

### Meddling Through

#### The Forgotten Man: A New History of the Great Depression

by Amity Shlaes

*HarperCollins. 433 pp. \$26.99*

Reviewed by  
James Piereson

**T**HE GREAT Depression of the 1930's tested America's political institutions like no other event in our history except the Civil War. Much as Lincoln saved the Union and established the symbols of

*JAMES PIERESON is the author of a new book, Camelot and the Cultural Revolution: How the Assassination of John F. Kennedy Shattered American Liberalism, based in part on his article "Lee Harvey Oswald and the Liberal Crack-Up" in the May 2006 COMMENTARY.*

American nationalism, so Franklin Delano Roosevelt (it is said) saved capitalism from itself and laid the framework for the American welfare state.

The dimensions of the crisis faced by FDR were overwhelming. From late 1929 to early 1933, real economic output in the United States declined by 30 percent and unemployment grew from 3 percent to 25 percent. More than a third of the country's banks failed in that period, leaving depositors broke and destroying much of the credit system. Some of Roosevelt's early measures—deposit insurance, banking reform, and taking the U.S. off the gold standard—slowed the contraction but did not restore the economy to health. In 1938, the unemployment rate was still 17 percent. In 1940, on the eve of America's entry into World War II and as FDR ran for a third term, unemployment still hovered above 14 percent.

The best-known accounts of the period are sympathetic to FDR and the New Deal and highly critical of the businessmen, bankers, and Republican presidents of the 1920's, whom they blame for the collapse. *The Crisis of the Old Order*, a multi-volume history written by Arthur Schlesinger, Jr. in the 1950's, drew a portrait of a nation run by and for economic elites and guided by a philosophy of rugged individualism and laissez-faire. The Depression discredited both their rule and their doctrines, opening the way for the national government to step in to defend the interests of the people. John Kenneth Galbraith, in *The Great Crash*, also written in the mid-1950's, saw the stock-market collapse as the result of an unequal distribution of wealth and the rampant speculation permitted by an unregulated financial system. When the rich were wiped out by the crash, the government had to provide the investment capital needed to renew the economy.

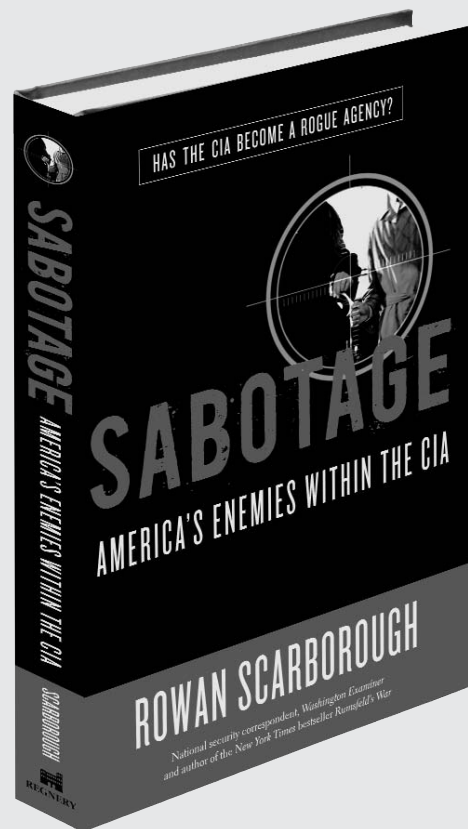
For Schlesinger and Galbraith, the prosperity of the 1920's had

been built on a rickety foundation of speculative wealth. They cast President Herbert Hoover, and Republicans in general, as hapless incompetents, trapped in their old-fashioned ideology and unable to respond to the crisis. In their telling, FDR's inspired leadership, combined with New Deal policies giving the national government new powers to direct the economy, lifted the nation out of despair and set the terms for postwar prosperity.

AMITY SHLAES's *The Forgotten Man: A New History of the Great Depression* is a skillful, understated corrective to this partisan interpretation. A senior fellow at the Council on Foreign Relations and a syndicated financial columnist, Shlaes does not tackle previous accounts head-on, nor does she advance a general interpretation of her own. Instead, she tells the story of the Great Depression and the New Deal through the experiences of some of the more influential figures of the period—Roosevelt men like David Lilienthal, Rexford Tugwell, Henry Morgenthau, Felix Frankfurter, and Harold Ickes; businessmen and bankers like Andrew Mellon, Samuel Insull, and Wendell Willkie—and of genuinely “forgotten men” like the Schechter family of Brooklyn, small-businessmen who ran afoul of FDR's regulatory ambitions.

What emerges from these stories is a New Deal that was more experimental in its policies, more hostile to business, more vindictive toward its foes, and far less successful in reviving the economy than previous writers have acknowledged. The sluggish economic response to New Deal policies, Shlaes suggests, was due partly to Roosevelt's need to bait businessmen and bankers for their supposed role in bringing about the crisis. They were “economic royalists” who had hoarded profits, exploited workers, fixed prices, and grown rich by speculation. FDR even egged on Morgenthau, his

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Treasury Secretary, to initiate tax-evasion cases against Mellon and Thomas Lamont (the head of J.P. Morgan), going so far as to urge prosecution for their having taken deductions that were perfectly legal when their tax returns were filed.

As for Roosevelt's policies themselves, part of the "second" New Deal in 1935 was an undistributed-profits tax, which forced businesses

to disgorge proceeds typically withheld for investment. That same year, the Wagner Act, authorizing a process of collective bargaining between unions and business, led to a rapid increase in wages—and thus in corporate costs. As Shlaes emphasizes, the New Dealers tended to see business as an institution to be squeezed rather than as a source of investment, invention, and growth. Their

moves against private enterprise, and their threats to regulate large sectors of the economy, created a political climate hostile to investment.

IF THERE IS a hero in Shlaes's account, it is Wendell Willkie, who supported FDR in 1932 but emerged later in the decade as the most articulate critic of the New Deal. As the president of Commonwealth and Southern, a large utilities holding company, Willkie clashed with David Lilienthal, FDR's hand-picked director of the newly created Tennessee Valley Authority, over the extent to which the new entity would compete with private companies in the distribution and sale of electric power. Lilienthal eventually got the better of Willkie, who was forced in 1939 to sell Commonwealth and Southern to the government.

Having seen at first hand the danger posed by federal intervention in the economy, Willkie won a large following with books, articles, and speeches challenging the anti-business premises of the New Deal and arguing that production and growth fit the needs and wishes of Americans far better than did redistribution. The idea of America, Willkie argued, was to encourage private enterprise, not to make war on it. So compelling was his case that he persuaded the Republican convention to nominate him in 1940 to run against Roosevelt on the issue of the government's proper role in the economy.

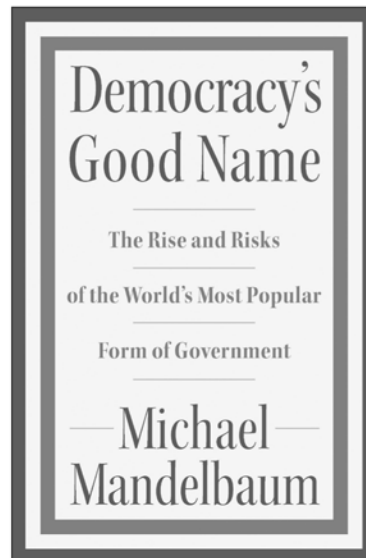
With Hitler on the march in Europe, however, and Britain under siege, voters were preoccupied with issues of war and peace—on which Willkie differed very little from FDR. Though unsuccessful in dislodging the President, Willkie's campaign suggested that, in its domestic interventionism and its animus against business, the New Deal had gone too far.

SHLAES ARGUES persuasively that a key to Roosevelt's success was his

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mastery of the political process and especially his knack for passing legislation that would create constituent groups henceforth supportive of Democratic candidates. These included senior citizens mobilized by the Social Security Act, unions by the Wagner Act, artists and intellectuals by the Works Progress Administration, farmers by agricultural subsidies, and consumers by the promise of cheap electrical power. The creation of large constituencies for federal programs was a new development in the United States, one that ran against the grain of established practices of federalism and private enterprise. Indeed, during the founding era, Jefferson and Madison had feared precisely this prospect in their battles with Hamilton over federal power. Yet this was surely one of the more significant legacies of the New Deal.

Throughout this volume, Shlaes makes a brief not for those on the receiving end of government programs, to whom FDR constantly appealed, but rather for the Americans who received no such benefits but had to pay for them with taxes and the erosion of their freedom. Such “forgotten” men and women, as Willkie said, wanted not just benefits from government but the liberty “to take part in our great American adventure.”

Shlaes’s keenest example of this phenomenon is the Schechter family of Brooklyn, who ran a kosher-chicken business. The Schechters were prosecuted by the Roosevelt administration for selling “sick” chickens in violation of the National Recovery Act (NRA). The aim of the law was to boost wages and hold down prices by regulating various competitive practices that the New Dealers blamed for overproduction. The bureaucrats tasked with enforcing the NRA targeted “middle men” like the Schechters, who facilitated the exchange between producers and consumers—in this case, by buying chickens and preparing

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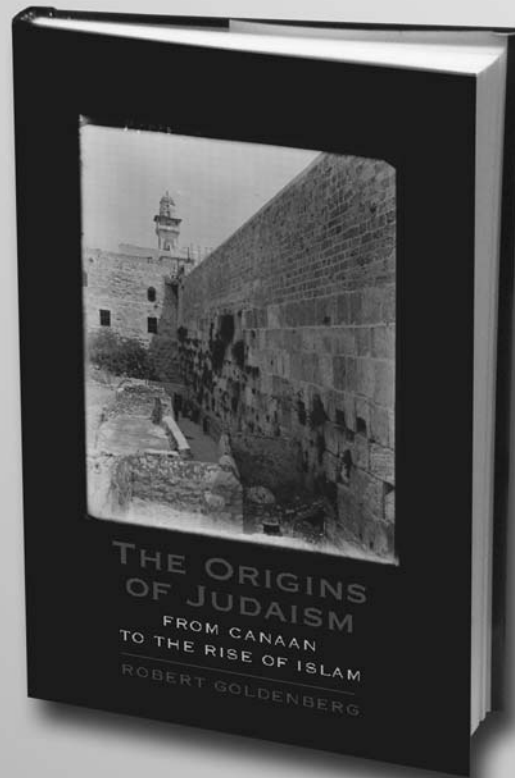
# The Origins of Judaism

From Canaan to the Rise of Islam

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them for sale. The agents investigating their business did not understand or did not care that, in accusing them of selling below-standard chickens, they were also implying that the Schechters did not maintain a kosher slaughterhouse and therefore were not good Jews—a doubly offensive suggestion to these Orthodox businessmen.

The trial record includes some

hilarious exchanges between the Schechters and the clumsy New Deal agents who, the defendants said, “don’t know from a chicken.” Though convicted at trial, the Schechters pressed on with appeals, eventually winning vindication when the Supreme Court not only threw out their conviction but also voided the NRA as an unconstitutional delegation of power from

Congress to the executive. Theirs was an unlikely victory against one of the New Deal’s most aggressive initiatives.

By 1940, at any rate, as war loomed in Europe, Roosevelt and his colleagues had begun to lose their appetite for reform and confrontation. The constitutional system, working in concert with the traditional American suspicion of centralized power, had curbed their ambitions. Programs like the NRA and the WPA were discarded; others, like Social Security, unionization, and farm programs, had to win the ongoing consent of voters. As the nation turned its attention to war, the businessmen whom FDR had attacked eagerly joined the new and far more important crusade for democracy.

SHLAES DOES not enter into the controversies surrounding the causes of the Great Depression—that is, whether it was brought about by venal businessmen and an outdated laissez-faire ideology (as liberal historians propose) or by the Federal Reserve’s interest-rate policy in 1929 and the operation of the gold standard in the troubled international environment of the 1920’s. By suggesting that the New Dealers were wrong to single out businessmen and bankers for blame, however, she seems implicitly to accept the verdict of contemporary economists (like Benjamin Bernanke, the current chairman of the Federal Reserve Board) who identify monetary factors as the ultimate cause of the debacle.

The stories and biographies assembled in this enlightening volume demonstrate that in many areas the New Dealers overreached, basing their actions on dogmas about centralized planning and the failures of capitalism that proved to be either wrong or counterproductive. Yet Shlaes’s account also shows that, in contrast to Hoover, Roosevelt and the New Dealers were prepared to act boldly in ways commensurate

## contentions

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with the scale of the crisis they faced. If it is true that New Deal policies were not greatly effective in ending the depression, it is also true that FDR's leadership was instrumental in maintaining the public's faith that the crisis could be met within the boundaries of traditional institutions.

*The Forgotten Man* is an arresting study, filled with vignettes that illustrate important lessons about the relationship between power and liberty. It deserves to be placed alongside Frederick Lewis Allen's *Only Yesterday* (1931) and John Brooks's *Once in Golconda* (1969) as one of the classic popular histories of the era.

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