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March of 1933 is a watershed in American economic history. When the month began the economy was chaotic: the financial system was in a terminal collapse, industry was in disarray, agriculture was in revolt, and for many gainful employment was a fading memory. In October 1929 a great contraction of the economy had begun and showed no signs of abating three and a half years later. An enormous impoverishment had taken place; more than one third of the nation was ill fed, ill housed and ill clothed. American capitalism was a failure in early 1933.

On Inauguration day in 1933 Roosevelt's clarion call "The only thing we have to fear is fear itself" marked an historic turning point. It expressed a will to create a new capitalism which would replace chaos with order, sustain an approximation to full employment and contain institutional barriers to prevent a repeat of the 1929-33 debacle. Laissez faire - the doctrine of passive government because "the market always knows best" - was set aside. The New Deal meant that in the future economic well being was to result from the joint efforts of an active government, private enterprise, and popular organizations.

Even though the current situation is not as dire, for American Capitalism is nowhere near the failure it was in 1933, it resonates with the Hoover years. As we all know an ounce of prevention is worth a pound of cure: It is far better to reconstitute an effective capitalism now rather than later, after the current malaise further erodes our national well being. A New New Deal is needed.

During President Franklin Roosevelt's first term recovery and reform were the twin goals of economic policy. The reforms created a capitalism in which government regulated finance, policed markets and was a greater share of the economy than in 1929: the era of big government capitalism was inaugurated.

Substantial improvements in the economy came quickly. By 1937 recovery was accomplished. A sharp but short recession took place in 1937.

For more than 30 years after 1937, through war and peace, the new capitalism gave us an unprecedented level of prosperity with a wide distribution of economic well being. The first 20 years after the second world war stands as a practical best for American economic performance. The New Deal transformed capitalism from being a dismal failure to an enviable success.

This successful capitalism was far different from the capitalism which was a failure in 1933. The New Deal not only had programs which increased resource utilization during the depression but it also changed the financial

structure, fostered resource creation, supported competitive industries, created safety nets for personal income and placed barriers in the way of downward price flexibility.

Direct employment by The Civilian Conservation Corps, the National Youth Administration and the Works Progress Administration promoted resource utilization and created a safety net to personal income by making income through work available during the recovery from the depths of the depression.

Financial reforms eliminated the gold standard, insured deposits, compartmentalized banking and finance, provided for closer regulation and inaugurated transparency in both corporate finance and financial markets.

Resource creation took many forms: public works, rural electrification, TVA, other river projects, reforestation, land reclamation and public housing. Active anti trust policies fostered competition. Unemployment insurance, Social Security and government fiscal policies provided guarantees against sharp declines in personal incomes and business profits. Agriculture price supports, minimum wages and government protected trade unions served as barriers against a free fall in the price level.

Stresses and strains in the New Deal structure became apparent in the 1970's. Strong and responsible trade unions, highly localized and narrowly focused savings and loan associations and effective anti-trust, all of which had

contributed to the success of the new capitalism, diminished in importance.

The compartmentalized financial system, that was put in place in the 1930's, fostered enterprise and investment. Institutional evolution, such as the rise of pension funds, legislated changes, such as broadening the asset base of savings and loans, and mistaken policy, such as monetarism, along with new communication and computation technologies transformed the financial system.

During the 1980's Casino Capitalism took over: banking and finance degenerated so that enterprise became a bubble on a sea of speculation. It has taken a massive infusion of government money into the financial system and enormous peace time government deficits to prevent the 1990's from replicating the disasters of 1929-33.

A strength of capitalism is that it is not frozen in stone: it can take many forms. As one form breaks down another can be developed, perhaps in the womb of the old. The era in which the structure that was put in place in the 1930's sufficed as the institutional framework for a successful capitalism may have ended in the 1970's. Certainly the past twenty years have not been as successful as the prior twenty years.

In the Reagan and Bush years policy has taken a laissez faire turn, albeit with massive defense spending and huge government deficits. As in the 1930's, laissez faire has not resulted in a successful capitalism.

As a minimum the agenda for reform should include:

- 1) Devices that decrease the dependence on transfer payments for those fit to work. In a humane society this can only be done if access to income from work is available to all. We should not think of simply replicating the 1930's CCC, WPA and NYA: these 1930's mechanisms can best serve as prototypes.
- 2). Greater Federal government financing of infrastructure investments and the creation of National research universities and institutes.
- 3). A reconstituted banking and financial system which emphasizes community banks and which will finance the capital development of the country and not dissipate its resources in financing speculation.
- 4). A new Reconstruction Finance Corporation to recapitalize financial institutions and to assure that adequate financing is available for viable projects.
- 5). A universal access health system and vested defined contribution pension systems to supplement social security. The job related health care and pension systems are obsolete in today's competitive environment.
- 6.) A tax system that equitably finances government and is balanced at full employment.

The message from our history is loud and clear: an activist Federal government is necessary for capitalism to be successful. Since 1980 economic policy has ignored this precept. In 1933 the country recognized that the disasters

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of 1929-33 were not due to a shortage of resources but to the ideological blinders which wedded policy to laissez faire. Just as in 1933 we need to cast off the blinders of "the market always knows best" to assure the success of our economy.

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