



1938

## The New Deal vs. the American Economic System, 1938

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### Recommended Citation

Huntington-Wilson, Francis Mairs, "The New Deal vs. the American Economic System, 1938" (1938).  
*Documents, 1919-1938*. 82.  
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Chap 8

THE NEW DEAL VS. THE AMERICAN ECONOMIC SYSTEM

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CONFIDENCE is the indispensable keystone of American prosperity. There must be confidence in the government and in the government's credit, and in the value of the currency; confidence in the possibility to make a profit in established business and in new enterprise; confidence in the possibility of industrial peace through fair relations between employer and employed. The New Deal has destroyed confidence. Probably enough has already been said to show this. <sup>without</sup> ~~before~~ <sup>mentioning</sup> ~~listing~~ the definite New Deal.

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policies that make prosperity, under the American system, *practically* impossible.

~~Before proceeding further,~~ In view of the amount of talk about "capitalism" that is going on, it will be useful to remember what capital is. Capitalism must have begun when the first man, through skill, industry or self-denying thrift, acquired something that he could spare and could lend or sell to another man in return for something else or some service. Surplus wealth not consumed by the owner is potential capital. Capital is defined as "that part of the produce of industry...which is available for future production; an accumulation of the products of past labor capable of being used in the support of present or future labor"; "..wealth which is devoted to the production of wealth". And as John Stuart Mill said, "What capital does for production is to afford the shelter, protection, tools, and materials which the work requires, and to feed and otherwise maintain the laborers during the process...Whatever things are destined for this use--destined to supply productive labor with these various prerequisites--are capital."

The necessity for accumulated capital is, of course, the same under socialism as under other systems. And it is evident that the waste or enforced idleness of capital is hostile to the interests of labor, as to those of everyone else, under any system. At present we have the New Deal to thank for both waste and idleness of capital. Capital being essential to the welfare of labor, the absurdity of the idea of war between capital and labor is apparent. Rather are the enemies of capital enemies of labor.

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Under socialism, capital is owned by the government. Government owns the means of production, manages and runs the industries, and is the employer of labor in them. Government fixes wages. Upon its prudence and thrift depend the conservation and increase of the national capital. Upon its efficiency in production depends the volume of the national income in goods and services that can be divided among the people.

Under the American system, capital is owned by individuals and by the share-holders in corporations; industries are managed and run by individual owners or by managers paid by share-holders; and these managers are the employers of labor, acting on behalf of the owners. Wages are fixed by agreement between labor and management. Upon the fairness of wage agreements, and upon the efficiency, prudence and thrift of managements (and confidence on the part of investors) depend the conservation and increase of national capital and the volume of the national income, in goods for consumption by the nation. And it is upon this last that depends the standard of living.

Various faults of the American economic system have been noted, and some of the rational modes of attempting their cure. Disgust at the financial greed of some of the very rich, more particularly some manipulations<sup>205</sup> of holding companies or "trusts", some stock-jobbers, and some business executives, should not cause us to forget that there are human limitations to what a person can consume in the way of shelter, clothing, food, and even luxuries. These big spenders support many a luxury trade and services, <sup>Some of them support</sup> also many a charity, hospital, educational institution,

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museum, or other public benefit. But the main point is that their large unconsumed surpluses have no use or function except the indispensable one of supplying capital to run the business of the country.

That part of the income of the very rich which they are able to use as consumers is such a very small fraction of the national consumers' income that it is practically without effect upon the total national income in goods and services available for distribution and consumption among the entire population. Excessive wealth, it is true, has a tendency to carry with it excessive power; and nobody desires in this country anything resembling "plutocracy". <sup>But</sup> people enjoying our democratic form of government must be weak indeed if they found themselves incapable of protecting themselves against exercise of undue power by the very wealthy. Indeed there already exist numerous "pressure groups", from the New Deal administration itself down to certain labor and other organizations and some vested interests, that are menaces of undue political ~~influence~~, and ~~through~~ ~~that~~ economic influence, much harder to deal with than the unorganized group of the very rich.

X Clearly, then, the only very important function of the owners of large capital is to finance ~~and run~~ the business and industry of the country. And the only very serious question is whether or not they perform those functions better than appointees, say, of Mr. Roosevelt and Mr. Farley and the New Deal would do. Appointments or elections to government offices unfortunately do not transform ordinary men into angels, nor even into states-

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men or good legislators or capable administrators. We see that pretty vividly when we examine some of our city governments, for example.

Unless Americans want to shift to socialist dictatorship, it is urgent that they put the brakes on the New Deal in the nominations and elections of 1938.

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THE NEW DEAL VS. PRIVATE CAPITAL

Time may possibly prove that mass production by power machinery, colossal units of manufacture, and the whole tempo of modern life, are so unsuited to the nature of man in the present stage of his development that man cannot thrive or be content in this environment he has made for himself. If so, the course of wisdom will call for some gradual dismantling of present industrial arrangements and a return to smaller units, simpler processes, and a simpler life. If the present system of production were inimical to the wellbeing of man, socialism would supply no cure. Note the feverish efforts of socialist Russia to imitate the industrial organization of the United States. And, from any point of view whatever, it is not sane to cripple and paralyze the only system of production that we have, before we have adopted a new philosophy and have planned a new system to take the place of the one we know.

And yet the crippling and paralysis of the American economic system is precisely the result of some of the utterances, policies and laws of the New Deal. It is an old saying

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that "the power to tax is the power to destroy". Hitherto we have had taxation for revenue, and we have had taxation, through the tariff, for the fostering or protection of American industry, <sup>and the protection of the American wage-scale</sup> Only under the New Deal have we seen taxation to punish or destroy. Destructive taxation is no substitute for reasonable regulation.

No one quarrels with the principle of taxation according to ability to pay; but when the application of the principle is exaggerated beyond reason, the result is to deprive the country of the service of capital, to the detriment of everyone. When the progressive income tax in the highest brackets is raised to dizzy heights, there is, in effect, a capital levy. The government takes over funds that otherwise would be at work in running the business and industry of the country. The corporate income tax, the capital gains tax, the undistributed corporate <sup>surplus</sup> profits tax, all have this effect. These last named taxes are all taxes on production at its sources. They raise prices to everyone because they raise costs of production. They seize the surplus with which corporations could tide over their employees during hard times. They take away the funds needed for expansion or replacement. They levy two or three times upon the source of income of every small stockholder, as well as upon the source of wages. They undermine the security of corporate bonds.

<sup>Along with</sup> tax policies like these, so peculiarly fatal to business recovery under the American system, the New Deal has now rolled up a federal debt that points to the astronomical figure of

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\$45,000,000,000. <sup>over</sup> in the future. As Senator Byrd says "to dissipate our resources so quickly is a reckless disregard for the most elementary principles of economics." Instigated by <sup>the</sup> Washington, <sup>government, the</sup> state, city and other local governments have joined the spending spree, until it is now estimated that the total American tax bill already takes one fourth of the whole national income. The coming fiscal year is to be the ninth of unbalanced budgets, with a ~~jolly little~~ federal deficit of perhaps five billions. And two years ago the New Deal president had already disposed of more of the taxpayers' money than all preceding presidents together in the history of the country.

These incredible sums taken by government come <sup>^</sup> out of the reservoir of potential capital that ought to be at work in productive enterprise. Insofar as the government invests <sup>this money</sup> ~~them~~, it is seldom in ~~the~~ instrumentalities for producing wealth. The country is dotted with palatial school-houses, magnificent bridges and roads, dams of astounding cost. The latter produce some electricity, although the chief aim of the creation of some of them has seemed to be a desire to injure, instead of regulating, the great electric power industry. None of these government works can be consumed, and, barring some power dams, none of them produces anything that can be consumed. Therefore the claim that money poured into government works is a capital investment does not conform to the idea of capital at work, capital put into means for producing goods. It is just putting capital permanently to sleep that ought to be working to increase





\* Foot-note  
Foot-note. In 1934 hidden taxes supplied 59% of the total Federal tax revenue. In 1935 -36 three typical families spending, roughly, \$1200., \$1800., and \$ 2300., respectively, paid in taxes an average of more than 12 cents out of each dollar spent. Their work days given to paying the tax bill ranged from over 26 to nearly eighty. From 1929-30 to 1933-34

the proportion of revenue from indirect, that is, hidden, taxes, increased fourfold. (From an ultra-conservative study made by the Providence Journal.). Evidently the New Deal, bent on "soaking the rich", is in reality

"soaking" the poor still more cruelly,--but in hidden taxes.

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in largest part through indirect taxes out of the pockets of every working man or woman and out of every house-wife's budget.\* The rest comes largely

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the national real income,-- income in goods and services.

All Americans know that private capital should be used and not abused; that those who own it bear a public responsibility; and that a certain amount of reasonable regulation is called for in this, as in many other fields. Production means labor and capital in fruitful cooperation. The New Deal has waged a war of "frightfulness", with epithets like "economic royalists", "tories", "feudalists", and so on directed at owners of capital or managers of business. At the same time it has condoned lawlessness, "sit-down strikes", coercion and violence on the part of a large labor organization that has supported it with money and votes. As already pointed out, it has passed the one-sided Wagner act which gives every advantage to favored labor groups and no protection to employers, and very little to other labor. Under the Wagner Act, as it works out, it is sought to deny the right to work to citizens unless they join a union that may have acquired, even by coercion, a bare majority among the employees of the plant concerned. Under the same law they have set up a so-called labor relations board whose function is not a mediatory or judicial one, but one of prosecutor of employers and coercion<sup>er</sup> of workmen on behalf of favored unions. This is not fair play; and incitement to hostility between "labor" and "capital" is not the way to their fruitful cooperation upon which production and the American standard of living depend.

Napoleon said, "God is on the side of the big batallions". It is convenient for politicians to pretend that right is always on the side of the pressure group that seems strongest in votes at the moment. Fortunately we still have the Constitution. Fortunately, too, we still have a majority of Americans ready to stand up for American insitutions.

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And as the effects of the New Deal at last become apparent even to the credulous and unthinking, we have only to unite in our opposition, putting country above party.