
The American System

How FDR Battled the ‘Tories’ To Protect His New Deal Policies

by Pamela Lowry

On June 3, 1937, President Franklin Roosevelt recommended to Congress that it pass legislation providing for Federal planning and development of the nation’s natural resources, and that this comprehensive effort be coordinated by seven regional authorities. This was not a mere academic proposal for better administration—it was part of Roosevelt’s knock-down, drag-out fight in 1937 against the Tory faction, which wanted to stop the New Deal programs and go back to *laissez-faire*, free trade, and unregulated speculation.

Although Roosevelt had been re-elected in 1936 by a large margin, the international speculators and financiers moved quickly to counter the economic programs that were bringing America out of the Great Depression. Roosevelt could see the warning signs early in the year. During a White House press conference on April 2, he announced the fact that the prices of raw materials had gone up too high, threatening the large, long-term infrastructure projects that the government was building, such as bridges and concrete dams.

Roosevelt particularly cited the price rises in cement, steel, and copper. “I am concerned—we are all concerned—over the price rise in certain materials that go into durable goods primarily. For example, we all know that there are a great many mines in this country—copper mines that can turn out copper at a profit at five and six cents. Even the high-priced mines, like Anaconda, can probably make a profit at eight and nine cents. Yet today copper is selling at 17 cents or more, pushing up thereby the prices of all kinds of articles into which copper enters. . . .”

Roosevelt also cited the \$6 a ton increase in steel prices. When asked if the price increases were far above what they should have been, Roosevelt answered: “I think that the price increase of ordinary steel was much larger than was justified by the increase in the pay of the workers; it was probably somewhere between twice and three times the amount that went to the workers.”

Compounding the problem that massive profit-taking and speculation on raw materials were driving up the cost of building needed infrastructure, was the fact that Treasury Secretary Henry Morgenthau was pressuring Roosevelt to cut funds to the Public Works Administration. Morgenthau justified the

cuts by pointing to the industrial production index published by the *New York Times*, which had risen to 110, and therefore supposedly indicated that large infrastructural projects were no longer needed. He was wrong, and the cuts resulted in an economic collapse and spiralling unemployment.

Ferocious Opposition

The opposition to the New Deal, an opposition of such ferocity that it would even wittingly cause another collapse, was made up of oligarchical interests who knew that Roosevelt’s policies were the death knell of their beloved feudal system. One Roosevelt thrust that drove them to frenzy was his May 24, 1937 proposal for legislation establishing minimum wages and maximum hours.

In his proposal to Congress, Roosevelt wrote that “to protect the fundamental interests of free labor and a free people we propose that only goods which have been produced under conditions which meet the minimum standards of free labor shall be admitted to interstate commerce. Goods produced under conditions which do not meet rudimentary standards of decency should be regarded as contraband and ought not to be allowed to pollute the channels of interstate trade.”

One of the rudimentary standards of decency involved not using child labor. It was not until 1941, that the Supreme Court overturned a 1918 decision that had invalidated a statute prohibiting the interstate shipment of goods made by child labor, under conditions considered substandard by the Congress of that day. As Roosevelt later wrote: “There has been established at last the definite principle, which is essential to any self-respecting democracy, that the Congress has the right to impose decent standards of wages and hours in any factory which manufactures merchandise passing through the channels of commerce from one State to another. In this way, backward States, which are willing to permit their children to work instead of going to school, and are willing to subject helpless labor to intolerable working hours and starvation wages, will not be permitted to send their merchandise into other more enlightened States, which are willing to respect the minimum standards of a free laboring class.”

Seven Regional Authorities

Just ten days after he asked Congress for minimum-wage legislation, Roosevelt submitted his plan for creating seven regional authorities which would report to the Federal government on maintaining and expanding the nation's natural resources, a mandate which included flood control, forest management, the prevention of erosion, and hydroelectric projects. The President particularly stated that "the water-power resources of the nation must be protected from private monopoly and used for the benefit of the people."

As Roosevelt wrote in November of the same year, "We have reached a stage in the depletion of our natural resources where we should allot a definite portion of each year's budget to this work of husbandry. Our present machinery for carrying out such purposes, however, is geared to methods of which the rivers-and-harbors legislation of many years ago is an example. We spend sporadically—on a project here and a project there—determined upon without relation to the needs of other localities, without relation to possibly more important needs of the same locality, and without relation to the national employment situation or the Federal Budget.

"To avoid waste and to give the nation its money's worth from the national funds we expend, we must, like any business corporation, have a definite building and operating plan worked out ahead of time—a planned order in which to make expenditures so that we may keep our working force employed, and a planned coordinated use of the projects after completion. And because relative values of local projects should be appraised before they come to Washington, first by those with local knowledge, and then by regional conferences, we must have some kind of local and regional planning machinery and coordination to get full value out of the final appropriations authorized in Washington—money value and human value."

At the end of his message to Congress, Roosevelt stated, "For nearly a year, I have studied this great subject intensively and have discussed it with many of the members of the Senate and the House of Representatives." The shining example of such comprehensive planning was the Tennessee Valley Authority, yet its very success had made powerful enemies. One of them was a committee chairman from the South who lobbied for the dismissal of TVA director David Lilienthal, because he had had the temerity to allow a black woman to take a government test for a TVA clerical position.

Roosevelt assured the chairman that Lilienthal had done such a good job that he would be most happy to name him head of the Columbia River Basin Authority, thus removing him from the TVA. The catch was that Congress would have to vote out the funding for the Columbia River project to make this possible. The chairman was unmoved, and the feudalistic Liberty League's well-financed propaganda against so-called "socialist planning" succeeded in stopping Roosevelt's comprehensive resource development program.

The Battle Continues

Although infrastructure and production during World War II were greatly expanded, there were still industrialists and investment bankers who refused to gear up to the necessary level, because their only yardstick was whether they could turn a profit after the war on their increased capacity, and they decided they could not. Those among them who had backed the rise of Hitler also feared what the post-war use of American System economic policies would do to their power. The "Economic Royalists" had also determined that the war was definitely not being fought to bring a higher standard of living to other nations.

Roosevelt attacked this outlook in his State of the Union address of Jan. 11, 1944: "There are people who burrow through our nation like unseeing moles, and attempt to spread the suspicion that if other nations are encouraged to raise their standards of living, our own American standard of living must of necessity be depressed.

"The fact is the very contrary. It has been shown time and time again that if the standard of living of any country goes up, so does its purchasing power—and that such a rise encourages a better standard of living in neighboring countries with whom it trades."

As he had in 1937, Roosevelt warned about unwarranted price increases and the resultant inflation, which had "a particularly disastrous result on all fixed-income groups. And I hope you will remember that all of us in this government represent the fixed-income group just as much as we represent business owners, workers, and farmers. This group of fixed-income people includes: teachers, clergy, policemen, firemen, widows and minors on fixed incomes, wives and dependents of our soldiers and sailors, and old-age pensioners. They and their families add up to one-quarter of our 130 million people. They have few or no high-pressure representatives at the Capitol. In a period of gross inflation they would be the worst sufferers."

Roosevelt then turned to his plans for extending the benefits of economic development to all Americans, and issued a prescient warning. "It is our duty now," he said, "to begin to lay the plans and determine the strategy for the winning of a lasting peace and the establishment of an American standard of living higher than ever before known. We cannot be content, no matter how high that general standard of living may be, if some fraction of our people—whether it be one-third or one-fifth or one-tenth—is ill-fed, ill-clothed, ill housed, and insecure.

"As our nation has grown in size and stature, however . . . [our inalienable] political rights proved inadequate to assure us equality in the pursuit of happiness. We have come to a clear realization of the fact that true individual freedom cannot exist without economic security and independence. 'Necessitous men are not free men.' People who are hungry and out of a job are the stuff of which dictatorships are made."