Obama: Campaigning Like It's 1936

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Franklin and Eleanor (FDR Bio, part 1)
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While Republican presidential candidates are looking forward by proposing variations of a flat income tax, President Barack Obama's tax-the-rich campaign strategy is looking backward—to Franklin Roosevelt's 1936 reelection campaign. FDR won his reelection, but the American people lost: Roosevelt's new taxes on business and the "economic royalists" gave us the "Roosevelt recession" of 1937-38.

By August of 1935, Roosevelt had achieved some of his signature pieces of legislation: a new entitlement program known as Social Security, banking reform, pro-union reform, infrastructure expansion and massive transfers of wealth to the poor and middle classes. Sound familiar?

FDR also ran up federal spending significantly: from 6 percent to 9 percent of the economy.

However, FDR needed more revenue to support his big-government schemes. More importantly, he needed a villain to explain why, given the passage of his New Deal legislation, government spending and regulations, the economy was still struggling.

So he proposed raising taxes on the rich, which he dubbed a "Wealth Tax." As he explained to Congress in June 1935, “Our revenue laws have operated in many ways to the unfair advantage of the few, and they have done little to prevent the unjust concentration of wealth and economic power. … Social unrest and a deepening sense of unfairness are dangers to our national life which we must minimize by rigorous methods.” President Obama couldn’t have said it better himself.

There were several components to FDR’s plan. First he wanted very high taxes on the rich—up to 79 percent—and to lower the thresholds so that more high-income earners paid more taxes. He also wanted to increase the estate tax. As for business, he wanted to close the “loopholes,” a graduated corporate income tax and a tax on intercorporate dividends.

But the bill that actually passed the Democratically controlled Congress in 1935 would not raise much money—estimated at about $250 million, which initially seemed like enough to cover budgetary shortfalls. FDR’s associates acknowledged at the time that the Wealth Tax was more about politics than policy, or as Treasury Secretary Henry Morgenthau put it, “it was more or less a campaign document.”

However, by 1936 Roosevelt needed yet more revenue and had apparently grown to relish his new class warfare and railing against “organized money.” So he proposed another business tax: an undistributed profits tax.

Like Obama, FDR faced what he saw as a big problem: Businesses had a lot of cash on hand but weren’t spending it. “Regime uncertainty,” the reluctance of business to hire and invest when faced with a growing onslaught of new taxes and regulations, suppressed capital spending. No one knew what the future held so businesses held on to their cash hoping to survive. Again, sound familiar?

Roosevelt believed that forcing businesses to spend that money would create jobs. So he proposed, and got, his undistributed profits tax. If the government were going to tax idle money anyway, maybe businesses would put it to work.

The irony, of course, is that the more FDR dreamed up new taxes and regulations to get the economy moving, the more regime uncertainty he created. And those efforts had a predictable effect: the economy began to turn south in 1937, resulting in the Roosevelt recession. Unemployment had fallen from a high of 24.9 percent in 1933 to 16.9 percent in 1936, the year of FDR’s first reelection—still significantly higher than the post-war high of 7.5 percent during Reagan’s 1984 reelection and the current, and likely to remain, 9.1 percent unemployment rate under Obama.

However, unemployment under Reagan and Roosevelt were dropping quickly in their reelection years, which boosted voter confidence. Not so with Obama. And Obama’s embracing of FDR’s “soak the rich” tax policies—as FDR’s critics called it—will do just as much economic harm now as they did then. While the unemployment rate fell to 14.3 percent in 1937, it rose to 19 percent in 1938 and only declined to 17.2 percent in 1939.*

If President Obama is trying to draw lessons from FDR's 1936 reelection, he is learning the wrong ones. FDR had a huge majority in both houses of Congress, so he was able to get his class-warfare agenda passed—though his efforts expanded the growing divide between conservative and liberal Democrats. Obama may complain about the need to tax the rich; Republicans won't let him do it.

In addition, the country leaned more to the left then, with several national demagogues—including Louisiana Senator Huey Long, Francis Townsend and Father Charles Coughlin—constantly pulling FDR leftward (whether FDR really resisted that leftward tug is a matter of opinion). There really is no strong national voice to the left of Obama, except for MSNBC and perhaps Occupy Wall Street.

The lesson Obama should be learning from the 1936 election is that FDR's Wealth Tax and class warfare set the economic recovery back years. Obama's effort to channel FDR's policies and reelection success would have exactly the same impact.

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* For a discussion of the best figures for pre-war unemployment rates see Robert A. Margo, "Employment and Unemployment in the 1930s," Journal of Economic Perspectives, Spring 1993.

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