

March 4, 1933 / March 4, 1992

Capitalism was a failure in March of 1933. The financial system was bankrupt, industry was in disarray, agriculture was in revolt, and for many, gainful employment was a distant memory. Poverty was rife: one third of the nation was ill housed, ill fed and ill clothed.

Aspects of the current situation resonate with the Hoover years. Parallels can be drawn with the 1930's but the situation is not as dire, nor is American capitalism as discredited, as in March of 1933. The economy is floundering, it is not a disaster.

The reforms of Roosevelt's first term aimed to create an institutional structure for a successful capitalism. In a large measure this was done. Success followed the substitution of an interventionist, regulated and big government capitalism for the 1920's laissez faire and small government economy.

In the 1950's and 60's a close approximation to full employment was achieved and sustained. By the 1960's it appeared as if the major battles against poverty had been won: John Kenneth Galbraith's The Affluent Society of 1958 celebrated the victory. Johnson's war on poverty was a mop up operation.

Stresses are now apparent in American capitalism. Some of the institutions that contributed to the success of the 1950's and 60's, such as strong and responsible trade unions and highly localized and narrowly focused Savings and Loan

Associations, have 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 policy errors, such as monetarism, transformed the financial system into an abeter of speculation.

Massive infusions of government money into the financial system together with the enormous government deficits which sustain profits are all that prevents the financial disasters of the 1930's from being replicated in the 1990's. Poverty survived Johnson's war and is now winning battles. The era of successful capitalism may well be coming to an end.

Capitalism is not frozen in stone: it can take many forms. As one form breaks down another can be developed. A new model capitalism needs to be developed if we are to again perform as well as in the 1950's and 1960's.

Roosevelt's clarion call "The only thing we have to fear is fear itself" expressed a will to create a new capitalism which would replace chaos with order, create and sustain an approximation to full employment, and set the country on a road which did not lead to a quick repeat of the 1929-33 debacle. The New Deal reformed finance, increased resource utilization, fostered resource creation

and placed barriers in the way of downward price flexibility.

The financial reforms eliminated the gold standard, insured deposits, compartmentalized banking, provided for closer regulation and inaugurated transparency in corporate finance and financial markets. Direct employment by The Civilian Conservation Corps, the National Youth Administration and the Works Progress Administration promoted resource utilization. Resource creation took many forms: public works, rural electrification, TVA, other river harnessing projects, reforestation and public housing. Barriers against a free fall in the price level included agriculture price supports, minimum wages and spreading trade unionism.

There are many echo's of the 1930's in today's behavior. The official economists once again intone "Prosperity is just around the corner". Once again gimmicks, such as the "middle class tax cut", are offered as cures for the failure of the economy. Once again others - this time the Japanese - are held responsible for our ills. Once again an excruciating waste of humans is tolerated. Once again our leadership - Republican and Democrat - alike seem not to comprehend what is happening.

A successful economy fully uses and creates resources. It achieves and sustains a close approximation to full employment. Its ability to produce grows: when we enjoyed a close approximation to full employment a vigorous creation

