

"Dead Dogmas of the Past" by Richard Sale

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The middle class is anxious, the rich are defensive, the poor are humiliated, angry, and suspicious. The national outlook is grim and the bulk of Americans are having to endure a period of contraction and anxious fear. But leaving out the anguish of the human toll of this vast economic failure, one of the most dismaying feature of the current discussion of our plight in the media is the ineradicable staleness of its terms – it is as though the crisis of the 1930s had not happened.

For example, when Sen. Shelby came out a day ago and described government intervention in the form of spending for relief as “socialism”, he sounded as if he had just stepped out of a time capsule – as if the operations of business, finance, and the banks were spontaneous responses to free market stimuli, free of manipulation or corruption. One truly wonders what reality does this reflects except Sen. Shelby’s own? It appears to me that the Republicans appear to have found the only way to try and tarnish President Obama is to attack him in terms of the Calvin Coolidge Presidency. We are a civilization of business, Coolidge said, and such a civilization must have a business government, he said. Such a government would run itself for the benefit of business, and it justified itself only to the extent that it did.

In the 1920s, before the crash, there were many business spokesmen who claimed that business had purged itself of the gross and greedy aspects of its realm. The spur of profit was pure, an ennobling force, they said. This complacent conceit was not unusual to the community of business. The Republicans have always been full of flattering illusions about themselves. For decades, Republicans have claimed that business was the noblest and most authentic expression of the American soul. Just before the First World War, JP Morgan was asked by a congressional committee whether commercial credit was not based primarily on property. Morgan replied, “The first thing is character.” Before money or property? “Before money or anything else,” said Morgan. In 1925, the Chamber of commerce of the United States called the American businessman “the most influential person in our nation.” Richard Whitney, president of the New York Stock Exchange, said the exchange was “one of the most perfect instruments created by man.” (Whitney would do five years in prison for fraud.)

Yet at the time when it was exalting itself as the ultimate expression of man’s aspiring impulses, business in fact, was attempting to rig the operations of the free market in its favor in an effort to suppress competition and the actual operation of free and competing interests. The swindle began with Secretary of Commerce Andrew Mellon’s incessant attempts to lower income taxes for the rich. Mellon himself jerry rigged a tax break for himself that gave him “a larger personal reduction than the aggregate of practically all the taxpayers of the State of Nebraska,” said George Norris, a congressman from that state. Mellon employed all sorts of methods of tax avoidance, including one still current – selling hundreds of millions of stock to a relative for a dollar and then buying it back later on. And let us not forget the “broker’s loan,” insiders getting money without adequate collateral, added to a wave of consolidation, of a complex and impenetrable web of holding companies and investment trusts that sought to ensure that profit earned by a business was siphoned off to its other such companies and kept out of the hands of stock holders.

That was not all. Speculation ran wild. The banking system was a wreck, the corporate structure was tottering and about to fall, profits went to the richest portion of the country. The idea that the challenge of earning wealth might not consist of sitting back and growing fat on it but to distribute the gains of productivity in a manner that would maintain employment and prosperity sank out of sight. The business community is more capable of self-insight now that it was then.

When the country was afflicted with soup kitchens, breadlines, hours of waiting to eat a bowl of tasteless gruel without seasoning, the Congress invited Walter S. Gifford, president of AT&T, to testify. It was a truly memorable performance: he did not know how many people were unemployed, he did not know how many were receiving aid, he did not know what standards of assistance were in the various states, he knew nothing of the ability of local communities to raise relief, he did not know relief needs in rural or urban areas, he did not consider this information important to his job. When he said, “I hope you’re not criticizing me for looking at life optimistically,” and a congressman asked him if he could supply the committee with the reports on which his optimism is based, he replied

“I have none, Senator.” Gifford, like today’s Republicans, did know one thing; Federal aid was sinister. “I think there is a grave danger in taking the determination of these things into the federal government,” said Gifford. He hadn’t bothered about such things, but somehow he knew that it would prove dangerous if the government did.

And hence we got a flood of bigoted sewage from businessmen of the day who said that giving relief to common people so that they might eat would undermine the national character of self help and sturdy self reliance. It’s pathetic enough to bring tears to the eyes. The business community of the 1920s didn’t even pay attention to one of their own who was farsighted - Henry Ford, whose grasp of essentials far exceeded theirs. Ford is not an entirely savory figure - he carried a gun, hated Jews and bankers, believed in reincarnation and personally spoke to God, believed that mass production was capable of anything, and in his philosophy of business prized these things: the new objectives of business had to be high output, low prices, and high wages. Only if wages kept rising and only if prices fell could the business community command the buying power of the mass of people. Expand credit, Ford said, boost purchasing power at all hazards. The goal was to keep demand high.

Ford was ignored, of course. The Republican dogma was to balance the budget, adhere to the gold standard, have a healthy foreign trade balance, and to direct federal government to help to the poor was “meant to poison people’s minds” and rot the national character in all its soundness. It is not surprising that Coolidge, who had worked hard to weaken any regulation of business, would be Reagan’s favorite president. Reagan, like Coolidge, felt business represented what was most noble and energetic in America, and thus he dismantled or weakened any government controls over it.

Thus, we had the wonderful era of junk bonds, billions of dollars of mergers and acquisitions financed by mountains of new debt which had the first claim on earnings, leveraged buy outs, the S&L crisis – the single worst financial scandal in U.S. history up to that time – worst in U.S. Treasury losses, worst in the number of institutions involved, worst in the sheer extent of sheer fraud that was involved except this time government aid was not despised, just as it wasn’t despised in the stock market crash of 1987 when a complicated jumble of financial structures used to finance profits by debt suddenly nose-dived on Oct. 19-20 when all trading in stocks came to a halt, inflicting the largest stock market losses since 1929, the crisis ended only when the government did exactly what Reagan had mocked it for doing – it intervened.

The Federal Reserve stepped in decisively to ensure there was plenty of liquidity. Now we are in the soup again, and once again government aid is being called “socialism.” It seems to me that once again we are witnessing a flood of corporate larceny, and it’s clear that not only the Republicans but vast portions of the population have surrendered to lures of getting rich without spending any effort, rewards to come from an ever increasing series of credit mechanisms of tortured ingenuity. We saw in it in the 1920s, the 1990s, in 2001 and Silicon Valley, the advent of derivatives, which truly are sinister, and finally the collapse of the housing market, always touted as the one sure thing to bet on.

It seems to me that the goal of any economic system is to produce and distribute sufficient goods and services and to distribute these in a way that allows a people, through work, to be able to live an ample and secure standard of life. Clearly, it is not simply greed, but grave structural flaws that lie at the basis of our crisis, and if the government is the most efficient agent to correct these then let the government do it.

Instead we have let petty bickering over outworn principles, dogma so old that it has frayed to ribbons in our day, take over the debate which should be centering on tactics. It is time for all factions to do away with self righteousness, to rid themselves of whatever prompts them to belittle another while they blindly think well of itself.

As John Kennedy said, We are all in this together and we will all rise or fall together.”

With good wishes to all,
Richard Sale