EIR Feature

THEN, AND NOW

Why Roosevelt's Explosive 1933-45 Recovery Worked

Part 1, by Richard Freeman

The following is the introduction to a major study included in "Economics: The End of a Delusion," a special report by the LaRouche in 2004 Presidential campaign committee. The rest of the article will appear in future issues.

In the period 1933-45, President Franklin Delano Roosevelt transformed an American economy that was collapsed by depression, and whose banking system had fissured apart, leading it through a successful economic recovery. At a time of intense crisis, he shaped the course of history. Thereby, he saved the American republic and civilization.

Roosevelt made a fundamental change by sweeping away the method of the British System of economy, which had dominated earlier Twentieth-Century America, and caused the Depression. He replaced it with a return to what the first U.S. Secretary of the Treasury, Alexander Hamilton, had described as the American System of political economy, with its commitment to nation-building and economic development.

Overview: The American System

As Hamilton had described it, the American System represents the commitment of the nation to the principle of promoting the General Welfare, through priority on the cognitive development of the citizen. This meant, then as now, the capital-intensive, power-intensive development of the physical economy, inclusive of infrastructure, to produce growth. The sovereign powers of the nation-state must be aroused, to promote scientific progress, and to create the advancement of mankind.

To that purpose, Roosevelt built a labor-farm-minority-urban machine alliance, as the new base of the Democratic Party.

President Franklin D. Roosevelt signs the Social Security Act, Aug. 14, 1935. His measures to bring the nation out of the Depression expressed the principles of the American System of political economy.

Roosevelt instituted his American System recovery in two phases. First, through the New Deal of the years 1933-37, Roosevelt revived the existing manufacturing and agricultural capability, which had been closed by the Depression. He also built a magnificent array of technology-transmitting infrastructure. Later, during the economic mobilization for World War II, which was conducted from 1939-44, Roosevelt introduced a qualitative change. He made scientific discovery—and the machine-tool design principle—the driver for the economy. The latter mobilization injected a scientific-technological revolution into every aspect of the economy, and built a new layer of manufacturing and productive capacity, of the highest technological level. This, in addition to the capacity that had existed prior to the war. The end result was a revolutionary reordering of the U.S. economy for a vastly increased technological level of development. This combination of measures, not only defeated the Depression, but generated explosive, anti-entropic growth.

Upon taking office, Roosevelt had to confront both a devastating physical reality and, more challenging, the fatally flawed method of the British System. The 1929-32 Depression was deep. At the start of 1933, unemployment was officially 12.83 million, representing 24.9% of the labor force. Worse, industrial production was down 54% from its 1929 levels. Steel production operated at only 24% of its capacity. The banking and financial system was shattered. But, above all, what Roosevelt had to confront, was the British System's several decades of pillage and rape of America, during the first third of the Twentieth Century, and in particular during the decade of the 1920s.

Roosevelt Comes on the Depression Stage

The ruin which led into the 1929-1932 Depression, was chiefly due to the efforts of President Calvin Coolidge (1923-29), together with his alter ego and controller, Treasury Secretary Andrew Mellon, and the banking House of Morgan.

Coolidge himself was a venal man, whose Hobbesian outlook defined man as a beast. He believed that the nation-state must not intervene to positively develop the economy, nor to regulate financial and economic affairs. Andrew Mellon, who spoke for Wall Street's interests, had been installed as Treasury Secretary for three Presidents—Warren Harding, Coolidge, and Herbert Hoover—serving during an extended period from March 1921 through February 1932. He dictated policy to the United States government from that post.

Together, Mellon and Coolidge instituted the policy of the the neo-Venetian rentier-finance British System. This meant speculation, unbridled looting, and the virtual enslavement of millions. Under the rubric that the "free market" ruled, Wall Street and the City of London gouged the physical economy. Labor was crushed, and the decades-long farm crisis was permitted to fester and worsen. With Mellon's and Coolidge's approval, the speculative bubble, fed with the "leverage" of broker loans, rose to unsustainable heights.

Inevitably, this orgy of predatory speculation came crashing down. It happened in October 1929, only seven months into the administration of President Herbert Hoover. The crash itself was not the work of Hoover, but, chiefly, of Mellon and Coolidge. Nonetheless, during the next two and one half years, Mellon, as Hoover's Treasury Secretary, dictated austerity and deflationary policies, which drove the shattered economy onto the rocks.

Then, Franklin Roosevelt came on stage.

Many corporations had collapsed. The supposed institutional authorities—the banks and the so-called experts of academia and the media—were completely discredited; and while his rivals failed, Roosevelt swept the stage clean.

In his Dec. 26, 1999 paper, "Tinsel Town Follies," 2004 Presidential pre-candidate Lyndon LaRouche stated:

"Typical of the investment practice which yields the highest rates of growth of physical productivity, per capita and per square kilometer, is the so-called science-driven crash-program effort, such as the U.S. Manhattan Project and the German-American aerospace effort launched under President John F. Kennedy."

A little later in that same paper, LaRouche wrote, regarding the productive powers:

"This requires the kind of society in which each young person is educated in the way coherent with that practice of knowing. That means, in turn, a family and cultural environment coherent with the production of such qualities of graduates of education. It means a society whose investment policies cohere with that kind of emphasis upon fostering crash-program-like rates of improvement in the physical-productive powers of labor."

Though he may not have said it in the same terms, Roosevelt understood crash programs, as driven by science. He understood the need for emergency powers to achieve that. In his March 4, 1933 inaugural address, Roosevelt laid out at the end of his speech the need for command decisions and emergency mobilization:

"I am prepared under my constitutional duty to recommend the measures that a stricken nation in the midst of a stricken world may require. These measures, or such other measures as the Congress may build out of its experience and wisdom, I shall seek, within my constitutional authority, to bring to speedy adoption.

"But in the event that the Congress shall fail to take one of these two courses, and in the event that the national emergency is still critical, I shall not evade the clear course of duty that will then confront me. I shall ask the Congress for the one remaining instrument to meet the crisis—broad executive power to wage a war against the emergency, as great as the power that would be given to me if we were in fact invaded by a foreign foe."

In that same speech, he indicated how he would tackle his first task:

"Our greatest primary task is to put people to work. This is no unsolvable problem if we face it wisely and courageously. It can be accomplished in part by direct recruiting by the government itself, treating the task as we would treat the emergency of a war."

"Roosevelt understood crash programs, driven by science," and another Democratic President in his tradition, John F. Kennedy, was able, thus, to cause the only in-depth growth in America's real economy since World War II. Here, JFK examines an Apollo landing vehicle under development.

Roosevelt mobilized the population, using the executive powers inhering in the Preamble of our Constitution. In a time of crisis, he provided towering leadership. He possessed great moral courage, a mind that could improvise creatively to come up with sound judgments and solutions, wit, and compassion for every person. In the special way he personally addressed the population, through "fireside chats" and the like, he could reach inside a person, to inspire his (or her) better half to act on behalf of a *national mission of great importance.* This was especially true in his three great strategies: the New Deal (1933-37); the economic mobilization for World War II (1939-44); and the fight for post-War world development against British and other imperialisms. The Bretton Woods system, as adopted before his death, reflects this. Notably, the period of this fight is 1939-45, but that fight is predated by his fights for new strategic orientations such as the "Good Neighbor Policy."

In these fights, in which he made such executive decisions, Roosevelt swept away the method of the debauched Thomas Hobbes and the usurious Adam Smith. He reinstituted the American System of Economics, associated with the General Welfare. The principles of the American System echoed the Italian Fifteenth-Century Renaissance, and rested upon the influence of the work of Gottfried Wilhelm Leibniz on the Eighteenth-Century American leaders such as Franklin and Hamilton. This legacy was continued, by Henry Carey, Abraham Lincoln, and others, in the course of building America as a great industrial constitutional republic.

In this American System, as Hamilton named it, the nation-state acts for the interest of the entire population, present and future. The state positively intervenes to shape the economy: It directs cheap and abundant credit to foster capital-intensive, power-intensive manufacturing, agriculture, and infrastructure; it fosters scientific discovery and the incorporation of advanced discoveries into the machine-tool design sector; it develops the cognitive power of the labor force; it regulates its economic and financial affairs, and crushes speculation. As a result, there is an increase of the rate of potential relative population density.

The New Deal

Under what came to be known as his New Deal, Roosevelt applied the American System by aid of such measures as the following:

- He stabilized the banking system.
- He directed cheap and abundant credit into the economy, using such agencies as the Reconstruction Finance Corporation (RFC), and other government agencies which he newly created.
- He built magnificent infrastructure, with the Tennessee Valley Authority (TVA) in the forefront. The Tennessee Valley encompasses a watershed of tens of thousands of square miles spanning seven states. The TVA built an integrated development project, which developed abundant hydroelectric power, accomplished flood control and river diversion, provided scientific agriculture and new industry, eradicated malaria, and spread education to overcome illiteracy. It reshaped a region in a revolutionary way, and became a model for the world.

And as we shall see below, this was but one of four great "quarters," pillars of new national infrastructure, which Roosevelt intended to use his Presidency to erect, to support a rising, transformed structure of the American economy.

Roosevelt's New Deal also built the Rural Electrification Administration, and constructed tens of thousands of sanitation projects, hospitals, schools, ports, and public buildings.

Roosevelt launched public works programs which employed millions of workers building the infrastructure. This report will show, perhaps for the first time, that the public works programs, led by the Public Works Administration (PWA) and Works Progress Administration (WPA), through the bill of materials, drove forward the whole economy.

The New Deal also famously introduced social programs of justice, like Social Security for the aged and disabled; unemployment insurance for the unemployed; the right to organize for labor, etc. President Roosevelt operated on the concerns of the downtrodden. He introduced legislation, such as the Glass-Steagall Act, that went after Wall Street looting and corruption.

The New Deal stopped the farm and home foreclosures, stopped the loss of savings accounts, restored whole sections of the economy and nation, and prevented the disintegration of the republic. That it did not totally end the Depression, can be seen by the fact of the high level of unemployment which still existed in 1939.

The success of the New Deal was completed by the economic mobilization for World War II, which had a different emphasis, but was based on the same American System and its method.

New Deal and War Mobilization Interact

Franklin Roosevelt conducted a crash economic effort, a mobilization for World War II. It took the achievements of the New Deal, and pushed the economy into non-linear growth that seemed beyond the scope of what the ordinary person would have believed achievable. It used the method of Hamilton, directed cheap and abundant credit for the productive economy, the construction of infrastructure, etc. But it was distinguished from the New Deal in that *it was very much premised and explicitly driven by the driver of scientific discoveries, and the machine-tool design sector.* It was a qualitative solution. The economy leapt forward.

Between 1939 and 1944, the wage level per worker doubled; corporate profits increased 4.5-fold; the output of industrial production doubled; the level of the manufacturing workforce grew from 10.28 million to 16.33 million, while the level of the unemployed fell from 9.48 million to 0.67 million.

In 1938, the United States produced 34,000 machine tools. By 1942, the figure was 307,000, nearly ten times greater. Moreover, the new machine tools had a much more developed scientific power, and thus were far more productive.

There was the commercial development of aluminum, magnesium, and penicillin; the utilization of the electron microscope; the crash program of the Manhattan Project.

An entirely new economy had been built on top of the old, while the old one was upgraded. The productive labor force was technologically upgraded. By the end of 1944, the U.S. economy was operating at an unprecedented level of explosive, anti-entropic growth.

World Development

Roosevelt had the confidence that the same American System method, which had proved successful with the New Deal and the economic mobilization for World War II, could be applied to the whole world. This belief, combined with Roosevelt's hatred of British and other imperialisms, and his commitment to eradicate them, led him to seek to end the enforced backwardness of the colonial world, and moved to develop it by "Twentieth-Century [American System] methods" of development.

Roosevelt met British Prime Minister Winston Churchill in the Bay of Argentia, off the coast of Newfoundland, in

The "arsenal of democracy" mobilization for the global fight against fascism was qualitatively distinct from the New Deal, in that it was driven by breakthroughs in the machine-tool design sector, scientific discoveries, and a transformation of the American labor force.

August 1941. FDR's son, Elliott Roosevelt, who was, at the time, assistant and confidant to his father, related the discussion between FDR and Churchill, in Elliott Roosevelt's book, *As He Saw It:*

"Father answered slowly. 'It is along here somewhere that there is likely to be some disagreement between you, Winston, and me. . . . If we are to arrive at a stable peace, it must involve the development of backward countries, backward people. How can this be done? It can't be done, obviously, by Eighteenth-Century methods. . . . Twentieth-Century methods involve bringing industry to these colonies. Twentieth-Century methods include increasing the wealth of a people by increasing their standard of living, by educating them, by bringing them sanitation—by making sure that they get a return for the raw wealth of their countries.'

"The Prime Minister was turning red. 'You mentioned India?'

" 'Yes. I can't believe that we can fight a war against Fascist slavery and at the same time not work to free people all over the world from backward colonial policy. . . . The peace cannot include any continued despotism. The structure of the peace demands will get equality of all peoples.' "

Roosevelt continued to develop this policy. In 1940-41, Roosevelt had a team at the U.S. Treasury begin to work out plans that would guide the formation of a post-War monetary financial and economic system that would embody this pro-development, anti-imperialist outlook. Harry Dexter White was one of the key figures involved. One of the key obstacles that Roosevelt faced, was the British Imperial Preference System. This permitted the British to demand that products and raw materials of the colonies and Commonwealth countries be sold to the mother country, and that they would buy only British finished goods. This kept loot flowing to Britain, securing the value of the pound sterling, and the continued world dominance of the London banking system. Roosevelt had plans drafted in 1941-42 to break apart the British Imperial Preference System.

Roosevelt knew that by 1945, America produced 46% of the world's physical goods output and sought to have these goods, especially technology-transmitting capital goods, flow to the "Third World," to develop it. He set up a new monetary system at a conference at Bretton Woods, New Hampshire, July 2-22, 1944, to facilitate the flow of these capital goods to the Third World, and to arrange currencies in a fixed-exchange-rate system, the latter so that the flow of capital goods would be relatively smooth. Sovereign nations, instituting capital controls and exchange controls, were leading elements of this system. This would galvanize growth. At the Bretton Woods conference, Sun Yat-sen's 1919 grand proposal, the "International Development of China" was discussed.

In a Feb 12, 1945 message to Congress, urging the adoption of the Bretton Woods system, Roosevelt outlined one part of his plan: the creation of an International Bank for Reconstruction and Development, which was renamed the World Bank. Roosevelt said:

"If we are to measure up to the task of peace with the same stature as we measured up to the task of war, we must see that the institutions of peace rest firmly on the solid foundations of international political and economic cooperation. The first problem, in time, which we must cope with, is that of saving life, and getting resources and people back into production.

"Emergency relief is under way . . . .

"[However,] the main job of restoration is not one of relief. It is one of reconstruction. . . . The same is true for . . . the many plans for the improvement of transportation, agriculture, industry, and housing, that are essential to the development of the economically backward areas of the world. But some of the things required for all these projects, both of reconstruction and development, will have to come from overseas. It is at this point that our highly developed economy can play a role important to the rest of the world. . . ."

FDR's American System Heritage

Roosevelt pursued many ways to realize this objective.

From the time of his youth, Franklin Roosevelt located his identity in what Henry A. Kissinger denounced, in a May 10, 1982 London address, as the American Intellectual Tradition. As a boy and young man, Roosevelt was steeped in the history of activity of his great-great-grandfather, Isaac Roosevelt, an important leader of the American Revolution, and a life-long friend and ally of Alexander Hamilton. Isaac Roosevelt was the second president of the Bank of New York, which Hamilton set up to industrialize the nation.

As a Harvard undergraduate before World War I, Franklin Roosevelt wrote his senior thesis on Alexander Hamilton's leadership in creating America as a constitutional republic.

However, in 1921, when Franklin was stricken by polio, he developed a deeper compassion, and a stronger commitment to the destitute, and to those who needed someone to fend for them. It was during that period after first contracting polio, that Roosevelt did intensive study of the history of the United States.

This work was deeply grounded in that constitutional root of the American System known as the General Welfare principle. In the 1930s, he advanced the labor-minority-farm-urban machine alliance. In a Sept 11, 1932 interview he gave the *New York Times*, Roosevelt summed up his prescient view of the job of Presidency. "The Presidency is not merely an administrative office. That's the least of it. It is more than an engineering job, efficient or inefficient. It is preeminently a place of moral leadership. All our great Presidents were leaders of thought at times when certain historic ideas of the nation had to be clarified."

As Lyndon LaRouche has emphasized this critical feature of the present world economic crisis, today, mankind is in the midst of an economic and moral crisis far more severe than 1929-33. Whereas in 1929, the manufacturing capacity which had been shut down by depression was relatively modern, today the manufacturing capacity has either been permanently shut down, or gutted by 35 years application of a "post-industrial society" policy. The world financial system is overhung by an estimated $400 trillions notional valuation of financial derivatives, and of other speculative instruments. This is an amount three orders of magnitude greater than the speculative bubbles which collapsed in 1929-33.

As LaRouche has emphasized, the world financial system has the trajectory of a *global systemic breakdown crisis*, not simply a depression, a crisis comparable to the trajectory of the orbit of a comet which is hurtling straight toward its doom in a collision with the Sun.

To solve this, we must begin from the point of reference of the Roosevelt precedent of 1933-45. That much of the task before us amounts to reliance on a method of recovery, which is reproducible. Lyndon LaRouche echoes the voluntaristic, innovative thrust of Roosevelt's rescue of the U.S. economy. This is reflected in LaRouche's bold proposal for a New Bretton Woods monetary system, pivoted around the high-technology development corridors of the Eurasian Land-Bridge, which will generate worldwide reconstruction and growth.[1]

1. *LaRouche Tells Americans How To Beat The Depression*, August 2001, available from LaRouche in 2004 (www.larouchein2004.com).

A. Revolutionary Identity: Roosevelt vs. Mellon-Coolidge

The hundreds of historians who have written volumes on Roosevelt's life, have compulsively mislocated Roosevelt's political identity. They have identified him as a liberal, a progressive, a consumerist, a Keynesian, and a communist. None of these descriptions are remotely true. Not accidentally, none of these historians has located Roosevelt's identity within the American Intellectual Tradition. That is, however, exactly where Roosevelt himself knowingly located his identity, from his earliest years, throughout his whole life.

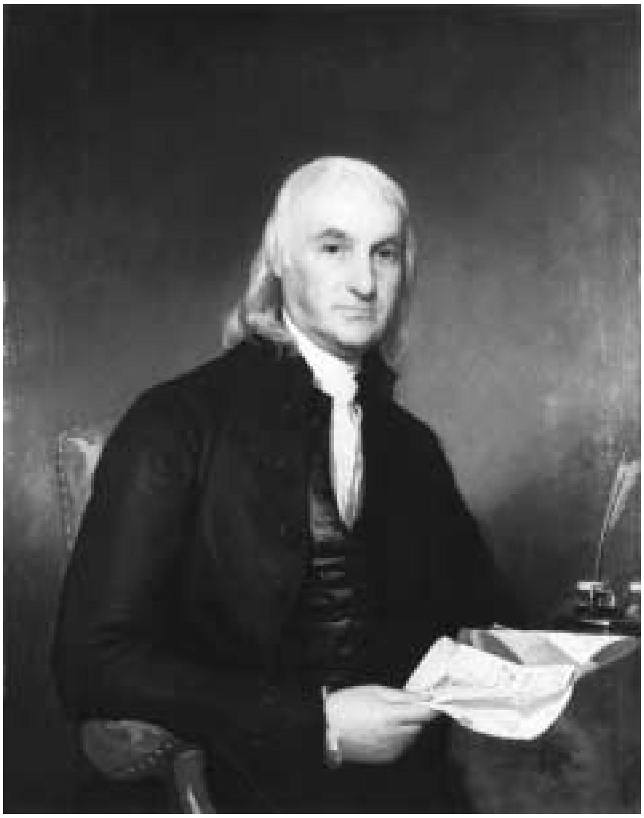
Franklin Roosevelt was born on Jan. 30, 1882, in Hyde Park, New York, to James and Sara Roosevelt. While James Roosevelt inherited the wealth of the Hyde Park Roosevelts, he also had a sense of public service, and worked on the attempt to build the strategic Southern Railway Security Company in the post-Civil War period, with the intent of industrializing the South. The project was under the direction of Thomas Scott, an ally of that Henry Carey who led the United States' nation-building faction throughout the post-Civil War period. The Southern Railway project was never completed, due to the financial crash of 1873.

To situate Franklin Roosevelt's sense of identity, and thus learn about his character, personality, intellectual commitment, and even his wit, one has to understand his intense intellectual relationship with his celebrated great-great grandfather. Isaac Roosevelt had lived from 1724 to 1796, and played a significant role in America's Revolution and establishment as a constitutional republic.

From the study of his great-great-grandfather—whom the Roosevelt family called "Isaac the Patriot"—Franklin developed his visceral hatred of those American Tories who followed in the traitorous footsteps of Aaron Burr. Roosevelt was not afraid to say that he saw the fight as between the patriot of the American Intellectual Tradition and the Tory. For example, in his July 2, 1932 address accepting the Presidential nomination, he told the Democratic Party national convention, "There are two ways of viewing the government's duty in matters affecting economic and social life. The first sees to it that a favored few are helped. . . . That theory belongs to the party of Toryism, and I had hoped that most of the Tories left this country in 1776."

FDR also internalized Isaac's legacy in his strong commitment to the General Welfare clause of the Constitution, and to the idea that the nation-state must serve mankind, past, present, and future. This is the source of Roosevelt's morality.

Franklin Roosevelt became aware of great-great-grandfather Isaac Roosevelt at an early age: In those late 19th-Century years, a large oil portrait of Isaac the Patriot, by Gilbert Stuart, still hung in the most prominent spot in the central living room of the Roosevelts' Hyde Park home, and greeted young Franklin every morning. (Stuart painted the famous full-length portraits of Benjamin Franklin and George Washing-



Alexander Hamilton's friend and revolutionary collaborator Isaac Roosevelt (1724-1796), that "Isaac the Patriot" whose living legacy held a central place in the Roosevelt family a century later, when FDR was a growing up.

ton, which now hang in the National Portrait Galley in Washington, D.C.)

In the eyes of Franklin and the other Roosevelts, Isaac provided a direct family link to the Revolution and to the adoption of the Constitution. Isaac Roosevelt's activity imbued in Franklin Roosevelt a belief in a strong Federal government, and a commitment to the General Welfare. It is worthwhile to describe a few highlights of this notable ancestor's numerous achievements.

During the early phase of the American Revolution, Isaac played various roles for the Revolutionary government. He was one of the main recruiters to George Washington's army. He also organized arms, munitions, uniforms, tents, and blankets to outfit Washington's men, and was part of the process that established foundries and powder mills. Most importantly, on behalf of the Committee of Safety, which played a pivotal role in the Revolution, Isaac Roosevelt was asked to arrange, and then direct, an emission of paper money of 55,000 pounds sterling to fund the Army. He established a sinking fund to redeem the bills over a three-year period beginning in 1779. Thus, Isaac Roosevelt worked with Washington and Benjamin Franklin as one of the chief financial officers, providing a currency and funding mechanism for Washington's army.

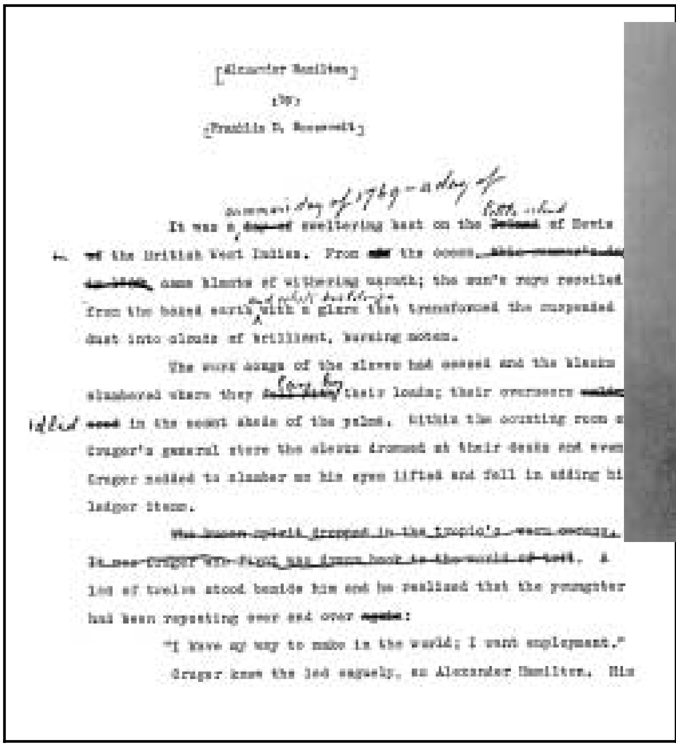
Once the Philadelphia Constitutional Convention of 1787 had drafted the U.S. Constitution, it was required that it be ratified by 9 out of the 13 state conventions called specifically for that purpose. Isaac Roosevelt knew that the Articles of Confederation (1783-89), drafted to govern America after the victory of the Revolution, were a disaster that produced anarchy, and threatened the obliteration of the United States. Thus, Isaac went to lead the New York state convention in June 1788, in an old court house in Poughkeepsie, New York. Sixty-five delegates attended, and only 19 came in supporting the Constitution. To change this, Roosevelt collaborated closely with his friend Alexander Hamilton. He knew that even if nine other states ratified, but New York did not, that would bode ill, and threaten the dissolution of the Union. Thus, Hamilton wrote the *Federalist* papers; and finally, on July 26, 1788, Hamilton and Roosevelt succeeded in getting New York State to ratify the U.S. Constitution.

On June 9, 1784, Hamilton took the decisive step of founding the Bank of New York, as only the second commercial bank established in America, in order to finance the interests of American manufacturing and commerce. Hamilton did this to break the grip on America of the British financier oligarchy, which controlled most financial mechanisms, and to provide America with financial-economic independence, a mission which Hamilton carried out on a national level by creating the Bank of the United States in 1791, as America's national bank. Isaac was an original director of the bank. In 1786, two years after the bank's founding, Isaac Roosevelt assumed the presidency of the Bank of New York, serving during the bank's crucial formative period, until 1791. Isaac worked regularly and directly with Hamilton to provide credit to the fledgling nation's industry.

Franklin Roosevelt's study of the work of Isaac Roosevelt, and the higher purpose that he served, stayed with him throughout his life. During the closing days of the 1936 Presidential campaign, for example, speaking in Poughkeepsie, Franklin told the crowd, "About a block from where I stand, up there on the corner of Main Street, there was a little old stone building, and in the year 1788 there was held there, the constitutional convention of the State of New York. My great-great-grandfather was a member of that convention. . . . And so you will see that not only in my person but also by inheritance I know something about the Constitution of the United States."

Alexander Hamilton

The 1903 Harvard senior thesis gave FDR an opportunity to organize his thoughts on his great-great-grandfather and on Alexander Hamilton (1757-1804). In Roosevelt's view, Hamilton was the great leader, in the period after the American Revolution, who made America a constitutional republic. In the short paper, Roosevelt discussed Hamilton's remarkable power with words, his role in the Revolutionary Army,


[Alexander Hamilton]
[By]
[Franklin D. Roosevelt]

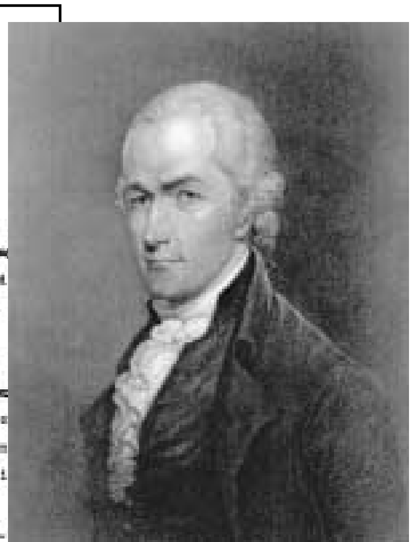
It was a sweltering heat on the [illegible] of Nevis [illegible] the British West Indies. From the ocean [illegible] came blasts of withering warmth; the sun's rays recoiled from the baked earth with a glare that transformed the suspended dust into clouds of brilliant, burning motes.

The work songs of the slaves had ceased and the blacks slumbered where they [illegible] their loads; their overseers [illegible] in the scant shade of the palms. Within the counting room of Cruger's general store the clerks drowsed at their desks and even Cruger nodded to slumber as his eyes lifted and fell in adding his ledger items.

[illegible]. A lad of twelve stood beside him and he realized that the youngster had been repeating over and over:

"I have my way to make in the world; I want employment."

Cruger knew the lad vaguely, as Alexander Hamilton. His



As a Harvard undergraduate, Franklin Roosevelt wrote his senior thesis on the central role of his great-great-grandfather's ally, Alexander Hamilton, in creating the United States as a nation.

and his service as adjutant and confidant of Commander-in-Chief George Washington during the war. Roosevelt wrote, "In time, it was said that while Washington wielded the sword of the Revolution, Hamilton held the pen." Franklin the undergraduate attacked the chaotic Articles of Confederation, as having caused the United States "to crumble for lack of a cohesive unity;" recounted the fight over the Constitution at the Poughkeepsie court house; emphasized the importance of a strong central government; and situated Hamilton's unique role: he created, "that document that has been the model for other nations and the bulwark of our own, the Constitution of the United States."

Roosevelt concluded with two paragraphs which "jump off the page," as an important insight into the history of the United States, and presented a critical evaluation of the U.S. political-economic process:

"Washington, the first President under the Constitution, made Hamilton Secretary of the Treasury—the greatest of the Cabinet offices. *As he [Hamilton] had stabilized the problems of State, so now he ordered the finances of the country and it was his impetus that removed for all time the risk of disintegration of the States.*

"None appreciated this solidarity more than *Aaron Burr, who, defeated for the Presidency in his race against Jefferson [in 1800], largely through the efforts of Hamilton, saw in this greater financial security the banishment of his dream of establishing a Northern Confederacy.*" [emphasis added]

Thus the young Roosevelt understood what Hamilton had done. Hamilton's "ordering the finances of the country" was accomplished by his assuming the debts of the states—a very controversial move at the time, which involved the process by which Hamilton established the Bank of the United States. Hamilton stated that the Treasury debt of the United States, which he had expanded by having the Federal government assume the debt of the states, could be used by those who held it as part of the payment of purchase of the stock of the Bank of the United States. Thus, the "national debt became a national blessing." FDR may have known already of the functioning of the Bank of the United States—Isaac Roosevelt worked with Hamilton in financial matters—in any case, he put his finger on its key effect: "It removed for all time the risk of disintegration of the States."

Roosevelt's remarks on Aaron Burr are also "on the money." Burr "saw in th[e] greater financial security [created by Hamilton] the banishment of his dream of establishing a Northern Confederacy." Roosevelt knew, through his study of history, that the conspiracy to fracture America into Northern and Southern Confederacies, originated with the Boston Brahmins and Wall Street forces represented by Burr, in the first decade of the Nineteenth Century. How many historians and citizens, let alone Presidents and politicians, in the United States know this today?

Thus, when Roosevelt attacked someone as a "Tory traitor" he knew precisely what charges he was levelling.

In the 1920s, the treacherous historian Claude Bowers, who supported the "South shall rise again" thesis, ran a filthy operation to try to force Roosevelt away from Hamilton. Bowers was supported by certain leading Democratic figures who pressured the President to refrain from publicly praising Hamilton. But FDR held on to this American revolutionary tradition and method of thinking throughout his life. During the New Deal, and especially during the economic mobilization for World War II, Roosevelt's methods were clearly Hamiltonian.

Forces Shaping Roosevelt's Development

From the Harvard thesis to the Presidency in 1933 was a span of 30 years. Among the many events and processes that shaped Roosevelt's development during this period, we will cite just three.

In 1910, Roosevelt scored an upset election to the New York State Senate. On an intellectual level, Roosevelt was committed to the American System and the General Welfare; but, on a concrete level, he still did not know what to do. He immediately attacked, and had his ears beaten back by, Tammany Hall. Tammany taught Roosevelt about the urban machine, the interests of the laboring population and ethnic interests, and to champion decent housing, medical facilities, infrastructure, education, and decent working conditions. By 1912, Roosevelt had begun to rethink and change his views, and he was sponsoring or supporting legislation for workmen's compensation; to forbid young children from working more than 54 hours per week; regulation of fruit commission merchants, to prevent their underpaying of farmers; and so forth.

As the Assistant Secretary of the Navy, Roosevelt coordinated the Navy Department's side of the economic mobilization for World War I, from April 1917 through November 1918. Deploying a Hamiltonian, dirigistic mobilization, Roosevelt learned how to produce an economic surge to vastly increase the production of ships, and thus of Naval yards; and how to master a centralized production and procurement of the bill of materials—to produce and acquire steel, rivets, timber, etc..

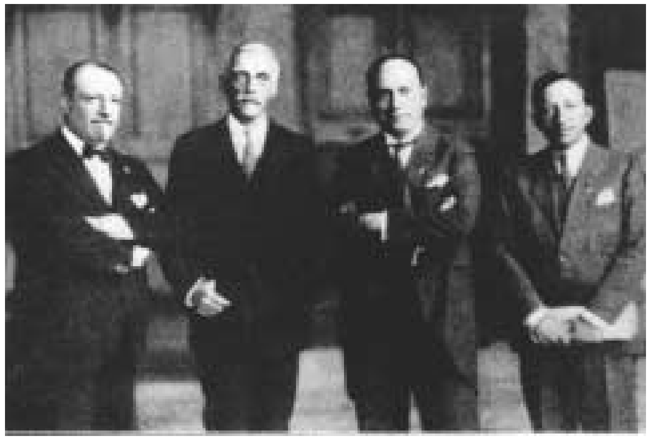
In August 1921, Roosevelt was struck, as if by a thunderclap from out of the blue, with poliomyelitis, at the age of 39. A few years afterward, his friend Frances Perkins noticed, "Franklin Roosevelt underwent a spiritual transformation during the years of his illness. I noticed when he came back, that the years of pain and suffering had purged the slightly arrogant attitude. [H]e emerged completely warmhearted, with humility of spirit." The prolonged fight with paralysis strengthened Roosevelt's existing commitment to the General Welfare, by giving depth to his determination to fight for the weak and downtrodden. During the period 1921-27, he studied and wrote, including one paper on U.S. history. From 1924 onward, he developed a once run-down spa in Warm Springs, Georgia, into a modern facility to treat those with polio from around the country. He put a considerable amount of effort into it, living there for part of each year.

In 1928, Roosevelt won the governorship of New York State, and for the period 1929-33, he was involved, as Governor, in fighting the Depression.

The Coolidge-Mellon Blowout

But to understand why Roosevelt had to act in 1933, we have to know who created the 1929-33 financial blowout and Depression of 1929-33, and what problems it posed.

Here, one must confront the well-ensconced, but deliberate lie, that Herbert Hoover caused the Depression. Investigation shows that Hoover, whatever his economic incompetence and lack of leadership, did not cause the Depression; and shows, irrefutably, who did: President Calvin Coolidge, and Wall Street's Treasury Secretary and Coolidge's controller, Andrew Mellon.



The Wall Street controller of Calvin Coolidge's economic policies, and then of Herbert Hoover's as well, was Treasury Secretary Andrew Mellon (second from left), here meeting with a co-thinker, Benito Mussolini.

Why have Coolidge and Mellon not been properly exposed? Because financiers, economists, and journalists, like the *Wall Street Journal*, heartily approve of the British System mix of rampant speculation with budgetary and anti-labor austerity, that Coolidge and Mellon imposed. The "experts" have even gone so far as to call the Coolidge economic policy of 1923-29, the "Period of Normalcy," when it was anything but normal. In fact, the policies of the Coolidge Presidency were extremely dangerous.

Moreover, there is a more sweeping historical point being covered up. From the 1901 assassination of President William McKinley, the Anglo-American financiers had effected a coup. They had ended the American System paradigm of Abraham Lincoln and Henry Carey, dominant from the 1861-76 period. Instead, they installed the treasonous Teddy Roosevelt, Woodrow Wilson, and Coolidge in the Presidency, and in 1913, set the up the Federal Reserve System, as a British System dictatorship, sending the U.S. on the path which ended in the Depression.

Born in 1855, Andrew Mellon had his money from his father, Judge Thomas Mellon, who specialized in forcing people into bankruptcy, and then foreclosing on their homes. This produced a real estate empire, and soon the Mellon holdings included Mellon Bank, Alcoa Aluminum, Gulf Oil, Carborundum, and a host of other companies. Wall Street had installed Andrew Mellon as Warren Harding's Treasury Secretary in 1921. Mellon stayed in that post for Coolidge, and then for Herbert Hoover, until February 1932. For 11 years, he dictated the financial policies of United States, and caused the Depression.

Born July 4, 1872 in Vermont, Calvin Coolidge (a second

Mellon and Calvin Coolidge, President from 1923-29, actually brought on the Depression with his policies encouraging rampant financial speculation and austerity against the real economy; and left office in March 1929 pronouncing, "Stocks are cheap!"

cousin of that Boston Coolidge family which had made its fortune trading opium in China), moved to Massachusetts, and became the enforcer for the Boston Brahmin financiers. In 1918, Dwight Morrow, the powerful J.P. Morgan banker, who was Coolidge's college classmate, helped bankroll Coolidge into the Massachusetts governorship; and in 1920, Morrow helped secure for Coolidge, the post of Vice President under Harding. When Harding died under suspicious circumstances in 1923, Coolidge vaulted into the Presidency.

The Mellon-Coolidge policy featured reduced living standards of labor, immiseration of farms, fanatical budget-balancing, tax cuts for Wall Street-controlled businesses, and unchecked financial speculation.

- During the 1920s, in several key regions, agriculture and the farm economy were devastated for most of the decade. Yet, Coolidge refused to lift a finger to take measures that would halt the farm crisis—citing the doctrine of "laissez-faire"—though proposals involving parity or cost of production pricing were being made in Congress.
- In the Mellon-Coolidge policy environment, labor, which was not well organized, was crushed. In a 1928 report that received little attention, the Brookings Institution found that 60% of American families had less than the $2,000 annual income that Brookings defined as necessary for a family to supply itself with the necessities of life. This was the reality of the Coolidge "prosperity."
- Coolidge and Mellon enforced a $3 billion limit on annual U.S. budget expenditures, so that the United States would run a budget surplus, and use that money to pay down the outstanding Federal debt. They refused expenditures for any new items of the Federal budget, and Federal infrastructure building was cut to the bone.
- Coolidge and Mellon fostered a geometry of speculation. In 1924-26, a nasty Florida real estate price boom sucked in money from around the country before it popped. On the stock market, a speculator could borrow between 75% and 90% of the purchase price of stock through a "broker loan" from a bank. The rise in stock speculation had more and more people playing the market with broker loans. In 1925, these loans totalled $1.5 billion, then rose to $2.5 billion in 1926, and $3.48 billion in 1927—an incredible sum for those days, but only the beginning. In 1928, they reached $4 billion by June, and shot up to $5.7 billion by the end of that year. By this point, stock prices were rising every week, and money was being sucked into U.S. markets from around the world.

Coolidge was asked on Jan. 6, 1929, what he would do about the stock market bubble. He answered, nonsensically, that after consulting the Treasury, "I haven't had any indications [that] that amount [of broker loans] was large enough to cause particularly unfavorable comment." The next day, in response to Coolidge's comments, stocks enjoyed their second-highest turnover in history. On March 3, the day before he left office, Coolidge told the press, "Stock prices are cheap."

After four years of systematic speculative build-up, the stock market was overvalued by a factor of three to four times. Banks had lent a very large amount of money into the market. In October, the Coolidge-Mellon bubble burst, on the head of President Hoover, who had been in office all of seven months.

During the next 30 months, Andrew Mellon attached himself to Hoover as Treasury Secretary, and dictated insane policies of austerity and deflation. He demanded budget cuts, and forbade public works and infrastructure building. As a result, he drove the economy onto the rocks. Hoover, who lacked a positive idea of what to do, nonetheless knew he had to get himself out of the Mellon-imposed straitjacket. In February 1932, he made the Anglophile Mellon Ambassador to England, and thereby got him out of the country. But by then, the maximum damage had been done. Hoover, although he then took some small, useful steps, was unable to do anything that would make a fundamental difference.

The Financial-Economic Collapse

The October 1929 bursting of the Mellon-Coolidge bubble, and the subsequent polices of Mellon over the next 30 months, produced a lawful collapse. In addition, international processes had an important effect on this. We look at what happened, in the financial realm, and then, to the physical economy.

The large volume of speculative broker loans blew out with the market bubble, causing problems for the banks. Other speculative markets were punctured, such as that in real estate. Further sectors of the U.S. physical economy, which had begun having difficulty in the Summer of 1929—before the October market crash—began having trouble paying back their bank loans. *In toto,* 341 U.S. commercial banks failed in 1929, and 1,350 more failed in 1930. While this represented approximately 4% of the commercial banks in the United States—hardly a negligible amount—it did not constitute a pell-mell banking crisis.

However, in 1931, international forces intersected the

TABLE 1
U.S. Bank Failures, 1930-32

State	U.S. Banks at Start of 1930	Number of Failures, 1930-32	Failures 1930-32 as % of Banks at Start of 1930
Illinois	1,764	572	32.4%
Michigan	741	221	29.8
Iowa	1,252	442	35.3
N. Dakota	410	139	33.9
N. Carolina	416	187	45.0
United States	23,695	5,096	21.5

U.S. banking picture, to push it over the edge. The hideous 1919 Treaty of Versailles had imposed draconian reparations on Germany. This completely distorted the world financial system, setting up a series of loans related to Versailles and Germany, which loans became a ticking time bomb. In 1930-31, these financial obligations went bad. In May 1931, Austria's largest private bank, the Kreditanstalt, which had significant exposure to Germany, closed.

But the fatal blow came in September 1931, when, with the full encouragement of British Prime Minister Ramsay MacDonald, the Bank of England took the pound sterling off the gold standard. The response was swift and seismic. Speculators and others began exchanging dollars for gold, and yanking the gold out of circulation. This intensified a U.S. dollar and banking crisis. In that month of September 1931 alone, a record 450 U.S. banks failed, and thereafter, the banking crisis snowballed.

Between 1930 and 1932—with most of the failures coming after September 1931—a total of 5,896 U.S. commercial banks failed, or more than one out of every five banks nationwide (see **Table 1**). Hundreds of thousands of families lost their life savings and were left penniless.

The Hoover Administration and Congress took action in January 1932, creating the Reconstruction Finance Corporation (RFC). But under Hoover, and the RFC's chairman, Eugene Meyer of the Lazard Frères banking circle (who was simultaneously chairman of the Federal Reserve Board), all the RFC did was to lend money to banks (and to some railroads) to try to bail out the banking system, without changing any policy. During 1932, the RFC dispensed $1.624 billion in this manner, but this did not produce an improvement in either the banking system or the economy. The bank failures continued.

During January and February 1933, the crisis reached a fever pitch. In order to stop bank runs, the states' Governors announced a policy that really wasn't a solution: bank holidays. Under a bank holiday, banks that were still solvent were allowed to stop transacting business, or put very strict limits on the amount of money a customer could withdraw. Financial transactions in America were being choked off. On March 3, one day before Roosevelt took office, bank holidays had been declared in 46 of the 48 states. On March 4, Roosevelt's inauguration day, the Governors of New York and Illinois, the states with the largest commercial banks in the country, declared bank holidays. In parallel, the New York Stock Exchange, Kansas City Board of Trade, Chicago Board of Trade, and all other stock and commodity exchanges closed—this was the first time the Chicago Board of Trade had closed down since 1848.

The financial system had collapsed.

In parallel fashion, the physical economy broke down. Between 1929 and 1933, U.S. industrial production tumbled by between 37% and 54% (depending on the source of the data used). At the start of 1933, steel production operated at a mere 24% of its 1929 capacity. Between 1929 and 1933, net U.S. farm income, in constant dollars, had fallen 45%. Officially, 12.83 million workers were unemployed in January 1933, constituting 24.9% of the labor force (but the actual rate was higher).

Fascist Attack

At the same time, the Anglo-American financiers tried to change the strategic international correlation of forces, by unleashing a fascist movement globally, to destroy civilization and impose a genocidal economic system. They targetted for elimination, those national governments that considered recovery programs based on the American System.

After Roosevelt's election as President in November 1932, these Anglo-American banking forces facilitated a coup d'état in Germany. A cabal, headed by the former head of the Bank of England, Montagu Norman, and supported by the Harriman banking interests of New York (including the father of George H.W. Bush, Prescott Bush), forced the retirement of German Chancellor Kurt von Schleicher on Jan. 28, 1933. Two days later they replaced him, by imposing Adolf Hitler on Germany (see Michael Liebig, "Von Schleicher, Schacht, Schröder and the Hitler Coup," in *New Federalist*, May 10, 1999, for a full description of the operation of the coup). Within months, by brute force and the war chest assembled for Hitler by German banker Hjalmar Schacht, they were consolidating Nazi power.

Behind the Schleicher government were policies—most importantly, that known under the rubric of the Lautenbach Plan—very like those actually implemented by Franklin Roosevelt. Had von Schleicher continued as Chancellor through Roosevelt's inauguration, Germany and the United States would have had virtually identical economic recovery programs; World War II would not have happened.

Having installed Hitler in power, this same financial faction trained the guns of a fascist military coup against Roosevelt. On February 15, 1933, in Miami, Florida, emerging from a crowd gathered around President-elect Roosevelt's open car, Giuseppi Zangara fired several times at the President-elect. An alert woman in the crowd deflected the gunman's hand, so that the bullets missed Roosevelt (but killed Chicago Mayor Cermak). Zangara, a dissociated, unemployed worker from New Jersey, was tried in "rocket-docket" fashion, and executed immediately, before the higher-level string-pullers who controlled his effort could be exposed.

Then, starting the Summer of 1933, these same forces organized a Mussolini-style coup against Roosevelt, to culminate during that year. Before a Congressional Special Committee to Investigate Nazi Activities, on Nov. 20, 1934, Major General Smedley Darlington Butler, a much decorated Marine, provided behind-the-scenes details of the anti-Roosevelt coup attempt of the Summer and Fall of 1933, in which the plotters had tried to enlist him as military leader. Butler testified that at the head of the operational side of the coup was Grayson Mallet-Provost Murphy, who traced himself from the Swiss Mallet family that had actively worked against the 1775-1783 American Revolution.

The coordinating agency for the coup was an inner core of proto-fascists around the Morgan-Mellon-Dupont financier interests, pivoted around the House of Windsor itself. They operated through social clubs and a group of front organizations, and in September 1934, they formally constituted themselves as the American Liberty League (Grayson Mallet-Provost Murphy was its treasurer). The League was led entirely by financiers: the DuPonts—especially Irenée, Lammot, and Pierre DuPont, who invested large sums in the League—the Morgans, and individuals such as John Jacob Raskob, who, as chairman of the Democratic Party from 1928-32, had tried to deny Roosevelt the 1932 Democratic Presidential nomination.

Throughout Roosevelt's first administration, the New Deal of 1933-37, the American Liberty League used its public organization as well as secret groups, to try to overthrow him and subjugate America under a fascist policy.

Appendix

'American System Caucus' Behind FDR's Public Works

The centerpiece of the Roosevelt Administration was its government-directed construction of economic infrastructure which was both high technology and high employment.

This traditional principle of the American System of political economy was already found in the Massachusetts Bay Colony, and took its expression from Benjamin Franklin, Alexander Hamilton, George Washington, Mathew Carey, Henry Clay, John Quincy Adams, Henry Carey, and Abraham Lincoln. It was also borne forward by the West Point-Army Corps of Engineers of Sylvanus Thayer, which had been enriched by the input from France of Lazare Carnot and the École Polytechnique.

From the 1910s to the 1930s there was a circle of infrastructure promoters, which we call here the "American System Caucus," gathered in the United States Senate and House of Representatives. Its leading members:

• Sen. William S. Kenyon (R-Iowa) (1869-1933). born in Elyria, Ohio; family moved to Iowa when he was young. Served in U.S. Senate from 1911 until 1922.

• Sen. Robert LaFollette, Jr. (R-Wisc.) (1895-1953). His father, Robert LaFollette, Sr., had been Governor and U.S. Senator from Wisconsin. Robert LaFollette, Sr. had run for President as an independent on the "Progressive Party" ticket in the 1924 elections, and gotten 4.823 million votes, or 16.7% of the vote. Robert LaFollette, Jr. had succeeded his father as U.S. Senator, in a special election following the latter's death in 1925. Robert Jr, served in the U.S. Senate from 1925 until 1946. He is remembered as the co-author, along with Sen. Robert Wagner of New York, of the historic Social Security Act.

Robert LaFollette, Jr. was a leader of the Republican Progressive League grouping within the Progressive Party, the grouping which opposed that party's J.P. Morgan-sponsored "Teddy Roosevelt" wing.

• Sen. Robert Wagner (D-N.Y.) (1877-1953). Born in Germany, he came with his family to New York City at the age of 9. Wagner entered politics working with the Tammany Hall apparatus, and was strongly opposed to Teddy Roosevelt. He served in the U.S. Senate from 1927 until 1949. He saw to it that section 7(a) of the National Industrial Recovery Act, giving labor the right to organize, was complied with; drafted the National Labor Relations Act, which created the National Labor Relations Board; co-sponsored the Social Security Act; and in 1949, drafted the Public Housing Act. In the 1930s, along with Senator Costigan, Wagner introduced Federal legislation to prevent the lynching of blacks, which did not pass.

• Sen. Edward Costigan (D-Colo.) (1874-1939). Born in Beulahville, Virginia, but moved with his family to Colorado in 1877. He served in the U.S. Senate from 1931-37. In 1932, during the Hoover presidency, he and Senator LaFollette introduced relief and public works legislation. Along with Senator Wagner, he introduced Federal legislation to prevent the lynching of blacks.

• Sen. George W. Norris (R-Neb.) (1861-1944). Born in Sandusky, Ohio, Norris moved to Nebraska in 1885, and served in the U.S. Senate from that state from 1913-43. In a demonstration of his concern for national, not only local interests, Norris championed and is the father of the Tennessee Valley Authority, which he began fighting for in the 1920s, against the private utility interests. He is also largely responsible for the Rural Electrification Act of 1936, along with Rep. Sam Rayburn (D-Tex.).

• Rep. William Lemke (Non-Partisan/R-N.D.) (1878-1950). Born in Albany, Minnesota, Lemke moved with his family to Grand Forks in the Dakota Territory in 1881. He served in the U.S. House of Representatives from 1933-41, and 1943-50. In the 1910s, he created the Bank of North Dakota. He introduced and successfully brought about the enactment into Federal law of the Lemke-Frazier Bankruptcy Act of 1934, which provided the legal machinery for a farmer's debt to be scaled down, in such a manner that the farmer would not be foreclosed and lose his family farm.

'Brain Trust' Not the Source

This circle will be called "the American System Caucus." The continuity of its work with the infrastructure-public works program of the New Deal is very clear, though historians do not report it. The infrastructure-public works did not arise mysteriously when Roosevelt entered office; nor was it the work of the undefined, vague "brain trust," to which it is often attributed by historians. A few of the brain trusters were close to the "American System Caucus" and favorable to its ideas, but the so-called brain trust did not enter office with FDR on March 4, 1933, and two months later have a public works program worked out and ready to go. There is not a single piece of evidence cited that would support that contention. Nor did John Maynard Keynes have an infrastructure program that was brought into the Roosevelt White House.

There are two types of proof that the ideas of Lincoln, and the American System tradition, shaped the ideas of the caucus. Certainly, of the first type of proof, there can be no doubt: the total coherence between the programmatic ideas and methods of the members of this caucus, and President Lincoln. But there is also the direct citation by these individuals of Lincoln's ideas. Take the case of William Lemke. In a book he wrote in 1939, he called Lincoln "America's greatest President." Lemke explained, moreover, that his plan for the Bank of North Dakota, and for the legislation he introduced in 1934 to establish a Bank of the United States, came directly from his study of Lincoln's Civil War policy—"a lasting achievement"—of issuing greenbacks for development.

The fight for infrastructure-public works, and the related employment of the unemployed, actually began after the (Hamiltonian) World War I economic mobilization. There ensued a 14-year fight to increase infrastructure-public works. Members of the "American System Caucus," singly or in groups, sponsored most of the legislation:

• In 1919, at the close of the war, some of the individuals in the various war-related boards and corporations proposed the sponsorship of public works to counteract the demobilization from the war buildup. In this year, Sen. William Kenyon (R-Iowa) introduced a bill to create a United States Public Works Board that would cooperate with the states and their counties, towns, and municipalities, in carrying out public works (the public works would expand or contract depending on the condition of the economy). The Board would be appropriated $100 million. The bill made it to Senate committee hearings, but did not pass. (Hearings before the Senate Committee on Education and Labor, "Emergency Public Works Board," 65th Congress, 3rd Session [1919])

• In 1921, in response to the Federal Reserve Board-triggered downturn in the economy, President Warren Harding called a conference on unemployment, which urged the government to expand its expenditures for public works during periods of depression, and reduce its expenditures in periods of active business. This "counter-cyclical" theory of infrastructure building, was advanced as "tending towards the more even progress of business." Harding's Commerce Secretary, Herbert Hoover, played a role in coordinating the conference, indicating his awareness of the subject as early as 1921.

• In 1922, Senator Kenyon tried again, proposing a bill that would give the President extensive powers to expedite or retard government construction. The Andrew Mellon-J.P. Morgan wing of the Republican Party, controlling the Party, killed the bill, after a heated debate on the floor of the Senate.

• In 1923-24, there were proposals that the Department of Interior be given the duty of construction and maintaining Federal public works. This included creating two subdivisions within the Interior Department, one of which would administer public engineering works.

• In 1928, Senator Jones of Washington introduced legislation to create a "prosperity reserve," to expand public works during economic depression. His bill proposed an appropriation of $150 million for road building, river and harbor works, flood control, and public building construction. It was defeated with the argument that prosperity already existed for everyone.

• In 1928, Senator Wagner proposed legislation that would perform three functions: 1) count the unemployed as part of decennial censuses; 2) organize a national employment agency system; and 3) create a Federal Employment Stabilization Board. These three measures were, in substance, enacted into law in 1929, 1933, and 1931, respectively. The President was required to transmit a report to the Congress, in the event of the existence or likelihood of a depression, of plans to undertake public works. The 1931 Act provided for appropriations for emergency highway aid and for the construction by the national government of river and harbor, flood control, and public building projects. Public works undertaken by the government were to be selected from six-year plans of construction needs which the several departments were directed to prepare in cooperation with the FESB.

The "six-year plans of construction needs" are of great note. This suggests that a "menu of needed projects" was prepared with input from engineers, state governments, and those involved in public works. This meant that the New Deal did not start from scratch; other reports make it more than likely, that it began by drawing upon the existing plans of the FESB.

Mobilization of 1932

The year 1932 marked a turning point. Though the Hoover Administration kept clinging to the mythos that the economy was about to turn the corner toward improvement, and still kept trying to balance the budget, the economy was headed straight toward inferno. The "American System Caucus" mobilized, attempting to launch national infrastructure-public works, with the Hoover Administration resisting but making concessions. The Reconstruction Finance Corporation (RFC) was created. In the Senate, in 1932, Robert LaFollette and Edward Costigan unfurled the Emergency Relief and Construction Act (ERCA), which materially broadened the powers of the RFC, and initiated large-scale public works.

The first title of the ERCA Act authorized the RFC to make available to the several states and territories, the sum of $300 million to be used in furnishing direct and work relief. The second title of the ERCA act authorized loans, grants and some direct investment in various types of infrastructure projects. But this was defeated by the Morgan-Mellon Republicans. So, Sen. Robert Wagner came forward with a compromise bill that called for the RFC to make loans only to "self-liquidating infrastructure projects," which were defined as "projects that would be self-supporting and financially solvent and that would permit of the costs of construction being repaid within a reasonable period of time by means of tolls, rents or similar charges other than taxation." Apparently, George Norris also was involved in this bill.

This amended ERCA Act passed, and was signed into law by Herbert Hoover. The ERCA was limited in scope, and had only limited effect. However, consider the provisions enumerated in the Act's Title II, Section (3), "the construction, replacement, or improvement of bridges, tunnels, docks, viaducts, waterworks, canals, and markets, when undertaken by private, limited-dividend corporations and devoted to public use."

Later in 1932, LaFollette and Costigan put forward an even more ambitious proposal that would have created an Administration of Public Works. The bill provided for an emergency construction program involving not only direct action by the national government, but also loans to the states and their civil subdivisions for public works projects. It also called for grants to the states for highway and related purposes, and construction of low-cost housing.

At the same time, LaFollette, Costigan, and Wagner were calling for adoption of national planning, i.e., dirigism.

President Hoover was paralyzed by indecision: He knew that the infrastructure would work, but he was terrified that the costs would "unbalance the budget"—which couldn't be balanced in any case, because of the falling tax revenues brought on by the depression—and that this *"dirigism"* would overturn the principle of "free enterprise." Most of all, he shrank from command decisions, even as the world slipped away from him.

Roosevelt and the Caucus

The "American System Caucus" then, at the conclusion of its 14-year uphill, largely losing battle for an infrastructure policy after World War I, had put their personal stamp on the public works-infrastructure programs that FDR launched. Roosevelt biographer Kenneth S. Davis notes as well, that in Spring of 1933, "at Roosevelt's request, Senators LaFollette, Wagner, and Costigan conferred with [soon to be Federal Relief Administrator Harry] Hopkins and Secretary [of Labor Frances] Perkins, then drafted a Federal emergency relief bill which would authorize a $500 million appropriation for relief grants to states, and give to the relief administrator broad supervisory power over the states' use of these grants. Introduced on March 28, the bill . . . went through the Senate in ten days on a vote of 55 to 17, through the House three weeks thereafter on a vote of 320 to 42, and was signed into law on May 12." This was the germ of the the Civil Works Administration, and then the Works Progress Administration.

The Federal relief, which involved public works, was only one part of the public works program of Roosevelt. That other part came also, to a large extent, through the "American System Caucus." Historian Kenneth Davis reported, "In the Senate the clamor for a massive Federal public works program grew deafening, encouraged by Roosevelt's relief message of March 21. Senators LaFollette, Costigan and Cutting had already introduced, when the relief message was delivered, a bill calling for a $6 billion federal building program (the figure appalled [Office of Budget Director] Lewis Douglas, who opposed *any* federal construction). Senator Wagner had already developed, through his contacts with federal construction agencies and other members of Congress, a lengthy list of specific projects to be included in such a program." This list is what Roosevelt drew upon—many of his magnificent projects were drawn up by the American System circle.