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Masters of the Universe

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Have there been other times in American history when the government has had such a large impact on the economy?

By Gleaves Whitney

There is no question that the scale of government control over the U.S. economy during the current crisis is huge, but what we are experiencing today pales in comparison to what happened in the 1940s. During World War II, the national government commandeered the private sector in ways that seem unimaginable today.

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During the 1940s, Americans experienced dramatic changes to their way of life because of government policies. Pres. Franklin Roosevelt's War Production Board controlled the nation's factories. Production of passenger cars was virtually halted, as assembly lines were converted to tank and airplane factories. Washington rationed gasoline, imposed a national speed limit, curtailed the manufacture of consumer products, limited the sale of basic foods like meat and butter, established price controls, and put a lid on the wages workers could earn.

The massive economic transformations of the early 1940s make today's interventions look mild. During the course of the war, some 16 million men and women in uniform worked for Uncle Sam. Many were shipped overseas to fight Nazi, Fascist, and Japanese regimes. Some 400,000 Americans were killed and never came back home.

Some six million women were part of the U.S. labor force during the early 1940s, but three million women who had never before been wage earners entered the workforce during the war years. Their symbol was Rosie the Riveter. Unlike previous times, many of these women would remain in the workplace after the conflict ended – another social transformation that would have a huge effect on American life and public policy.

Also during World War II, the draft left American farms hurting for labor. This labor shortage resulted in an agreement with Mexico to bring in migrant workers from south of the border to harvest U.S. crops – yet another social transformation that took root.

What about the massive costs of fighting a two-front war? It cost the U.S. government more than $330 billion to win World War II. Here is what that figure means: In four years, Washington spent twice as much as all previous federal spending combined from 1789-1940.

But it was not just the breathtaking amount of money spent. In sector after sector, government policy profoundly remade our nation's economic and social life during the 1940s. As historian Thomas Bailey notes, "The hand of government touched more American lives more intimately during the war than ever before. The war, perhaps even more than the New Deal, pointed the way to the post-1945 era of big-government interventionism." Truly, it was during your grandparents' generation that you can find the origins of the "warfare-welfare state."

Throughout U.S. history, wars have led to the most dramatic government interventions in the economy. But there have been other instances when Washington has been anything but laissez-faire. During the Great Depression of the 1930s, when the unemployment rate approached 25 percent, President Roosevelt mobilized the national government to bring about the three R's – relief, recovery, and reform. As part of his New Deal for the American people, FDR closed banks and got the federal government in the business of creating jobs, regulating minimum wages, providing unemployment and old-age insurance, and even paying farmers not to farm. These were dramatic changes in a nation devoted just a decade earlier to free markets. My point is not to argue that the New Deal ended the Great Depression – it did not – but to emphasize that a powerful president could introduce massive structural changes to the economic life of the nation. Knowledge of FDR's ambitions puts Barack Obama's actions in perspective.

Further back than World War II and the Great Depression, there were other instances when Washington has had a significant impact on the private sector – and not always to the nation's benefit. Thomas Jefferson's horribly misguided Embargo Act of 1807, designed to punish the warring French and British, backfired and caused countless American farmers, merchants, and shippers to lose business and suffer.

Today we hear much about Washington regulating the banks and forcing changes on the auto industry. No doubt, reform is desperately needed. But we had better heed history's warning signs and proceed with caution. Numerous times, Washington has championed federal regulatory agencies that ended up colluding with the very industries they were meant to regulate. Exhibit A is the Interstate Commerce Commission. It was established in 1887 as a regulatory body to limit the power of the railroads, but the ICC ended up working in the railroads' favor by setting rates at artificially high levels and excluding new competitors through restrictive permitting.

Today there are questions aplenty surrounding the way public officials are confronting the current economic crisis and giving preferential treatment to the lucky few. These masters of the universe are ripping off taxpayers in one of the largest transfers of wealth in U.S. history – from the middle-class to big business. A much-needed national discussion has arisen over Goldman Sachs, which has enjoyed a cozy arrangement with the officials who were supposed to watch over the public interest. Why are so many individuals making off like bandits while families struggle?

Let's drop the metaphor: They are bandits.

Gleaves Whitney is the director of Grand Valley's Hauenstein Center for Presidential Studies. Ask your question.

(Question from Supriya Hegde, Seidman College of Business graduate student)