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Reflections on the New Deal: The Vested Interests, Limits to Reform, and the Meaning of Liberal Democracy*

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ABSTRACT

I subject some aspects of Roosevelt's "New Deal" to critical analysis, with particular attention to what is termed "liberal democracy." This analysis demonstrates the limits to reform, given the power of "vested interests" as articulated by Thorstein Veblen.

While progressive economists and others are generally favorably disposed toward the New Deal, a critical perspective casts doubt on the progressive nature of the various programs instituted during the Roosevelt administrations. The main constraint that limited the framing and operation of these programs was that of maintaining liberal democracy. The New Deal was shaped by the institutional forces then dominant in the United States, including the segregationist system of the South. In the end, vested interests dictated what transpired, but what did transpire required a modification of the understanding of liberal democracy.

KEYWORDS: Vested Interests; New Deal; Planning; Liberalism

JEL CLASSIFICATIONS: B52; N2; N4; P1

The 1930s continue to be contested ground in several important political economy contexts. Most obviously, the rise of fascism in Europe and the consolidation of the Soviet Union with its emphasis on centralized planning take center stage. Both presented challenges to liberalism with their (quite different) collectivist approaches. The economic depression raised fundamental questions surrounding the nature of the financial sector in particular, as the financial sector was typically blamed for the crisis. The gold standard, one of the pillars of 19th century liberalism, was abandoned: internationalism and "free trade" was supplanted by nationalist programs designed to rescue specific economies by extricating those economies from the global system of production and exchange. Distress, experienced mainly by farmers and workers, was the prevailing sentiment among the general population. These—and more—concerns continue to be examined by economists, political scientists, and historians. And, we find a continuing "right-wing"–"left-wing" debate on these issues.

In the United States, the centerpiece of these debates is obviously the "New Deal." Clearly, the programs developed by the Roosevelt administration departed significantly from government involvement in the economy in prior periods. (War can be seen as exceptional in this respect.) There are two main leitmotifs in these debates: was the New Deal pro- or anti-business (read, capitalism); secondly, what were the actual costs and benefits of the Roosevelt-era programs, a theme sometimes developed in the context of whether the New Deal lengthened or shortened the depression. (Books and papers number into the thousands. For brief overviews, see Tymoigne [2013, 2014]; for a recent account that casts a negative eye, see Fishback [2016].)

The present paper does not engage these controversies. Rather, the focus is on the meaning of the term "liberal democracy," with emphasis on the word "liberal." It is observed that liberal democracy was conventional usage both before and after the 1930s. Yet, the New Deal represented a striking, if not fundamental, departure from what previously was considered the standard political institutional setup that constituted liberal democracy. And this departure persisted and intensified in the post–World War II period. So, what does "liberal" mean?

Further, to what extent did the "vested interests" (Veblen) determine or shape the course of events in the 1930s? This question raises the larger issue of the relationship between the political and the economic aspects of the social order.

A STARTING POINT

Let us begin with Adam Smith. In *The Wealth of Nations*, Smith clearly distinguished between use value and exchange value: "The word VALUE, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called 'value in use;' the other, 'value in exchange'" (Smith [1776] 1937, 28). Generalizing and carrying Smith's point into the (relatively) modern period, this distinction can be seen as similar to if not identical with that of Thorstein Veblen's division between industrial and pecuniary activity: "the base line of business transactions is the money value (market or exchange value, price) of the items involved, not their material efficiency" (Veblen [1904] 1975, 105). And this distinction is most important in examining the nature of modern capitalism and the New Deal in particular. Consider one of the basic contradictions in capitalism that the Great Depression of the 1930s accentuated, the contradiction between use and exchange value.

The core sector of the US economy that suffered catastrophic losses was agriculture—a much larger sector then than it is now, representing roughly 21 percent of the US labor force and 8 percent of GDP (Dimitri, Effland, and Conklin 2005, 2). Prices of agricultural goods fell precipitously in the early 1930s, and farmers endured severe reductions in income, loss of property, and general dislocation.

US farmers were highly productive. Indeed, they produced more output that could be sold at profitable prices. On the production side, there was "overproduction." On the consumption side, one finds insufficient demand. The depression generated mass unemployment, reaching 24 percent in 1932 (and remaining high thereafter). Along with unemployment there was obviously reduced income and reduced spending. This increased unemployment was largely a consequence

of the organization of the manufacturing sector. By this period, manufacturing had been largely oligopolized, a process that began in the last third of the 19th century. Oligopolies are in a position to administer prices; farmers, then still numerous and "competitive," had to accept prices. But, in order to administer prices, output had to be administered (controlled) as well. And, with the administration of output, the hiring of labor was administered. Hence, to control prices and prevent their nonprofitable reduction in the face of depression, business enterprises restricted output below the "normal" level, thus restricting employment, thus reducing incomes and purchasing power on the part of workers.[1]

So, on the one hand, farmers, facing falling prices and reduced incomes, desired a mechanism to replicate the manufacturing capitalists' approach to "overproduction"—essentially, a structure to allow the "sabotage" of production. On the other hand, people with insufficient incomes were facing not only nutritional deficiencies, but outright starvation. Farmers wanted an increase in exchange value by restricting use value; consumers—workers, in the main—wanted an increase in use value (the provisioning of goods).

With the Agricultural Adjustment Act of 1933, the Roosevelt administration attempted to allay the farmers through a government program designed to provide a collective mechanism to sabotage production and raise prices. Farmers were paid to reduce land under cultivation and to kill livestock that could have provided subsistence for the unemployed and low-income populations in general. That is, the government favored exchange value rather than use value.

More on the Agricultural Adjustment Act will be said below. I now turn to several themes in order to frame the argument that follows.

[1] This is not to say there is a functional relationship between output and price as in the neoclassical framework. The control exercised by oligopolies detaches output from price. The important consideration is the maintenance of output below that which is technologically possible. See Jo (2016) on all this. It might be pointed out that it was this distinction between agricultural and manufacturing prices that led Gardiner Means ([1935] 1992) to his theory of administered prices.

FRAMING THE NEW DEAL IN HISTORIC CONTEXT

Classical liberalism, that philosophical system upon which capitalism was justified, was clearly in retreat by the 1930s. The change in the mode of production from small scale to the large-scale, corporatist or oligopolistic form was well underway by the late 1800s. Government intrusion into economic relations—particularly that in Germany under Bismarck—was increasingly an aspect of some "New Order" (Veblen), yet to be defined. Collectivist working class organizations—trade unions and political parties—were characteristic of the period. All such developments—and more—indicated that classical liberalism was dying, if not quite dead.

For liberalism to hold, capitalism *must* exhibit competition—or individualism. All participants must have (potential) access to property; none must have a privileged position. A competitive framework is a necessary condition in order to allow the internal adjustment processes to produce the putative optimal outcomes. It is also necessary to allow the specification of the moral virtues of a capitalist society in which outcomes rest on the actions of the individual—we are responsible for our own lives, and the underlying causes of a good life are the capitalist (Calvinist) virtues of hard work and thrift. As a leading historian of liberalism wrote: "private property is the embodiment of individual liberty in its most primeval form and market freedoms are indivisible components of the basic liberties of the person" (Gray 1986, 50).

But, by the end of the century, competition in the conventional sense was dying. Various collectivist forms of organization, often referred to as "socialist," whether in the business sector, working class organizations, or government itself, had begun to dominate the individualistic, competitive structural forms and oligopolistic enterprises had begun instituting "managed" or "regulated" competition (see Kolko [1963]). And, staunch liberals recognized this. Consider the words of Ludwig von Mises:

> The supporters of Socialism… are not confined to the Bolshevists… or to the members of the numerous socialist parties; all are socialists who consider the socialistic order of society economically and ethically superior to that based on private ownership of the means of production. … If we define Socialism as broadly as this we see that the great majority of people are with socialism today. Those who confess to the principles of Liberalism and who see the only possible form of economic society in an order based on private ownership of the means of production are few indeed. (von Mises [1922] 1932, 26–27)

World War I fundamentally changed the rules of the game. Given the need to organize the economy to secure the foundations for military operations, governments in Europe and the United States undertook planning. And planning proved effective. This prompted thinking that planning could supplant "the market," and the economy could be organized to promote provisioning. Perhaps the most important figure in promoting such a view was Otto Neurath, Austrian philosopher, sociologist, and political economist, who published a series of articles in 1919 and 1920 arguing that, as government was not a profit-maximizing entity, it could actually do a better job than "the market" in running the economy. In fact, he went further, advocating the elimination of money and the formation of an economy operating on real values only. That is, pecuniary (exchange) values could be eliminated and use values only could form the foundation of a functioning economy.[2]

But, war demonstrated another aspect of the "New Order." The increased demand for (wasteful) war production generated a large increase in output. This indicated—if not proved—that "normal" levels of production were far below the economy's potential: sabotage was the norm. As Veblen observed:

> At home in America for the transient time being, the war administration has under pressure of necessity somewhat loosened the strangle-hold of the vested interests in the country's industry; and in so doing it has shocked the safe and sane business men into a state of indignant trepidation and has at the same time doubled the country's industrial output…. Already the vested interests are again tightening their hold and are busily arranging for a return to business as usual; which means working at cross-purposes as usual, restriction of output as usual, unemployment as usual. (Veblen [1919] 1964, 140–41)

[2] According to Stefan Uebel (2008), Neurath was largely responsible for Mises' 1920 revision of the position taken in his 1919 *Nation, State, and Economy*. It was in the 1920 paper that Mises introduced the "economic calculation" theme that ostensibly drove the final nail into the socialist planning coffin.

The third aspect, beyond planning and waste, associated with WWI is that in 1917 Congress implemented the "Trading with the Enemy Act," legislation that was amended in 1933 as the "Emergency Banking Relief Act." This was one of several "emergency" acts giving the executive branch of the government much more authority than in normal conditions, and it was the legal foundation for Roosevelt's programs (Badger 2008, 24). Most of the New Deal legislation was underwritten as "emergency" legislation. That is, in keeping with conventional liberal ideology, the various government programs were not designed to become permanent features of the US economy.

Moving beyond WWI, much of what became the New Deal was originally developed during the administration of Herbert Hoover (Barber 1985). Hoover, however, was an "anticollectivist" president, favoring voluntarism—based on classical liberal ideology—to deal with the economic crisis (Hart 1998, 30–61). And, of course, the crisis unfolded, opening a door to a new understanding of the relationship between government and economy. Anthony Badger writes, referencing Robert Higgs' *Crisis and Leviathan*: "They (the 'New Dealers') used the subsequent emergency to justify an unprecedented expansion of federal government powers and regulation, an expansion of state power that the American people would not have tolerated in normal times and that subsequent generations found impossible to reverse" (Badger 2008, 27).

The last point by way of general context is that Veblen's *The Vested Interest and the Common Man* appeared initially in *The Dial* in 1918 under the (general) title "The Modern Point of View and the New Order." For a brief period of time, *The Dial*, normally and formally a literary, Transcendentalist magazine, became a most important political publication. In July, Veblen joined John Dewey and other notables as coeditor of the journal and, for roughly a year, *The Dial* published acute, forceful essays, including—and in particular—many defending the Bolshevik Revolution and the nascent Soviet Republic. It was in *The Dial* that Veblen's "Bolshevism and the Vested Interests in America" appeared (October 4 and November 1, 1918). This was the first time we see the term "Soviet of Technicians" employed, and a series of essays in *The Dial* comprised his *Engineers and the Price System* (1921). Also, his "Bolshevism is a Menace—to Whom?" (February 22, 1919) and "Bolshevism is a Menace to the Vested Interests" (April 5, 1919), along with a number of other overtly political papers, are found in this publication.

In his affiliation with *The Dial*, Veblen was freed of academic institutional constraints. In a significant sense, he could "let go" and argue his case as a public intellectual, independent of the authorities who, in the final analysis, controlled what was produced in the university.

THE NEW DEAL, LIBERAL DEMOCRACY, AND THE VESTED INTERESTS

Quite understandably, the Roosevelt administration had no general, cohesive plan to tackle the various issues raised by the Great Depression. And specific New Deal programs raised concerns as to just what the administration was promoting in its departure from conventional liberal theory and (supposed) practice. Ralph Robey, a contemporary (and critical) commentator, was representative of the classical liberal approach to economic analysis and policy. Contrary to those who believed "that President Roosevelt is working strictly within the confines of the broad principles and ideals of our traditional economic order" (Robey 1934, 19), Robey argued that this order had been transgressed, that what the Roosevelt administration was putting into place was "artificial" and a violation of the "natural order" of traditional capitalism (Robey 1934, 140–56). Rather than allowing the "natural" forces of capitalist business cycles to cleanse the system of inefficient producers (including those in the financial sector), allowing "the market" to determine prices, etc., the administration was propping up agriculture, propping up manufacturing, giving large firms the right to set prices, and—possibly the most serious infraction of all—incurring government debt through its spending programs. Robey's main concern was that, if the administration's program was not stopped at its inception, but permitted to develop, "(w)e will be building more and more of the economic foundations of fascism" (Robey 1934, 155).[3]

Here, I bring into account only a few, but major, Roosevelt administration programs that bear on the central issue at hand. Let us first consider the economic leanings of some major figures in the administration. Essentially, Roosevelt, Carter Glass (of Glass–Steagall fame), Rexford

[3] It might be noted that there was a fair bit of support for at least Italian-style fascism in the United States; see Diggins ([1972] 2015) and Katznelson (2013, 58–71).

Tugwell,[4] and other leading lights were balanced-budget, sound-money, gold-standard men. That is, they suited a liberal configuration, at least in these regards. Roosevelt came into office on a balanced-budget platform and, upon taking office, slashed government spending. It is well-known that, when the economy seemed to be on the road to recovery in 1937, Roosevelt attempted to return to a balanced budget—and programs such as the Work Projects Administration (WPA) were drastically curtailed. The result was the economic downturn of 1938.

Tugwell, the main institutionalist economist on board, in addition to his belief in "sound finance," expressed opposition to large-scale public works projects (Badger 2008, 21). Roosevelt himself was against government public works programs (Badger 2008, 21). The main reason for this resistance was that such projects, particularly if government played a role in the organizing of production or the hiring of labor, were seen as smacking of "socialism."[5]

The above relates to two points that will be pursued in this paper. The main thrust of the Roosevelt administration programs was to "get the economy moving," then retreat and return to "normalcy." Second, and related to this point, there was never any discussion of "radical" proposals to deal with the crisis (Badger 2008, 37.) All programs were to be constrained within the limits of a capitalist order. The problem was not seen as a systemic issue founded in capitalism in its "New Order" period of development, but rather one of disequilibrium caused to a significant degree by misbehavior on the part of some major *dramatis personae*.

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[4] Though, Tugwell was an advocate of a balanced budget over the course of the cycle (Tugwell 1968, 16, passim). He was also an advocate of planning, though, along with Adolf Berle, planning in the sense that monopolization of the economy should be allowed—he was not a "trust buster"—then government could serve as the "senior partner" in regulating the economy to approximate that which would be generated under a competitive order (Tugwell 1968, 59, passim). Apparently, this position was taken from the work of Charles Van Hise, *Concentration and Control* (1912). Both Berle and Tugwell had studied this book (see Moley [1966, 223–33]. Neither Tugwell nor Berle viewed planning as equivalent to "collectivism."

[5] The Civilian Conservation Corps (CCC) and the National Youth Administration (NYA) escaped this charge. In large measure, the CCC did not pose any economic threat to private interests, as it was involved in environmental programs such as reforestation and the construction of parks, hiking trails, and the like. In addition, Roosevelt himself took a keen interest in environmental issues, and the CCC was popular across party lines. The NYA, like the CCC, was directed at young males. A major concern of the period was that unemployed males posed a threat to larger society, as they were prone to criminal activity. Both the CCC and the NYA were "sold" as preventive programs to reduce the possibility of such activity. In 1935, Lyndon Johnson was named Director of the Texas NYA. It was here that Johnson got his political start.

This raises the issue of the significance of "the vested interests" in determining government policy. Veblen defines the vested interests as "a marketable right to get something for nothing" (Veblen [1919] 1964, 100). As it stands, this is not very helpful. Indeed, it may well be understood as an anti-Veblenian stance as it implies that there is a state of normalcy in which people get what they *do* deserve.

It is clear, however, that what Veblen was doing in these essays is subjecting the "New Order" to critical evaluation that builds on and transcends his 1904 *Theory of Business Enterprise* in its political commentary. The main vested interests are those associated with the running of the oligopolistic business organizations that sabotage the production of use values in order to increase the exchange values of output, leading to enhanced profitability—at the expense of the larger "community." True, there are other, lesser vested interests, including officials of the American Federation of Labor (AFL), as well as members thereof, though workers' interests are actually very minor (Veblen [1919] 1964, 164). Farmers represent—again, in a minor sense—vested interests, as they own land and, though not necessarily well-off and buffeted about by the dominant vested interests, imbibe the speculative mentality as to the future value of that land (Veblen [1919] 1964, 165–72). Only the "common man" who "lives by work" and has "nothing to lose" has no vested interests in maintaining the economic and political system that favors those interests. This is why "Bolshevism is a menace," as it appeals to this *majority* segment of the population (Veblen [1919] 1964, 157). Or: "Bolshevism is revolutionary. It aims to carry democracy and majority rule over into the domain of industry. Therefore it is a menace to the established order… to private property, to business, to industry, to state and church, to law and morals… to civilization" (Veblen [1921] 1954, 400). The Bolshevik program "draw(s) an unambiguous line of division between the vested interests and the common man" (Veblen [1921] 1954, 402).

It is also clear that Veblen's position is that the government and the state support the main vested interests to the detriment of the common man:

> The mantle of princely sovereignty has fallen on the common man—formally and according to the letter of the legal instruments. In practical effect, as "democratic sovereignty" it has been converted into a cloak to cover the nakedness of a government which does business for the kept classes. In practical effect… (to) the Liberal policies based on the enlightened principles of the eighteenth century… to an imperialistic enterprise for the protection and furtherance of those vested interests that are domiciled within the national frontiers. That such has been the practical outcome is due to the fact that these enlightened principles… comprise as their chief article the "natural" right of ownership…. Hence the chief concern of those gentlemanly national governments… is always and consistently the maintenance of the rights of ownership and investment. (Veblen 1919, 125)

Essentially:

> Representative government means, chiefly, representation of business interests. The government commonly works in the interest of the business men with a fairly consistent singleness of purpose.
>
> [M]odern politics is business politics…. This is true both of foreign and domestic policy. Legislation, police surveillance, the administration of justice, the military and diplomatic service, all are chiefly concerned with business relations, pecuniary interests, and they have little more than an incidental bearing on other human interests. (Veblen [1904] 1965, 286, 269)

So, from Veblen's perspective, what do we make of the New Deal, specifically with regard to the main issue posed—the meaning of "liberal democracy"?

ACCOUNT I: THE BANKING ACT OF 1933

The first major program of the administration was the Emergency Banking Act of 1933. It was clear that the financial sector was at the heart of the crisis, and also that this sector was in deep distress. While bank failures were (and are) a common feature of capitalism, the vast majority of such failures were of small banks. However, on December 11, 1930, the Bank of the United States[6] collapsed, precipitating the massive runs on banks and bank failures that followed. The first "bank holiday" was declared in Nevada in November 1932, followed by Iowa, Louisiana, and Michigan in February 1933. These were followed by other moratoria, in particular that of the

[6] Not to be confused with the First and Second Bank of the United States. These were "Hamiltonian" national banks, while the Bank of the United States was a private, commercial bank.

State of New York, the financial center of the United States. Clearly, the financial sector was near collapse. Moreover, the financial crisis directly affected a large segment of the general population, precipitating great agitation for reform, including calls for nationalization of the banking system. Clearly, the system had become deranged, and "'something will have to be done about it'…. Thoughtful persons will then devise remedial measures." (Veblen [1923] 1964, 424).

Roosevelt had come into office decrying speculators and manipulators:

> We had a bad banking situation. Some of our bankers had shown themselves either incompetent or dishonest in their handling of the people's funds. They had used the money entrusted to them in speculations and unwise loans. This was, of course, not true in the vast majority of our banks, but it was true in enough of them to shock the people for a time into a sense of insecurity and to put them into a frame of mind where they did not differentiate, but seemed to assume that the acts of a comparative few had tainted them all. It was the Government's job to straighten out this situation and do it as quickly as possible. And the job is being performed. (Roosevelt 1933)

Observe: the public appeal in this "fireside chat" was framed as a "few-bad-apples" state of affairs rather than as a general condemnation of the financial sector and its underlying structure. The fundamental structure was ostensibly sound.

At first blush, the 1933 Banking Act (Glass–Steagall) would appear to represent a victory over vested interests. To a certain extent this is true: the separation of commercial and investment banking *was* contested, but only to a point.

There were several reasons for this partial success. The Pecora Investigation of 1933, under the leadership of Ferdinand Pecora, undertook a significant inquiry into the then-extant structure of the financial sector.[7] As a result, in addition to discovering deception, manipulation, insider trading, and outright fraud in the industry—essentially the same behaviors we saw leading up to the 2007–8 financial debacle—the committee uncovered

[7] The original committee was set up by President Hoover but had not been intended to examine the structure of this sector, merely to discover and potentially punish individual malefactors—the "few-bad-apples" approach. It proved ineffectual.

a vast network of interlocking directorships through which the Rockefeller and Morgan interests essentially controlled much of this sector (see Perino [2011]).

A second reason for partial success is that the banking sector was fragmented and did not present unified opposition to regulation. National and state banks had different interests: banks under the umbrella of the Federal Reserve System (all national and a fraction of state banks) had different interests than those independent of such control; banks engaged in branch banking had interests divergent from those restricted to local activities. Even bankers in different Federal Reserve districts found themselves at loggerheads on various issues (see Burns [1974, 66 ff., passim] for an account of these conflicts).

But such fragmentation, while important, was not an overriding factor in the passage of Glass–Stegall. This element came from the financiers themselves, specifically those representing the Rockefeller vested interests.

While the story is too complex to relate here (see Chandler [1958], Chernow [1990], and Perino [2011]), the central point is that the Rockefeller interests, led by Winthrop Aldrich (made president of Rockefeller's Equitable Trust in 1929), both cooperated with and competed against the Morgan interests. Morgan's financial holdings were more extensive than those of Rockefeller and, while one finds combined investment and commercial banking operations in both houses, interlocking directorships were much more all-embracing among the Morgan establishments. The key element in Glass–Steagall is the ban on interlocking directorships. It is this provision that actually separated commercial and investment banking. And it was Aldrich who stridently argued for this provision. That is, Glass–Steagall, while obviously instituting greater regulation of the financial sector as a whole, was weighted toward regulating Morgan interests. Insiders recognized this. On March 9, 1933, before the passage of the Banking Act in June, an article in the *New York Times* read: "Aldrich Hits at Private Bankers in Sweeping Plan for Reform," and noted that, if enacted as proposed, the act would "[strike] directly at the position of J. P. Morgan and Company" (*New York Times* 1933, 1–2).

Last, the separation of commercial and investment banks had begun prior to passage of the Banking Act. Possibly this was a defensive move, possibly it was the result of the huge losses suffered by the commercial side of the industry as a consequence of the massive and often ill-advised increase in the sale of securities by the investment side (see Wilmarth [2016, 1303–26]). Whatever the underlying reason, it points to the limits of legislation within a liberal democratic order that must cater to the dominant vested interests: the separation of commercial and investment banking did not touch the financial substance of the sector, nor was it the main concern of the major bankers. Despite the protestations and forecasts of catastrophe argued by J. P. Morgan and others, investment banking survived. All that actually did occur was that the leading banks established separate units and continued to conduct the same activities. This is when the House of Morgan was divided into J. P. Morgan, the commercial bank, and Morgan Stanley, the investment bank. Both obviously remained components within the Morgan banking domain.

Finally, it must be remembered that, under the auspices of the Reconstruction Finance Corporation, banks were “bailed out” via government purchases of preferred stock. The Rockefeller and Morgan interests received massive amounts of government-money infusion.

So, vested interests were certainly constrained in all this, but they were not fundamentally damaged. The “proof” is in the fact that the banking sector survived to wreak havoc at a later time.

ACCOUNT II: THE AAA, SEGREGATION, THE VESTED INTERESTS, AND LIBERAL IDEOLOGY

Let us return to the Agricultural Adjustment Act (AAA). As noted above, the AAA favored exchange value over use value, or, business principles over industry (production). The "right of ownership and investment" was favored over a "right to subsistence" of the common man.

At the insistence of Southern congressmen, the AAA did not touch the segregationist (Jim Crow) system of the South. Southern agriculture, a much larger segment of the US economy in this period, rested primarily on tenant farming and sharecropping, both systems of which were inimical to the interests of blacks and poor whites (the "common man," as such farmers did not own land) to the benefit of the large property owners in those states (the vested interests). Indeed, Southern black (and white) farm labor was excluded from New Deal legislation altogether. In particular, in the 1938 Fair Labor Standards Act in which a minimum wage was first established, farm workers and maids were specifically excluded, again at the insistence of Southern politicians. In fact, the Roosevelt administration never promoted civil rights legislation (on all this, see Katznelson [2013, 127–71]).[8]

It must be noted that the AAA was implemented in a period when there was much political organizing in the South, particularly by the Southern Tenant Farmers Union and the Communist Party, organizing both sharecroppers and tenant farmers, black and white (see Gilmore [2008] for details). Essentially, the Jim Crow system was being challenged, a "line of division between the vested interests and the common man" (Veblen [1921] 1954, 402) was being drawn, and the vested interests were clearly anxious. Any legislation forthcoming was conditioned by constraints imposed by those interests.

[8] The segregationist arrangements extended to the CCC, the NYA, and the WPA. All CCC camps were segregated, and most WPA projects were undertaken in segregated units. "New Deal programs in the South routinely discriminated against blacks and perpetuated segregation" (Badger 2011, 38).

In this same segregationist context, return to the Banking Act of 1933. Carter Glass (Virginia) and Henry Steagall (Alabama) were both representatives of Southern vested interests. Glass–Steagall excluded state banks from federal government regulation. And these were the main banks denying loans to black farmers seeking economic opportunity in the South.[9]

Returning to Veblen (1909, 626), an institution is "the settled habits of thought common to the generality of man." As it stands, this definition appears to be of an ideological nature only. But ideology must reflect some aspect(s) of the social order that pertain to its structures, in particular the underlying social relationships that constitute that order. The Jim Crow structure was initially organized in the post–Radical Reconstruction period following the Civil War, and directed against the Populist movement. The Populists represented the common man—then, the black and white small farmers—and Jim Crow was organized by the large property owners, including (and in particular) former slave owners and their descendants (see Woodward [1955]). The maintenance of this structure necessitated the inculcation of racist ideology, which became a "settled habit of thought common to the generality of man." Granted, racism existed prior to this period; it was a necessary ideology to support slavery in its US context. And slavery rests on a fundamental social relationship of slave–slave owner; in the US case, white slave owners, black slaves.

This raises a *fundamental* issue that surrounds New Deal policies. As Veblen noted (above), "democratic sovereignty" rested on "Liberal policies." How can (classical) liberalism justify slavery, segregation, racism? Quite readily in point of fact. Liberalism ostensibly promotes the notion that the individual is supreme. All voluntary relations among free individuals are sacrosanct; coercion is anathema. The main function of the state is to protect property rights that lie at the foundation of these voluntary relationships and to prevent or punish coercive relations.

[9] In 1930, there were 7,247 federally chartered banks, and 16,432 state chartered banks, 1,068 which had elected to be members of the Federal Reserve System. Hence, most banks escaped regulation by federal authorities—the Office of the Comptroller of the Currency or the Fed itself (Bureau of the Census 1975, 1028).

However, every major liberal proponent, from John Locke through John Stuart Mill "permitted" coercion under one condition: that those coerced were of a "barbarian" status (Losurdo 2014).[10] Barbarians were identified as those who were enslaved (or brought under various forms of servitude). And slavery was in their interests, as through slavery they could then be civilized.[11] Indeed, barbarian status was applied to whomever were claimed to be barbarians. Richard (Bishop) Whately, a noted "economist" of the post-Ricardian period, suggested that British workers were the equivalent of "savages," and proposed that the workers' education should be the same as that imposed on those hapless peoples in the colonies—designed to "civilize" them and make them accepting of British colonial rule (Whately [1832] 1966, 76–89).

The above opens a larger space for the examination of the understanding of vested interests. Interests can only be vested if the surrounding social organization allows such investiture. Large landowners who benefited from tenant farming and sharecropping could best do so only if society were organized on a segregationist foundation. And that required an organized, coordinated *power* that incorporated political, legal, educational, and policing institutions—in short, all the arrangements of the social order that promoted the interests of those who were securing economic gain on the backs of the common man. Hence, to attack any specific vested interest requires a full analysis of the social order on which that interest rests. And this analysis is precisely what Veblen undertook in his work.

[10] I write "every." Adam Smith was something of an exception. He condemned slavery (and other forms of servitude), and even suggested that a "despotic" government was better situated to end that practice. Yet, he held up England as a model for systems of "natural liberty," even though the modern slave trade was then centered in that fair land; see Losurdo (2014, 164–65, 210–11, 279). Mill, as well, was more moderate in his position than most liberals, yet he too divided the world into a "civilized West" and the "uncivilized races." The main point in his division appears to be advocacy for independence of colonies populated by Europeans—North America, etc.—and a rationale for colonization of non-Europeans (Losurdo 2014, 225–26, passim).

[11] In its religious, Christian form, coincident with the colonizing drives of the 18th and 19th century, barbarians were "heathens." When they were Christianized, they were alleviated of their heathen status and made civil. This was the "white man's burden." Of course, as the US case demonstrates, such conversion did not necessarily remove their economic status: a Christian black slave remained a slave. I thank Dale Hull for this point.

ACCOUNT III: THE CIVIL WORKS ADMINISTRATION AND THE WORK PROJECTS ADMINISTRATION

A, perhaps *the*, centerpiece of the New Deal was the Works Progress Administration, renamed in 1939 as the Work Projects Administration (WPA). There is no question that the WPA accomplished a great deal. Infrastructure was greatly improved, public buildings were constructed, and, in conjunction with the Civilian Conservation Corps (CCC), parks were developed. In addition to such projects, a significant campaign of cultural development was funded. Libraries were built, educational programs instituted, murals painted. The Federal Theater Project brought plays—both standard fare and newly written—to hundreds of thousands who had never before seen such performances. The Federal Music Project sponsored opera and other live events, and the Federal Art Project underwrote exhibits of contemporary works of art. The list of accomplishments is long and impressive.[12]

I have no quarrel with those who laud the WPA for its various programs. The issue, however, is to what extent the WPA was constrained by vested interests, preventing it from accomplishing more than it did, particularly with respect to employment.

First, consider the forerunner of the WPA, the Civil Works Administration (CWA). Brought into existence November 9, 1933 and under the directorship of Harry Hopkins, this was the first government employment program. Intended to be a short-term program from its inception, the CWA illustrates several points that speak to the main theme of this paper.

The CWA was extremely successful. Originating by presidential executive order, in its first month of operation the program put close to 2 million unemployed people to work. At its peak in mid-January 1934, over 4 million had been put on the federal payroll. At this point, it began to be phased out and was terminated in March of that year. In its short existence, 250,000 miles of roads were built or improved; 12 million feet of sewer line laid or repaired; school buildings

[12] The literature on the WPA is vast—and contentious. For a visual examination of the physical projects completed by WPA workers, see UC Berkeley (2014). For an account of the Federal Theater Project and related cultural activities, see Quinn (2008). The Federal Theater Project, along with other cultural undertakings, was the most radical of WPA programs. It is here where one sees challenges to both racism and capitalism in general.

constructed or renovated; playgrounds, hospitals, etc. built and reconditioned; and 50,000 teachers hired to keep schools open and to teach adult education classes. The list goes on, and it is impressive (see Hopkins [1936, 108–38] and Schwartz [1984] for more information as to the history of the CWA and details of the various projects).

Second, wages were paid at prevailing rates with a minimum wage specified. Wages varied based upon skills and region in which workers were employed. Black and white workers were to be paid the same wages. Further, no means test was required of those seeking a job. This had been a requirement of direct relief (welfare) and was seen by Hopkins and others as degrading. In addition to the stigma attached to welfare itself, the Federal Emergency Relief Administration (FERA) required social workers to oversee the spending patterns of the destitute who received aid.

Third, administrators of the CWA established a catalog of skills and attempted to match workers' skills with the jobs at hand.

Given the success of the CWA and the economic and psychological benefits valued by participants—to say nothing of the benefits generated by increased spending by now-employed workers—why was the program short-lived, and why wasn't it expanded? To some extent the CWA was expanded as it was replaced by the WPA—but with significant differences. Vested interests coupled with liberalism brought the CWA to an end.

We first note that the CWA was an emergency program: it was not designed to last.[13] Again, the administration's position was that government intrusion into the economic life of the country was to be of a temporary nature. "Get the economy moving," then return to normalcy—a modified laissez faire, liberal normalcy. As Roosevelt told Hopkins in decrying a permanent government work relief program: "We must be careful it does not become a habit with the country…. We must not take the position that we are going to have permanent depression in this

[13] The "emergency" nature of New Deal programs proved problematic in stabilizing employment: "a series of 'emergency' programs of public works construction may be self-defeating in achieving the aim of employment stabilization. Throughout the entire period discussed, there was no definitely continuing policy to guide the planners and administrators of federal, state, and local governments. Each program was set up as if it were the last" (National Resources Planning Board 1941, 18).

country, and it is very important that we have somebody to say that quite forcefully to these people" (in Leuchtenburg [1963, 122]).

Roosevelt and key members of his administration were, as noted above, "sound money men." The CWA certainly contributed to federal deficits, and, as a balanced budget continued to be a government objective throughout the Depression, the costs associated with the CWA—Hopkins (1936, 117) specifies $833,960,000—were viewed as excessive. On the other hand, the costs incurred by the unemployed (and the destitute)—the common man—were apparently inconsequential.

Then, there were objections from the business community, sections of which clearly had vested interests opposed to the program. The main concern was that CWA projects would compete with private enterprises for surplus labor, thus driving up wages. Firms in rural ("cheap labor") areas were particularly vocal (Bremer 1975, 642). Those in retail businesses, on the other hand, were supportive of the CWA. When wages as income were spent, such firms experienced greater revenues. So, vested interests could and did operate in two directions simultaneously, depending on how increased employment and associated wage incomes were understood.

The AFL raised objections to the CWA. As Veblen noted ([1919] 1964, 164), the AFL had its own vested interests. While Veblen mainly pointed to officials of the organization and its affiliated unions, union members had their own interests as union wages and working conditions were higher and better than nonunion workers. The concern was that CWA projects would lower the wage standard in general and thus affect union wages as well (see Schwartz [1984, 102–28]).

The WPA was modeled somewhat on the CWA, but was obviously a larger, longer-lived program. The program exhibited certain shortcomings (or constraints) that can be traced to vested interests in determining or influencing those shortcomings.

The major shortcoming was its limited scope that was determined by the constraints imposed by a capitalist economy. Harry Hopkins, chief administrator of the WPA, put the matter succinctly:

> Policy from the first was not to compete with private business. Hence we could neither work on private property, set up a rival merchandising system, nor form a work outlet through manufacturing, even though manufacturing had contributed to relief rolls hundreds of thousands of workers accustomed to operating machines and to doing nothing else for a living. (Hopkins 1936, 163)

Roosevelt, in his January 1935 "Message to Congress," stated:

> All work undertaken should be useful… in the sense that it affords permanent improvement in living conditions or that it creates future new wealth for the Nation.
>
> Compensation on emergency public projects should be… not so large as to encourage the rejection of opportunities for private employment or the leaving of private employment to engage in Government work.
>
> The projects undertaken should be selected and planned so as to compete as little as possible with private enterprise. (in Moley [1966, 281])

It is obviously true that an economic system cannot have vested interests as such. But it is that system that establishes the social relations, arrangements, and institutions within which vested interests are engendered. In a slave economy, slave owners, as the dominant actors, are those with the dominant vested interests. In a capitalist economy, it would be capitalists, particularly the main "absentee owners." As Hopkins and Roosevelt made clear, the WPA program could not impose on the interests of the business community. With this is mind, what then are the program's specific inadequacies? (Much of the following is taken from Bremer [1975].)

In contrast to the CWA, enrollment in WPA projects required a means test. That is, in keeping with then-current welfare programs (FERA), WPA workers were monitored as to their spending habits and living conditions. Unemployment itself was insufficient to permit entry into the program's workforce. Monitoring represents something of an invasion into the personal lives of those workers, a violation of the individual liberty that was central to the liberal creed (Bremer 1975, 643–44), though this segment of the working class could be seen as "barbarians," as they were not "self-reliant."

While the program did pay market wages—though, in the South in particular, such wages incorporated a differential for black and white workers—maximum hours worked (30 hours per

week) coupled with a maximum income earned "clearly illustrated their (New Dealers) commitment both to make work relief a morale-maintaining program and to protect capitalistic enterprise against public competition" (Bremer 1975, 645). The prevailing idea was to move public workers into the private sector as jobs opened up because private sector employment would be more attractive. As Harry Hopkins wrote, "is it reasonable to suppose that an American worker… will reject private employment to remain in such a situation?" (in Bremer [1975, 645]).

Job classifications, unlike the CWA, were rather willy-nilly. Little effort was made to match workers' skills with the jobs at hand. Physicians, lawyers, insurance salesmen, etc. were categorized as "professionals," which "qualified them for jobs writing guide books, serving as nurses' aides, [or] teaching immigrants the English language" (Bremer 1975, 646). In large measure, this was a consequence of WPA's emphasis on construction. Hence, those labeled unskilled or semiskilled found themselves building post offices, even though they had no skills associated with such jobs. "A Pennsylvania study disclosed that 61 percent of WPA work assignments were different from the workers' usual occupations" (Bremer 1975, 647). (It must be noted, however, that those skills could be acquired in a "learning-by-doing" environment.)

The emphasis on construction projects was consistent with the WPA's position that public work relief should not compete with private business. One might question the large number of post offices built during the WPA years of operation (more than 1,400 of over 3,000 public buildings in total), but such projects were in keeping with the noncompetitive nature of the program.

This returns us to Adam Smith's distinction between use value and exchange value. WPA projects were those that "are socially useful, which are important to the nation, which are outside the ordinary scope of our economic system. I would not have us competing by public works with private industry" (Hopkins 1934, 403). Excluded was any economic activity associated with manufacturing and marketing. That is, WPA projects were designed to be of a use value only. Exchange was reserved for the private segment of the economy. To be sure, exchange entered into these projects, as materials had to be purchased and wages paid, but the final products were not put on "the market" to be sold at a profit. To do so would represent competition with the private sector. Further, exchange is absolutely necessary in an economy where the main

objective is the pursuit of monetary profit. Production of use values cannot lead to monetary profits unless those use values are exchanged for money.

This raises a most interesting point. The CWA and the WPA demonstrated that government, should it choose to do so, *could* organize the production of use values independent of exchange. Indeed, to a limited extent, this is precisely what it did. The "fear" was that such a course would expand to the point where (capitalist) commodity production—use values produced for exchange—would then be seen as unnecessary. Hence the charge, stemming from both "left" and "right," that Roosevelt was a socialist and the New Deal programs were socialistic in their effect. (Or, fascist in their orientation.) For liberals of the day—those equating liberalism and capitalism—the New Deal was anathema, as Ralph Robey's charge above makes clear. And, in chronicling the early neoliberal movement, the New Deal represented the "slippery slope" of collectivist activity that would lead to totalitarianism. Friedrich von Hayek's *The Road to Serfdom* is, of course, the classic work arguing such a scenario.

The last shortcoming I note is that the WPA, along with all other employment programs of the administration, employed only about one-third of the unemployed (Tymoigne 2014, 521). Over the course of its history, an average of roughly 3 million workers were employed monthly. (Total government employment, including the CCC and the NYA, would bring that figure to over 4 million.) Note that in the second month of its existence, the CWA employed over 4 million workers. That is, the WPA could have done much more than it did. It was never conceived as a full-employment program, and it never hued to the position that people had a right to a job. Such a perspective was seen as both anticapitalist and a violation of the principle of individual initiative. The constraints imposed by capitalism and liberal ideology as represented by the institutional arrangements imposed on society by that economic order prohibited such objectives from realization.

ACCOUNT IV: THE NATIONAL RESOURCES PLANNING BOARD

In the US case, probably no New Deal institution better illustrates the central problem in forging a new liberalism than the National Resources Planning Board (NRPB). Originally constituted in 1933 as the National Planning Board and part of the Public Works Administration, the objective of the organization was to: "(take) the initiative in broad plans for a better day… while social discontent struggles to build some new structure promising more to the body and soul of those who feel themselves disinherited by the existing order of things" (in Katznelson [2013, 374]). Noted economists Wesley Clair Mitchell and Gardiner Means were members of a body of social scientists and policy experts who were "developing an appealing approach to planning that promised to improve economic efficiency and achieve social values," in particular "to build cooperation between business and labor in the public interest" (Katznelson 2013). As one member of the committee stated, the NRPB was organized "to plan primarily for freedom" and "aimed not at curtailing but at enlarging liberty" (Katznelson 2013).

While the NRPB never actually engaged in planning, it did write copious reports and pamphlets projecting—mainly— as to how the state in a postwar America "should direct markets, ensure high levels of employment, and provide comprehensive social welfare… cleansing capitalism from 'irresponsible private power, arbitrary public authority, and unregulated monopolies'… securing 'greater freedom for the American people'" (Katznelson 2013, 376).

The NRPB, rather than a planning body in the Soviet sense (or in the [Nazi] German sense), was designed as an organization to provide guidance in macro decision making that would (ostensibly) overcome the ills associated with a liberal capitalist regime without touching property rights, though new regulations may well constrain capitalist behavior, particularly with regard to "monopolies." In a fundamental sense, what was envisioned was a policy agenda similar to that of the German "Social Market," a neoliberal program (see Ptak [2009]).

Even though President Roosevelt had "directed the agency in November 1940 to initiate studies of postwar planning" (Ptak 2009), and even though the United States entered the war in 1941, by 1943 the NRPB was effectively dead, starved of funding. It 1944, it was officially dead. The lead

in destroying the agency was taken by Southern representatives under the banner of "states' rights." There were two elements in this call: the NRPB represented too much intrusion by a central authority, thus upsetting the traditional understanding of liberal democracy, and the fear that such intrusion would violate the racial order of the South. Again, vested interests resting on private property vitiated what could have been a different postwar United States.

CONCLUSION

So, what should one make of "liberal democracy" as a concrete term that identifies a specific political—and economic—content? Liberalism originally represented the philosophical (actually, ideological) rationale for a small-scale capitalist economic order ostensibly built on voluntary relationships among individuals. This ideology pertained specifically to property owners—who were "free" to do with the property as they chose. It did not apply to the mass of individuals for whom coercion was the rule. After all, they were equivalent to "barbarians" and had to be taught proper forms of behavior in order to classified as "civilized." In particular, the work effort had to be encouraged. Thus, Frances Hutcheson, from whom Adam Smith learned his moral philosophy, suggested that, to encourage hard work, "(s)loth should be punished by temporary servitude at least" (Hutcheson 1755, 319). For Jean Baptiste Say, the "father" of neoclassical economic theory, individuals may not be cognizant of their "true" interests, those associated with capitalist virtues of hard work, etc. and the contractual, exchange basis of society. The "enlightened" legislator was to educate the "ignorant" (read "barbarian") sections of the population in order to generate proper attitudes. When education alone was insufficient, a "civil code" would compel proper behavior through overt coercion (Forget 2001).

The United States emerged from WWII with democracy intact, though the 1930s did represent a modification in the understanding of liberal democracy. "Manchester Liberalism," laissez faire, and free trade were dead, but laissez faire had died before the New Deal. Its death now simply became recognized.[14] To be sure, the executive branch had assumed much more authority than in

[14] Walter Lippmann ([1936] 1943, 184–91) recognized this in his *The Good Society*. Lippmann's book was the catalyst for the early formation of what came to be called "neoliberalism" (see Cockett [1994, 12, passim]).

the pre-Depression period,[15] and collectivist programs were now much more acceptable—as long as these did not substantially violate the liberal credo. The Employment Act of 1946 illustrates this. Gone from the *Full* Employment Bill of 1945 were provisions asserting that "All Americans… *are entitled to* an opportunity for useful, remunerative, regular and *full-time* employment;" "the *Federal Government has the responsibility to assure continuing full employment*." Rather, the Act limited Federal responsibility to "promote maximum employment, production and purchasing power," "in a manner calculated to foster and promote free competitive enterprise" (in Santoni [1986, 12]; italics those of Santoni). In the debates surrounding the bill, the issue of a right to employment was criticized as inconsistent with liberal democratic institutions. Utah Senator Elbert Thomas succinctly summed up the issue: "[the] basic difference between the American constitutional concept [and totalitarian regimes]… is that in America we have all the time the welfare of the individual in mind" (Santoni 1986, 11). A right to employment eliminates individual responsibility in securing a job; this violates liberal principles and would have positioned the United States in the same category as the Soviet Union.[16]

What does liberal democracy mean in the US sense? For many, democracy is presented as the dominance of Congress relative to the executive branch of representative government. The reality is somewhat different. Return to the Constitutional Convention and the framing of a system of (supposed) "checks and balances," as per James Madison. From *The Federalist Papers*, No. 10:

[15] Eric Posner and Adrian Vermeule (2011) document the increased power of the executive branch relative to Congress and the Supreme Court since the Roosevelt administration, though the process began incrementally prior to the 1930s. Granted, their take on the "administrative state" is argued from a (conservative) "legal realism" perspective, but it's difficult—I would argue, impossible—to dispute their contention that the president has assumed much more authority than that envisioned by Madison.

[16] One should also mention the postwar reaction to the New Deal (and its aftermath). In particular, promoted was an attack on "collectivism" that merged business interests with religion (see Kruse [2015]). This religious revival began in the 1930s, attacking the New Deal, and was supported and largely organized by corporate officials. Also mentioned should be attacks on Keynesianism. For one rather outlandish attack, see Dobbs (1960).

> Those who hold and those who are without property have ever formed distinct interests in society. Those who are creditors, and those who are debtors, fall under a like discrimination. A landed interest, a manufacturing interest, a mercantile interest, a moneyed interest, with many lesser interests, grow up of necessity in civilized nations, and divide them into different classes, actuated by different sentiments and views. The regulation of these various and interfering interests forms the principal task of modern legislation, and involves the spirit of party and faction in the necessary and ordinary operations of the government. (Madison 1787b)

And, in the version provided by Robert Yates, delegate from New York, in the debate over the "Term of the Senate," Madison stridently argued for an extended term for appointed Senators as a safeguard against any "leveling" movement:

> In England, at this day, if elections were open to all classes of people, the property of the landed proprietors would be insecure. An agrarian law would soon take place…. [O]ur government ought to secure the permanent interests of the country against innovation. Landholders ought to have a share in the government, to support these invaluable interests and to balance and check the other. They ought to be so constituted as to protect the minority of the opulent against the majority. The senate, therefore, ought to be this body. (Madison 1787a)

Is Madison's position fundamentally different than that of another major liberal figure, Adam Smith? "Civil government so far as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all" (Smith [1776] 1937, 674).

While the above is not perfectly consistent with Veblen's position on representative government, one sees a marked similarity. "Representative government means, chiefly, representation of business interests" (Veblen [1904] 1965, 286). The main vested interests impose the checks and maintain the balances necessary in a class-divided society. True, from time to time some significant disorder occurs, demanding resolution. Then, when "…the privation and chronic derangement which follows from this application of business principles has grown unduly irksome and becomes intolerable, there is due to come a sentimental revulsion and a muttering protest that 'something will have to be done about it'…. Thoughtful persons will then devise remedial measures…. In a community which is addicted to business principles, the remedial measures which are brought under advisement in such a case by responsible citizens and officials

are bound to be of a businesslike nature; designed in all reason to safeguard the accomplished facts of absentee ownership" (Veblen [1923] 1964, 424). What is done is constrained by the imperatives of the maintenance of a pecuniary (capitalist) order in which vested interests (mainly) determine outcomes. A critical examination of the New Deal demonstrates the validity of Veblen's contention.

As to the understanding of "liberal," it would appear that this is a term that is quite flexible in its meaning. Supporters of segregation could maintain a liberal position while denying the inviolability of the individual. Property rights were clearly more important that human rights. But, this has always been the case—as long, that is, as those violated were seen as "barbarians." And barbarian status has been conferred on whatever population serves the requirements of a capitalist order. Opponents of the WPA could argue that such employment would sap "self-reliant individualism" (Bremer 1975, 646). That is, liberalism only applies to those with sufficient property to do with that property as they see fit.

If one substitutes "capitalist" for "liberal," things fall into place. The United States, as all such economies, has instituted a capitalist—propertied—democracy from its inception. The form of this democracy changes over time as the form of capitalism changes over time. But the substance remains the same, in keeping with Veblen's position on democracy. Liberal democracy is a defense of the main vested interests against the "common man."

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