How FDR's New Deal Harmed Millions of Poor People

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Democratic presidential candidates as well as some conservative intellectuals, are suggesting that Franklin Delano Roosevelt's New Deal is a good model for government policy today.

Mounting evidence, however, makes clear that poor people were principal victims of the New Deal. The evidence has been developed by dozens of economists -- including two Nobel Prize winners -- at Brown, Columbia, Princeton, Johns Hopkins, the University of California (Berkeley) and University of Chicago, among other universities.

New Deal programs were financed by tripling federal taxes from $1.6 billion in 1933 to $5.3 billion in 1940. Excise taxes, personal income taxes, inheritance taxes, corporate income taxes, holding company taxes and so-called "excess profits" taxes all went up.

The most important source of New Deal revenue were excise taxes levied on alcoholic beverages, cigarettes, matches, candy, chewing gum, margarine, fruit juice, soft drinks, cars, tires (including tires on wheelchairs), telephone calls, movie tickets, playing cards, electricity, radios -- these and many other everyday things were subject to New Deal excise taxes, which meant that the New Deal was substantially financed by the middle class and poor people. Yes, to hear FDR's "Fireside Chats," one had to pay FDR excise taxes for a radio and electricity! A Treasury Department report acknowledged that excise taxes "often fell disproportionately on the less affluent."

Until 1937, New Deal revenue from excise taxes exceeded the combined revenue from both personal income taxes and corporate income taxes. It wasn't until 1942, in the midst of World War II, that income taxes exceeded excise taxes for the first time under FDR. Consumers had less money to spend, and employers had less money for growth and jobs.

New Deal taxes were major job destroyers during the 1930s, prolonging unemployment that averaged 17%. Higher business taxes meant that employers had less money for growth and jobs. Social Security excise taxes on payrolls made it more expensive for employers to hire people, which discouraged hiring.

Other New Deal programs destroyed jobs, too. For example, the National Industrial Recovery Act (1933) cut back production and forced wages above market levels, making it more expensive for employers to hire people - blacks alone were estimated to have lost some 500,000 jobs because of the National Industrial Recovery Act. The Agricultural Adjustment Act (1933) cut back farm production and devastated black tenant farmers who needed work. The National Labor Relations Act (1935) gave unions monopoly bargaining power in workplaces and led to violent strikes and compulsory unionization of mass production industries. Unions secured above-market wages, triggering big layoffs and helping to usher in the depression of 1938.

What about the good supposedly done by New Deal spending programs? These didn't increase the number of jobs in the economy, because the money spent on New Deal projects came from taxpayers who consequently had less money to spend on food, coats, cars, books and other things that would have stimulated the economy. This is a classic case of the seen versus the unseen -- we can see the jobs created by New Deal spending, but we cannot see jobs destroyed by New Deal taxing.

For defenders of the New Deal, perhaps the most embarrassing revelation about New Deal spending programs is they channeled money AWAY from the South, the poorest region in the United States. The largest share of New Deal spending and loan programs went to political "swing" states in the West and East - where incomes were at least 60% higher than in the South. As an incumbent, FDR didn't see any point giving much money to the South where voters were already overwhelmingly on his side.

Americans needed bargains, but FDR hammered consumers -- and millions had little money. His National Industrial Recovery Act forced consumers to pay above-market prices for goods and services, and the Agricultural Adjustment Act forced Americans to pay more for food. Moreover, FDR banned discounting by signing the Anti-Chain Store Act (1936) and the Retail Price Maintenance Act (1937).

Poor people suffered from other high-minded New Deal policies like the Tennessee Valley Authority monopoly. Its dams flooded an estimated 750,000 acres, an area about the size of Rhode Island, and TVA agents dispossessed thousands of people. Poor black sharecroppers, who didn't own property, got no compensation.

FDR might not have intended to harm millions of poor people, but that's what happened. We should evaluate government policies according to their actual consequences, not their good intentions.