

# **The New Deal and Corporatism**

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Thank you for inviting me to speak to you this evening and I'd like to especially thank Walker Todd and Elizabeth Currier for all of their assistance. My topic is the 1930s New Deal and Corporatism. Let me preface this by noting that I don't pretend to be an authority on Corporatism, though I do know something about the economics of the New Deal.

## ***Capitalism, Socialism, and Corporatism***

I would expect that most of you understand that the New Deal was, by virtually any clear standard, an utter failure. But this is still not the general perception. As nearly any academic can tell you, most still think that the New Deal brought the United States out of the Great Depression. As some misguided analysts describe it, "Roosevelt saved capitalism!" What I want to emphasize is that far from saving capitalism, the Roosevelt administration did its best to destroy capitalism. There actually is relatively little about recovery in New Deal laws and discussions at that time. The aims of the New Deal, to the extent that there *were* some consistent aims to the New Deal, were to reform the American economy and to provide some relief. And, rather than promote recovery, in fact, the New Deal delayed the recovery keeping many Americans unemployed and impoverished throughout the 1930s, and, keeping them beholden to the federal government. Just as important, those New Deal reforms linger on today continuing to harm the American economy.

Let me begin by briefly describing some differences between capitalism, socialism, and corporatism because what the Roosevelt administration brought in with its New Deal was

corporatism and today, as a consequence, in many ways we tend to have more of a corporatist economy than a capitalist economy. Like many of the intellectuals in the period between the two World Wars, Roosevelt and those in his administration distrusted “unfettered free markets” and businessmen in general. There was something rather unseemly about those profit-seeking businessmen, and capitalism, with its uncontrolled and uncoordinated free markets, was utter anarchy. What was needed was careful planning and this was a common theme among intellectuals, many union leaders, and even some businessmen in the 1920s before the onset of the Great Depression. Technocrats and government officials, joined by the business leaders and labor leaders, could plan and direct markets much better so that *everyone* could benefit rather than just the few. The common theme was a distrust of the unregulated private sector.

Certainly there are many different ways to describe a capitalist economy so I don’t propose this as the only correct one. The classical liberal state is one of limited, constitutional government, well-defined private property rights, and individual freedom. The government is often described as a “night-watchman” that defines and maintains private property rights and provides for the few *public goods* that should be provided by the government—and I don’t want to get bogged down with trying to specify what those public goods are. Suffice it to say that in my opinion there are few—if any—truly public goods. Thus, individuals are left free to engage in activities promoting their private interests as long as they don’t use force or fraud in those activities. The voluntary exchange of privately owned resources, good, and services is the key to a voluntary exchange capitalist society.

The economic problems arising from limited resources and unlimited desires for the use of those resources are not altered in a socialist society. Socialists have argued that a capitalist society creates an unequal—or perhaps better described as an inequitable—distribution of

income. Too many resources are devoted to fulfilling the unnecessary desires of the wealthy and too few devoted to fulfilling the desires of the poor. The solution is simple for the socialist—all resources except one's own labor are owned by the state to be jointly used for the good of everyone in the state. Private property in everything except one's own labor services disappears. Socialists also generally argue that the preferences of each individual are not important—it is not necessarily the case that an individual knows what is best for himself or herself. Thus, the decision on what to produce and how to distribute that production should be left to the state—in other words to those superior people who hold the positions of power in the state and, by assumption, know what's best for other people. Therefore, there is no reason why an ordinary person should be given any choice about what to do or what and how much to consume. Socialists proclaim that this creates a classless society.

In the last half of the 19<sup>th</sup> century, European intellectuals, particularly the Catholic intelligentsia, formulated “an alternative to socialism which would emphasize social justice without the radical solution of the abolition of private property.”<sup>1</sup> Society and the economy should be organized into major interest groups—sometimes called corporations which were interest groups having nothing to do with business corporations—and representatives of those interest groups would settle any problems through negotiation and joint agreement. The central element of corporatism is collective bargaining that would bring order and rationality to economic decisions. It has an outward look of capitalism because it appears to “preserve private ownership and private management, but with a crucial difference: as under socialism,

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<sup>1</sup> Thayer Watkins, “The Economic System of Corporatism,” <http://www.sjsu.edu/faculty/watkins/corporatism.htm>. The following discussion also draws on several other sources: Robert Locke, “What is American Corporatism?” <http://www.frontpagemag.com/Articles/Printable.asp?ID=3054>; Srdja Trifkovic, “FDR and Mussolini: A Tale of Two Fascists,” <http://www.chroniclesmagazine.org/Chronicles/August2000/0800Trifkovic.htm>; Sheldon Richman, “Fascism,” <http://www.econlib.org/LIBRARY/Enc/Fascism.html>; Anthony Gregory, “Corporatism and Socialism in America,” <http://www.fff.org/freedom/fd0411e.asp>; Thomas DiLorenzo, “Economic Fascism,” <http://www.lewrockwell.com/ilorenzo/dilorenzo85.html>; Amity Shlaes, *The Great Depression: A New History*, Manuscript, 2006.

*government guarantees the flow of material goods, which under true capitalism it does not.*” Locke argues that, “Under corporatism...[the market is]...instead being systematically manipulated to deliver goods to political constituencies. This now includes basically everyone from the economic elite to ordinary consumers.”<sup>2</sup>

Corporatism was an essential component of the totalitarian society that Benito Mussolini fashioned in Italy in the 1920s.<sup>3</sup> Other corporatist regimes also appeared but, in many ways, Mussolini’s Italy was the model and it was widely applauded—something that today we tend to ignore or conveniently forget. For example, in 1928 the American ambassador to Italy, Richard Washburn Child, wrote, “it may be shrewdly forecast that no man will exhibit dimensions of permanent greatness equal to Mussolini...the Duce is now the greatest figure of this sphere and time.” In 1927 Winston Churchill wrote, “If I had been an Italian I am sure I would have been entirely with you...and don the Fascist black shirt,” and as late as 1940 Churchill was still describing Mussolini as a “great man.” In 1926 Sol Bloom, chairman of the House Foreign Relations Committee, said that Mussolini “will be a great thing not only for Italy but for all of us if he succeeds. It is his inspiration, his determination, his constant toil that has literally rejuvenated Italy.” In 1936 American economist Lawrence Dennis, one of the most outspoken American fascists, wrote a book titled, *The Coming American Fascism*. British intellectuals, such as George Bernard Shaw and Sir Oswald Mosley, were outspoken proponents of Mussolini’s Fascism. A number of New Dealers were profoundly shaped by Mussolini’s Italy and Soviet Russia. New Dealer Lauchlin Currie was connected to Soviet Russia. In 1927 a group of academics, magazine writers, union men, and intellectuals took a tour of the Soviet Union. This group included Prof. Rexford Guy Tugwell, Prof. John Bartlet Brebner, Stuart Chase, Prof. Paul

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<sup>2</sup> Locke, “What is American Corpratism?”

<sup>3</sup> See Watkins, “The Economic System of Corporatism,” for a list of corporatist regimes of the early 20<sup>th</sup> century.

Douglas, Prof. George Counts and others. The group had wanted to stop in Italy on their tour but Mussolini had turned down their request. Thus, they were headed for the Soviet Union as the “first non-communist, unofficial American trade union delegation.”<sup>4</sup> What they were selectively shown convinced most of these intellectuals that the United States was behind the times and needed changing and they returned to write extensively about the good things they had seen in the Soviet Union. Chase, among others, wrote extensively about the need for centralized planning. During this period, Mussolini’s model of an economy was receiving intense attention from the press reporting his “every action, including his order to Italian doctors to prevent Italian women from reducing weight, a trend that Mussolini believed weakened fertility and so ‘weakens the race.’”<sup>5</sup> Tugwell liked the idea of big companies and believed that modern corporations could be taken advantage of, that government could become a senior partner in industry-wide councils,” one of the essential characteristics of corporatism as practiced in Mussolini’s fascist Italy. And Tugwell did visit Italy and Mussolini in 1935. Henry Stimson, secretary of state under Hoover and secretary of war under Roosevelt, recalled that both he and Hoover found Mussolini to be a sound and useful leader. General Hugh Johnson, one of the architects of the Roosevelt New Deal, became an admirer of Mussolini in the 1920s and drew upon the Italian experience in formulating the New Deal.<sup>6</sup> In 1933, Roosevelt called Mussolini “that admirable Italian gentleman.”

Thomas DiLorenzo says that, “So-called ‘corporatism’ as practiced by Mussolini and revered by so many intellectuals and policy makers had several key elements.”<sup>7</sup>

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<sup>4</sup> Shlaes, *The Great Depression, A New History*.

<sup>5</sup> Shlaes, *The Great Depression, A New History*.

<sup>6</sup> Watkins, “The Economic System of Corporatism.”

<sup>7</sup> DiLorenzo, “Economic Fascism.”

*First*, the state comes before the individual. Fascism exalts the nation and race above the individual and thus requires an autocratic, centralized government. Mussolini thought it unnatural for a government to protect individual rights. Government is the master, not the servant of people.

*Second*, there is planned industrial “harmony.” Government should systematically intervene in the economy to bring harmony to the economy and this should be coordinated by some kind of central planning board. The planning board would introduce certain fixed objectives and introduce order into the economic field.

*Third*, government-business partnership would permit private property and business ownership, but these are, in reality, controlled by government through a business-government partnership. In such an arrangement government is always the senior or dominating partner.

In Mussolini’s Italy businesses were grouped by government into 22 legally recognized syndicates that were all controlled, or “coordinated,” by a network of planning agencies called “corporations,” one for each industry with one huge overseer of the individual corporations called the “National Council of Corporations” that had the power to issue compulsory regulations.

Thus, in the corporate state, the appearance of private property is maintained but more importantly, any pretense of a classless society is eliminated. The essence of the arrangement is to maintain the classes and the status quo by ensuring that one is beholden to the government for his/her property and position. In the socialist state, in theory, private property disappears along with class disharmony.

### *The New Deal*

Now let me briefly turn to the New Deal of the 1930s. The programs and laws all reflected the distrust of unfettered free markets and private businesspeople. The laws to separate commercial and investment banking, to stop interest payments on demand deposits, to limit interest payments on savings and time deposits and to control the securities industry through the Securities and Exchange Commission reflected this distrust of the private sector. The laws to separate commercial and investment banking, to stop interest payments on demand deposits, to limit interest payments on savings and time deposits and to control the securities industry through the Securities and Exchange Commission reflected this distrust of the private sector.<sup>8</sup>

The primary initiatives of the first New Deal were the Agricultural Adjustment Act and the National Recovery Administration, which was part of the National Industrial Recovery Act. The first AAA was to be nothing less than a fundamental reform of the agricultural sector in order to correct farm markets. The government would now determine what appropriate prices were by calculating “parity” prices. The government would then ensure that those prices prevailed by benefit payments from revenues collected through processing taxes, by limitations on production—whether the farmers wanted to limit their production or not—by purchasing “excess quantities” through nonrecourse loans and by suspending the antitrust laws so that processors could cooperate through marketing agreements to pay the farmers higher prices. Such activities were to stabilize farming and raise the incomes of the farmers. Clearly all of this had to be government directed and the USDA quickly became the agency to oversee these programs. Left alone, agricultural markets were too chaotic and would not provide farmers with the incomes they truly deserved. The answer to government planners was simple— have the federal government step in, reduce production, raise prices, and generate the incomes farmers deserved,

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<sup>8</sup> Much of this and the following information is drawn from Gene Smiley, *Rethinking the Great Depression* (Chicago, 2002).

by, of course, having nonfarmers pay higher prices for the farmers' produce. It was, by design, a program to transfer income from nonfarmers to farmers.

When the first AAA was ruled unconstitutional in January 1936, the Soil Conservation and Domestic Allotment Act continued to pay farmers not to farm, and the Second Agricultural Adjustment Act in 1938 reinstated parity prices, nonrecourse loans and government storage of excess commodities to stabilize and raise prices—Henry Wallace's concept of an "ever normal granary." All of this continued to assume that income would be transferred from nonfarmers to farmers if the government, through the USDA, organized and directed agricultural markets.

Then consider the NRA—the centerpiece of the Roosevelt Administration's industrial reforms. Roosevelt's team concluded that a combination of "overproduction" and "underconsumption" was the root of the problem in the industrial sector. The solution lay in reducing production and redistributing income away from businessmen, who saved too much, toward workers who consumed more of their income. Doing this required fundamental reforms in the operation of businesses. Chaotic competition had to give way to cooperation. The answer to the government planners in 1933 was simple. Control had to be taken away from the businessmen and vested in industry boards—what Mussolini had called "corporations"—where technocrats—engineers, economists, technicians and other "experts"—could advise government officials who would direct the plans of each industry and reconcile the desires of business owners, labor, and resource owners. This would eliminate wasteful competition and excessive production and create a healthy economy that could benefit everyone—not just the "rich."

The "overproduction" was to be solved by reducing and coordinating production. This involved reducing the hours of work by labor and machinery, controlling and reducing investment, simplifying production, controlling and equalizing prices and costs and raising wage

rates relative to profits to reduce “underconsumption.” In short, American industry was to be organized in giant cartels controlled or monitored by objective, unbiased government officials. Business owners could no longer be trusted to operate the enterprises that they owned—or had owned. Rexford Tugwell, and others among the planners, had little patience for those who worried about the loss of freedom such a program entailed—they were only concerned with building a fairer and better society, as they envisioned that society. The federal regulation of other industries such as radio via the FCC, aviation by the CAB, and interstate trucking, interstate pipeline and interstate bus transportation as well as the interstate railroads by the ICC were all consistent with the concept of government control of major industries—leaving the resources privately owned but taking the control away and placing it in the hands of objective government managers, just as the corporatist state envisioned.

Apparently, the New Dealers never recognized the lack of internal consistency of these programs. To raise farmers’ incomes, farm prices were to be raised relative to the prices of commodities—including processed food—and services. To raise laborer’s incomes, wages had to be raised relative to the prices of the commodities and services they produced, especially food prices. To ensure adequate profits for businesses, the prices of the commodities and services they produced had to be raised relative to labor costs and to agricultural prices. If all prices and wages are increased, universal gains are impossible. Real gains require increased productivity and production by farmers, laborers, and businesses, but there is no evidence that this was *ever* an objective of the New Deal programs.

As we now know, these programs were failures. In the midst of poverty and hunger, hogs and cotton were destroyed to reduce excessive production and raise prices. Farmers were coerced into obeying the laws of the first AAA. In the industrial sector, the vigorous expansion that had

begun, after the banking crisis was stopped in March 1933, ground to a halt as the NRA began to take effect in the fall of 1933. For the two-year life of the NRA the recovery ceased and the United States' economy continued to suffocate in depression conditions. In May 1935 the Supreme Court ruled the NRA unconstitutional and in January 1936 it ruled the first AAA unconstitutional. Roosevelt initially chose to bide his time, expecting that business conditions would deteriorate and worried business leaders would initiate a call for a new NRA.

To Roosevelt's dismay, the long awaited recovery finally began. Business production accelerated once firms were released from the shackles of the NRA codes. Though the planners continued to push their agenda in some minor programs, Roosevelt now turned to a second set of voices, the antitrusters, who believed that a vigorous, healthy economy could be established by breaking up larger businesses to create smaller competitive firms, and by creating a set of welfare reforms. To control the two institutions that he perceived to have thwarted his plans, Roosevelt proposed new legislation. The proposed Banking Act of 1935 contained a provision allowing the President to appoint and remove the Chair and Vice-Chair of the Fed. Because of public outcry over this, the provision was eliminated from the final bill. Roosevelt's 1937 attempt to "pack the Supreme Court" brought an even louder protest from the public and cost him considerable support.

But, the antitrust and welfare programs were initiated. Though the federal personal income tax was already progressive, Roosevelt's "soak-the-rich" tax changes made it much more progressive and, as a by-product, punished business owners and the wealthy, most of whom had not supported Roosevelt. Many businesses had retained corporate profits. In the eyes of the New Dealers, retained corporate profits were anathema because they made corporate managers less answerable to stockholders and external lenders and furthered the concentration of wealth and

power. The answer was simple as far as the Roosevelt administration was concerned—impose an excess profits tax to confiscate any undistributed corporate profits and let the government put these funds to productive uses—punish big businesses for not paying out all of their profits to stockholders and to the workers.

Under Robert Jackson, and later Thurman Arnold, the Anti-Trust Division of the Justice Department was newly invigorated and began aggressively applying the antitrust laws. Firms that only a short time earlier had been encouraged to get together and plan and cooperate now found that such previously legal activity was a hallmark of illegal antitrust behavior. Sheer size itself, independent of how acquired, made a firm guilty of violating the antitrust laws as the 1911 “rule of reason” was overturned. The new labor laws again changed how firms could operate as the Wagner Act required firms to recognize and bargain with industrial labor unions. In 1938, the Fair Labor Standards Act mandated minimum wages and overtime wages for working more than a standard week of 40 hours. The Wheeler-Rayburn Act was intended to dissolve the large holding companies in the electric utility industry. To enable small retail businesses to compete with the emerging chains, the Miller-Tydings (or Fair Trade) Act exempted resale-price maintenance agreements from the antitrust laws and the Robinson-Patman (or Anti-Chain-Store) Act prohibited manufacturers from price discriminating in favor of larger buyers. These all continued the program of putting government in control of the decision-making of private firms.

The centerpiece of the expanded Welfare state was the Social Security Act of 1935, an act that actually created unemployment insurance, funds for the aged, crippled, blind, and dependent mothers and their children, and old-age “insurance.” The last is, of course, misnamed because the original act says nothing about “insurance” and the discussion in Congress said nothing about “insurance.” Old-age insurance was a bill to provide income for the elderly funded

by a tax now called the Social Security tax. Only after it was passed, did the administration suddenly begin to call it “insurance,” something that it is clearly not and never was. Though, initially, there were some ideas about building up a true trust fund from which to make the payments to the elderly, this was quickly tossed aside and the program became simply a transfer program. The elderly could now reduce their reliance on their own assets or the generosity of their family, because the federal government was committed to creating their income safety net. Though ultimately, workers pay almost all of the social security tax, at first it did hit businesses with what was a new tax and required additional diversion of firms’ resources to collect and send in this tax.

By early 1937 the recovery had stopped and by May a new contraction had begun. The 1937-1938 depression was short, but severe and generated a stock market crash just as severe as the 1929 crash. This was a shock, as most analysts did not think a depression within a depression could occur. The recovery from the 1937-1938 depression was again agonizingly slow and by 1940 the economy was about where it was in early 1937. The 1930s became a decade without growth. On average income per person in 1939 was just about the same as average income per person in 1929. World War II stopped the recovery from the depressed 1930s. It was not until 1946 with the end of the war that something approaching normalcy could return. With the return of greater freedoms—though not as much as before the Great Depression—businesses were able to hire, invest, and begin producing and the recovery from the Great Depression finally took place.

### ***Corporatism Today***

The New Deal marked a huge leap into Corporatism though this was not fully understood at the time as many people misunderstood it as a move towards Socialism. American people

rapidly embraced the fundamental proposition that government should take responsibility for ensuring the flow of material goods to the people. And whether it is admitted or not, most continue to embrace this idea. This process has been described as socializing the losses, privatizing the profits by its leftist critics, who also call parts of it corporate welfare. What they don't get is that in a society that grants the fundamental premise that government should take care of everybody, government will, and big business is part of 'everybody.' Most economic arguments today are not between a socialistic ideal and a capitalistic one, as many seem to believe, but are arguments within a corporatist consensus."<sup>9</sup>

Robert Locke presents some specific examples of corporatism:

- The Export-Import Bank that helps finance exports of American products.
- Agricultural price-supports, most of which go to big farmers, not small ones.
- Industrial bailouts such as Chrysler in the early 1980s and the recent bailout of the airlines.
- Corporate bankruptcy law that tends to keep dying companies alive. For example it allowed Continental Airlines to go through its protections twice preventing a needed culling of airlines.
- Tariffs, quotas, and other trade restrictions.
- Affirmative action.
- Fannie Mae and Sallie Mae, government agencies supervising mortgage and student loans.
- Federal financing of research expenditures.
- The Federal Reserve Bank

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<sup>9</sup> Locke, "What is American Corporatism?"

- The Social Security System.
- Antitrust laws to protect competing firms, an example being the decisions against Microsoft.

The expansion of government regulations, frequently proposed to combat corporate excesses, is often enthusiastically supported by the corporate interests themselves. And that is Corporatism. Those who support liberty and free markets have to understand that with the Corporate State we don't have those free markets that the anti-corporate skeptics complain about. The support of many rich for the left is easily understood when one realizes that in a society where government takes care of business, the rich have a lot to gain from big government and many wealthy make their money by helping people deal with government or are directly funded by government.

Only if this is widely understood can we hope to begin to roll back corporatism and restore liberty in America.

Thank you.