

The History
How We Got Here

Cradle to Grave

The election of 1932 changed how the public viewed the role of government. Every decade since, government has continually expanded, with greater regulation and one failed welfare program after another.

BY MILTON & ROSE FRIEDMAN

The presidential election of 1932 was a political watershed for the United States.

Herbert Hoover, seeking re-election on the Republican ticket, was saddled with a deep depression. Millions of people were unemployed. The standard image of the time was a breadline or an unemployed person selling apples on a street corner.

Though the independent Federal Reserve System was to blame for the mistaken monetary policy that converted a recession into a catastrophic depression, the president, as the head of state, could not escape responsibility. The public had lost faith in the prevailing economic system. People were desperate. They wanted reassurance, a promise of a way out.

Franklin Delano Roosevelt, the charismatic governor of New York, was the Democratic candidate. He was a fresh face, exuding hope and optimism.

True enough, he campaigned on the old principles. He promised if elected to cut waste in government and balance the budget, and berated Herbert Hoover for extravagance in government spending and for permitting government deficits to mount.

At the same time, both before the election and during

the interlude before his inauguration, Roosevelt met regularly with a group of advisers at the Governor's Mansion in Albany — his “brain trust,” as it was christened. They devised measures to be taken after his inauguration that grew into the “New Deal” FDR had pledged to the American people in accepting the Democratic nomination for president.

The election of 1932 was a watershed in narrowly political terms.

In the 72 years from 1860 to 1932, Republicans held the presidency for 56 years, Democrats for 16. In the 48 years from 1932 to 1980, the tables were turned: Democrats held the presidency for 32 years, Republicans for 16.

The election was also a watershed in a more important sense: It marked a major change in both the public's perception of the role of government and the actual role assigned to government.

One simple set of statistics suggests the magnitude of the change. From the founding of the Republic to 1929, spending by governments at all levels — federal, state, and local — never exceeded 12% of the national income except in time of major war, and two-thirds of that was state and local spending. Federal spending typically amounted to 3% or less of the national income.

Since 1933, government spending has never been less than 20% of national income and is now over 40%, and two-thirds of that is spending by the federal government.

True, much of the period since the end of World War II has been a period of cold or hot war. However, since 1946 non-defense spending alone has never been less than 16% of the national income and is now roughly one-third the national income. Federal government spending alone is more than one-quarter of the national income in total, and more than a fifth for non-defense purposes alone. By this measure, the role of the federal government in the economy has multiplied roughly tenfold in the past half-century.

ROOSEVELT'S UTOPIAN FANTASY

Roosevelt was inaugurated on March 4, 1933 — when the economy was at its lowest ebb. Many states had declared a banking holiday, closing their banks. Two days after he was inaugurated, President Roosevelt ordered all banks throughout the nation to close.

But Roosevelt used his inaugural address to deliver a message of hope, proclaiming that “the only thing we have to fear is fear itself.” And he immediately launched a frenetic program of legislative measures — the “100 days” of a special congressional session.

The members of FDR's brain trust were drawn mainly from the universities — in particular, Columbia University. They reflected the change that had occurred earlier in the intellectual atmosphere on the campuses — from

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ILLUSTRATION BY SEAN MICHAEL MONAGHAN

belief in individual responsibility, laissez faire and a decentralized and limited government to belief in social responsibility and a centralized and powerful government. It was the function of government, they believed, to protect individuals from the vicissitudes of fortune and to control the operation of the economy in the “general interest,” even if that involved government ownership and operation of the means of production.

These two strands were already present in a famous novel published in 1887, “Looking Backward,” by Edward Bellamy, a utopian fantasy in which a Rip Van Winkle character who goes to sleep in the year 1887 awakens in the year 2000 to discover a changed world. “Looking backward,” his new companions explain to him how the utopia that astonishes him emerged in the 1930s — a prophetic date-from the hell of the 1880s.

That utopia involved the promise of security “from cradle to grave” — the first use of that phrase we have come across — as well as detailed government planning, including compulsory national service by all persons over an extended period.

Coming from this intellectual atmosphere, Roosevelt’s advisers were all too ready to view the depression as a failure of capitalism and to believe that active intervention by government — and especially central government — was the appropriate remedy. Benevolent public servants, disinterested experts, should assume the power that narrow-minded, selfish “economic royalists” had abused. In the words of Roosevelt’s first inaugural address, “The money changers have fled from the high seats in the temple of our civilization.”

In designing programs for Roosevelt to adopt, they could draw not only on the campus, but on the earlier experience of Bismarck’s Germany, Fabian England and middle-way Sweden. The New Deal, as it emerged during the 1930s, clearly reflected these views.

It included programs designed to reform the basic structure of the economy. Some of these had to be aban-

doned when they were declared unconstitutional by the Supreme Court, notably the NRA (National Recovery Administration) and the AAA (Agricultural Adjustment Administration). Others are still with us, notably the Securities and Exchange Commission, the National Labor Relations Board, and nationwide minimum wages.

The New Deal also included programs to provide security against misfortune, notably Social Security (OASI: Old Age and Survivors Insurance), unemployment insurance and public assistance.

The New Deal also included programs intended to be strictly temporary, designed to deal with the emergency situation created by the Great Depression. Some of the temporary programs became permanent, as is the way with government programs.

The most important temporary programs included “make work” projects under the Works Progress Administration, the use of unemployed youth to improve the national parks and forests under the Civilian Conservation Corps, and direct federal relief to the indigent.

At the time, these programs served a useful function. There was distress on a vast scale; it was important to do something about that distress promptly, both to assist the people in distress and to restore hope and confidence to the public. These programs were hastily contrived, and no doubt were imperfect and wasteful, but that was understandable and unavoidable under the circumstances. The Roosevelt administration achieved a considerable measure of success in relieving immediate distress and restoring confidence.

CENTRAL PLANNING TAKES OVER

World War II interrupted the New Deal, while at the same time strengthening greatly its foundations. The war brought massive government budgets and unprecedented control by government over the details of economic life: fixing of prices and wages by edict, rationing

of consumer goods, prohibition of the production of some civilian goods, allocation of raw materials and finished products, control of imports and exports.

The elimination of unemployment, the vast production of war materiel that made the United States the “arsenal of democracy” and unconditional victory over Germany and Japan — all these were widely interpreted as demonstrating the capacity of government to run the economic system more effectively than “unplanned capitalism.”

One of the first pieces of major legislation enacted after the war was the Employment Act of 1946, which expressed government’s responsibility for maintaining “maximum employment, production and purchasing power” and, in effect, enacted Keynesian policies into law.

The war’s effect on public attitudes was the mirror image of the depression’s. The depression convinced the public that capitalism was defective; the war, that centralized government was efficient. Both conclusions were false.

The depression was produced by a failure of government, not of private enterprise. As to the war, it is one thing for government to exercise great control temporarily for a single overriding purpose shared by almost all citizens and for which almost all citizens are willing to make heavy sacrifices; it is a very different thing for government to control the economy permanently to promote a vaguely defined “public interest” shaped by the enormously varied and diverse objectives of its citizens.

At the end of the war, it looked as if central economic planning was the wave of the future. That outcome was passionately welcomed by some who saw it as the dawn of a world of plenty shared equally. It was just as passionately feared by others, including us, who saw it as a turn to tyranny and misery. So far, neither the hopes of the one nor the fears of the other have been realized.

Government has expanded greatly. However, that expansion has not taken the form of detailed central economic planning accompanied by ever widening nationalization of industry, finance and commerce, as so many of us feared it would. Experience put an end to detailed economic planning, partly because it was not successful in achieving the announced objectives, but also because it conflicted with freedom.

That conflict was clearly evident in the attempt by the British government to control the jobs people could hold. Adverse public reaction forced the abandonment of the attempt. Nationalized industries proved so inefficient and generated such large losses in Britain, Sweden, France and the United States that only a few die-hard Marxists today regard further nationalization as desirable.

The illusion that nationalization increases productive efficiency, once widely shared, is gone. Additional nationalization does occur — passenger railroad service and some freight service in the United States, Leyland Motors in Great Britain, steel in Sweden. But it occurs for very different reasons — because consumers wish to retain services subsidized by the government when market conditions call for their curtailment or because workers in unprofitable industries fear unemployment. Even the supporters of such nationalization regard it as at best a necessary evil.

SOCIALIZING RESULTS OF PRODUCTION

The failure of planning and nationalization has not eliminated pressure for an ever bigger government. It has simply altered its direction. The expansion of government now takes the form of welfare programs and of regulatory activities. As W. Allen Wallis put it in a somewhat different context, socialism, “intellectually bankrupt after more than a century of seeing one after another of its arguments for socializing the means of production demolished — now seeks to socialize the results of production.”

In the welfare area, the change of direction has led to an explosion in recent decades, especially after President Lyndon Johnson declared a “War on Poverty” in 1964. New Deal programs of Social Security, unemployment insurance and direct relief were all expanded to cover new groups; payments were increased; and Medicare, Medicaid, food stamps and numerous other programs were added. Public housing and urban renewal programs were enlarged. By now there are literally hundreds of government welfare and income transfer programs.

The Department of Health, Education and Welfare, established in 1953 to consolidate the scattered welfare programs, began with a budget of \$2 billion, less than 5% of expenditures on national defense. Twenty-five years later, in 1978, its budget was \$160 billion, one and a half times as much as total spending on the Army, the Navy, and the Air Force. It had the third-largest budget in the world, exceeded only by the entire budget of the

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U.S. government and of the Soviet Union.

The department supervised a huge empire, penetrating every corner of the nation. More than one out of every 100 persons employed in this country worked in the HEW empire, either directly for the department or in programs for which HEW had responsibility but which were administered by state or local government units. All of us were affected by its activities. (In late 1979, HEW was subdivided by the creation of a separate Department of Education.)

No one can dispute two superficially contradictory phenomena: widespread dissatisfaction with the results of this explosion in welfare activities; and continued pressure for further expansion.

BAD MEANS FOR GOOD OBJECTIVES

The objectives have all been noble; the results, disappointing. Social Security expenditures have skyrocketed, and the system is in deep financial trouble. Public housing and urban renewal programs have subtracted from rather than added to the housing available to the poor. Public assistance rolls mount despite growing employment.

By general agreement, the welfare program is a “mess” saturated with fraud and corruption. As government has paid a larger share of the nation’s medical bills, both patients and physicians complain of rocketing costs and of the increasing impersonality of medicine. In education, student performance has dropped as federal intervention has expanded.

The repeated failure of well-intentioned programs is not an accident. It is not simply the result of mistakes of execution. The failure is deeply rooted in the use of bad means to achieve good objectives.

Despite the failure of these programs, the pressure to expand them grows. Failures are attributed to the miserliness of Congress in appropriating funds, and so are met with a cry for still bigger programs. Special interests that benefit from specific programs press for their expansion — foremost among them the massive bureaucracy spawned by the programs.

An attractive alternative to the present welfare system is a negative income tax. This proposal has been widely supported by individuals and groups of all political persuasions. A variant has been proposed by three presidents; yet it seems politically unfeasible for the foreseeable future.