was there some comparative advantage that could be demonstrated? Sticking with Tugwell, the one factor that in the 20's was suffering quite seriously, here in the United States was agg, farms.

>> In the 20's?
In the 20's, you look at farm prices, they're way below, they're below where they were around World War I. Now you can say maybe they were too high in World War I when Europe had no bread basket and we sent our grains to Europe. But they went down so the farmers had a depression before the depression, and it just doesn't seem like it would ever come back. And Tugwell who became a New Dealer and who's in my book a lot, I like him because he's honest and interesting. So he was in a field where there really was a lot of trouble. He said you know, the worst person, first to be the most speculated in the world, most risk taking even if he doesn't want to be, is the farmer because he has to risk on market price ...

I'm just trying to ask, what is the state of the evidence in the 1920's that Soviet pheasants had it better?

I think it was just they were inspired by the ambition, the Soviet leaders, and they knew that something was wrong in the United States, there was a real problem at least in farming. Now some of us would argue that that problem in farming in the United States, especially on the East coast, said was 'get out of farming' it would be even more alacrity than you were already doing it.

Well here let me quote you, "the problem with the New Deal is" - I'm quoting The Forgotten Man again - "was not the relationship with Moscow". We're not engaging in red baiting here, if indeed they had one, the problem was their naivety about the economic value of Soviet style collectivism and the fact that for such collectivism on their own country. And so the question I have is, aren't you letting them off a little bit easily? The show trials begin in 37 and continue, actually they begin in August of 36 and they continue all the way through March of 38, I believe. And so the Soviet Union, what's really going on in the Soviet Union, Malcolm Muggeridge is coming back with reports during the 30's, anybody who was awake could see what was really happening; pretty serious naivety.

No, no, no I think I have a different chronology. They went in the 20's, if you want to get a good snapshot, and life is about snapshots right?

Sure.

You want to get a good snapshot of the Soviet Union, the best possible one you probably want to do it in the late 20's, when maybe no economic plan, maybe it's loosening, the blood of the revolution might be diminishing before the intensity of the collectivization happens, before the show trials happen. Well maybe it might all go the right way, and a lot of American business was also infatuated with Soviet Russia at that time. That's when they took the snapshot, then they went back and implemented in the 30's and in the book I follow a lot of intellectuals. Two of them ...

There is a moment when one could become infatuated with the Soviet Union without attracting much culpability and that's really the moment when they did.
That's when they did, but what was interesting to me was I followed the fellows all the way through, a wonderful man of great integrity, sort of Spencer Tracy, who is Paul Douglas of Illinois who later became an important senator, did work to save the Indiana dunes and was one of the first people to de-segregate his offices in Washington; just a wonderful, good human being. And Douglas went on this trip in the 20's and he was pretty charmed and he was disillusioned in the 30's, he looked in the paper one day and he saw the name of a woman he'd met in the Soviet Union, debated, he had thought it was free debate; Betty Glan I think it was, and now she was being liquidated, she was killed in the late 30's and he and Walter Baldwin, interestingly, also the ACLU, they realized that they were wrong. They realized they were wrong, some didn't realize they were wrong and you want to always check ... the show trials are such a witness test because those people who are more intellectually honest said 'oh well I'm gonna reevaluate this' and those who were just ideologues stuck with their infatuation.

Okay, the question now is will we ever be able to put the New Deal behind us? Have we established that it didn't work even having established that it didn't save America from anything? Will be ever be able to put the New Deal behind us? Now I have a particular question here that'll take a moment or two to set up. Milton Freedman and others, pointed out that the well organized, well funded, special interest will always be able to tempt government to act on it's behalf over and against the diffuse general interest. So everybody has an interest in keeping the federal budget under some specific level, but farmers have a specific interest in subsidies so they'll be able to organize and hire lobbyists and you end up with something like the Farm Bill that was passed a month ago. Alright, that is latent in the American constitutional set up from the moment the constitution is ratified. But you don't get the ever burgeoning, irreversibility, of the growth in the federal government until the New Deal. Why? What happens then?

I think it's the Katrina effect. You have a disaster, all bets are off. There was great fear in Europe. Hitler and Roosevelt came into their jobs around the same time, winter 1942-1943, what's going on in Italy, Ethiopia? You know over the course of fear, but I did not get the impression reviewing the country and the period, reviewing the papers, and remember the papers were a lot more conservative than they are now. The press was generally more conservative, that America was a country on the brink of revolution. On the question of can we get past the negative aspects of the New Deal, which the earmark is the direct descendent of the New Deal.

Social Security, George W. Bush ruined two years of his second term by going after Social Security after it, after it, after it, with the greatest and he got nowhere and every person who's looked at Social Security recognizes that it is in effect a sham, that people feel they're getting back what they paid into the system when they're not, every politician on both sides recognizes that the system is breaking down, and no one is able to do anything about it. This is my thesis, because Franklin Roosevelt set up this special interest that even when know better, we can't save ourselves from.

Right, I don't share your pessimism though, because one I don't think everyone remembers it. The memory is much weaker than it was 10 or 20 years ago, 30 years ago,
certainly. So people don't... they don't even really know what the New Deal is, they
know it sounds good but they don't know much about it. I think in the newer media, the
discussion is much freer, history has changed, we were trapped in this sort of frozen kind
of history, petrified history, where Arthur Schlesinger was wonderful but even he should
have not been the only version of that period, which he was for decade after decade after
decade. Now there's a whole open discussion about this period, also the urgency of
change will be important. Our children are gonna pay lots higher taxes than we paid. We
pay a little bit more social taxes than our parents. Something's gotta give and the period
will be revisited. I think only a permanent Katrina can make the New Deal vision hold
forever, and I know we're not in a permanent Katrina.

>> Okay, now let me quote you, last couple of questions here. I'm gonna quote you
summing up your own argument in The Forgotten Man. "The argument that democracy
would have failed in the United States, except for the New Deal, stood for 7 decades but
it is not right that we permit that argument even if it is correct, to obscure some of the
consequences of the two president's policies, Hoover and FDR, nor is it right that we
overlook the failures of their philosophies." Now I put it to you that that summation is
too tepid for the argument of your book, you demonstrate that government intervention
made the depression worse, not better, that it encouraged the government of the republic
to bully and harass its own citizens, and that it established a new style and inimical style
of politics, this special interest group politics, and so I put it to you that you don't really
want to offer this mild, reasonable, critique of the New Deal, you want to drive a stake
through its heart.

>> Well there are different ways to... the right can write with a crayon but it also try to
write with a quill. There are a lot of us on the right who are also liberals... in the
classical sense, and these are people whose stories tell themselves. We don't need to
shout their stories, they shout theirs and Andrew Mellon's bravery creating the National
Gallery and he's being prosecuted for tax stuff that was completely legal, and yet he gave
the National Gallery because he said 'I have a concept of charity that's so much more
efficient and so much a greater gift than what government can do and I will give the
National Gallery and show you'. So I decided to let them tell their stories instead of rage
along. And that may make it seem too vague to...

>> I'm just giving you the opportunity to be a little uncultured if you want to.

>> So I admire and culture is achievement but I'm unculturish. These people tell the
stories.

>> So the argument is that the material in this book is so compelling that the American
story of the 30's is so compelling, that all we need to do is look at it afresh without the
preconceptions that arose soon after the period itself.

>> That's right. They tell the story.

>> Amity Shlaes, thank you very much.
Thank you Peter.

I'm Peter Robinson of the Hoover Institution for Uncommon Knowledge, thanks for joining us.