

# LIBERALISM'S LOST TRADITION

*Dig Beneath the New Deal Stratum, and You'll Unearth the New Freedom*

BY FRED SIEGEL AND WILL MARSHALL

The defeat of President Clinton's comprehensive health care reforms marked the end of a half-century effort to create a full-blown American version of the European welfare state. The question for Democrats now is what they should put in its place.

The party today is divided between those who argue that Democrats are being punished for failing to fulfill the promise of the New Deal, and those who argue that the New Deal, though enormously successful in its time, was not a timeless guide for the future.

Confronted with an Information Age economy and a rejuvenated conservatism, liberal fundamentalists cling grimly to the old-time religion of expansive federal power. Interpreting voter mistrust of government as a temporary manifestation of economic anxiety, they reason that it is better to stick to principles—to wait out today's public distemper rather than sell out a faithful, if dwindling, band of big-government constituencies.

But the fundamentalists' logic contains a fatal flaw. It sees strong central government as an end itself rather than as a means to larger public purposes: expanding opportunities, protecting individual rights, promoting public health and safety. Where liberals see a compassionate if ungainly state, much of the public sees a bloated and imperious federal government, mired in bureaucratic dysfunction, responsive not to the wider concerns of the middle class but to a proxy public of organized interests and transfer-seeking groups that feed on the body politic.

Viewed in historical perspective, moreover, American liberalism's dalliance with social democracy is a relatively recent phenomenon, hardly the immutable faith of the Democratic Party. Indeed, the New Deal and Great Society may eventually be seen as anomalies for a party and a country that otherwise have exhibited a deep and enduring anti-statist bent and an emphasis on the individual—the essence of American exceptionalism.

There is another tradition to which Democrats can turn for inspiration, one that predates the New Deal's centralizing tendencies. It harks back to Jefferson and Jackson, the party's founders, and reappears in

Woodrow Wilson's version of progressivism early in this century.

The lost tradition of American liberalism is anti-statist but radically democratic. In Jefferson's day, it stressed equal political rights and fought to prevent a monied aristocracy from dominating the fledgling republic. In the age of Jackson, it likewise championed the popular cause, expanding the franchise and backing the "laboring classes" in their struggle against the new capitalists and their soulless instrument, the corporation. And in Wilson's time, liberal progressivism opposed private monopolies that squeezed out the independent entrepreneur and, in collusion with political bosses and machines, made the government "the foster child of the special interests."

By the turn of the century, it was evident that the old liberalism, rooted in *laissez-faire*, agrarian values and the belief that, as a prominent Jacksonian newspaper put it, "the world is too much governed," was inadequate to the needs of a rapidly industrializing society. "The organization of business has become more centralized, vastly more centralized than the political organization of the country itself," Wilson warned in 1912. While urging the necessity of a stronger national government to curb the power of the great trusts, he insisted that a more activist state could serve the Jeffersonian end of preserving the economic and political liberties of ordinary citizens.

During the Great Depression, traditional arguments against centralizing power lost their force. The old system of competitive enterprise had apparently failed; only a strong central state could mobilize common resources for the common good. Efficiency and modernity seemed synonymous with the organization of society into large units that absorbed the individual. And if Washington could organize victory in world wars, manage the business cycle, and ensure everyone a decent retirement, why couldn't it also banish racial injustice and poverty? Liberalism in the 1960s accordingly turned from the New Deal's emphasis on expanding the middle class to guaranteeing racial equality and redistributing the fruits of post-war affluence to the poor.



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*Liberal Democrats argue that the party is being punished for failing to fulfill the promise of Franklin D. Roosevelt's New Deal. But there is an earlier tradition to which Democrats can turn for inspiration: Woodrow Wilson's version of progressivism early in this century.*

Lyndon B. Johnson's Great Society represented the high tide of U.S. welfare statism. But its moral grandeur was undermined by the costs and confusion, not to mention outright failure, of bureaucratic government. Today, with socialism dead and social democracies worried that cradle-to-grave welfare provisions may lead to stagnation, the left's central idea—a benign state committed to redistributive justice—lies in ruin. What comes next?

### The Progressive Precedent

One place to look is not abroad but in our past, in the day before yesterday. There are striking parallels between the turn of the 19th century and our own *fin de siècle*. The growth of global economic competition and knowledge-based production are shifting the tectonic plates of our economic landscape. The last time those plates shifted was at the close of the 19th century, when the end of the westward expansion and the growth of giant manufacturing monopolies brought Lincoln's world of the yeoman farmer and the small manufacturer to an end.

The 1912 presidential race boiled down to a contest between former president Teddy Roosevelt, spokesman for the "New Nationalism" who broke away from the Republicans to forge the Progressive Party, and Woodrow Wilson, spokesman for the "New Freedom,"

Democratic nominee, a former president of Princeton University, and former New Jersey governor.

Invoking the spirit of abolitionism, TR promised to carry the Lincoln idea forward on behalf of a new war against the social slavery of industrialism. Talking at times of "collectivism," TR anticipated the New Deal with his call for a minimum wage, as well as national pension and health insurance systems.

Roosevelt's nomination was supported by the growing profession of social workers, whose aim was to push for the transfer of private charities to new public authorities. What tied the old warrior and his old-money supporters to the new helping professions was a common

condescension for men on the make. Wilson, sneered the young Walter Lippmann, wanted to return to a time when men fought to make "themselves masters of little businesses." This was "a freedom for the little profiteer, but no freedom for the nation from the narrowness . . . the limited vision of small competitors . . ."

The hero of San Juan Hill promised to march forward into the shared abundance made possible by big business. Frank Munsey, the militant diet faddist who was one of the Bull Moosers' leading bankrollers, laid out a future in which the new tutelary state would take on a "parental guardianship of the people."

"It is the work of the state," Munsey argued, "to think for the people and plan for the people—to sustain them, teach them how to do, what to do, and sustain them in the doing." Herbert Croly, TR's chief intellectual adviser and author of *The Promise of American Life*, carried the theme further. Citizens of a democracy, he wrote, "are not sovereign . . . even when united in a majority." His hope was that under government's inspired tutelage, the people could "become sovereign . . . insofar as they succeed on reaching and expressing a collective purpose"—namely, a strong unified nation.

Wilson, for his part, turned to Louis Brandeis for an alternative world view. Known as "the people's lawyer," Brandeis made his mark by taking on the trusts that

used the power of the state to both subjugate their competitors and suborn democracy. To Brandeis, big-business plutocracy and socialism were forms of statism inimical to a republic of citizens. Brandeis rejected the idea that a society organized around highly efficient monopolies was a benefit to either the economy or the society. He saw the trust as a product not of efficiency but of state-sustained privilege, or what we would today call “corporate welfare.”

Unlike the socialists, Brandeis’ animus, wrote his contemporary Max Lerner, was directed not at the normal functioning of capitalism but at its pathology. “He has so much respect for private property,” Lerner wrote, “that he wishes it were more equitably distributed, so much respect for capital that he wishes it to flow freely instead of being concentrated in a money trust . . . .” This champion of the working man believed in economic liberty because he saw the political power generated by the steel and oil trusts as a threat to competition, and competition, he insisted, was good for the moral character of the competitors and good for democracy. The democratic position, Brandeis wrote, is that “no methods of regulation ever have been or can be devised to remove the menace inherent in . . . overweening commercial power.”

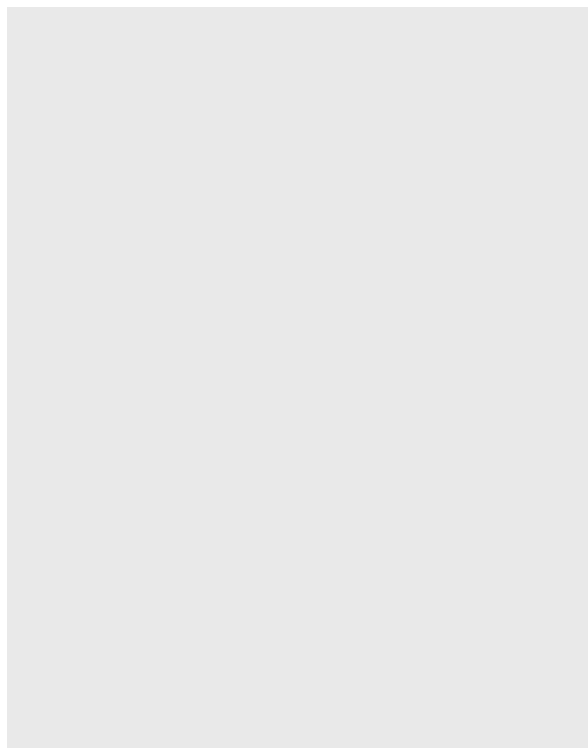
### The New Freedom

Wilson immortalized these arguments in his campaign speeches. The New Freedom, says historian John M. Cooper, was both a more traditional and more dynamic approach to the economy than Roosevelt’s New Nationalism. Wilson was trying, wrote Lippmann, to “express the old principles, to find a new and modern translation for the things that [America] has time out of mind believed in.”

What Wilson proposed was “regulated competition,” a middle way between incumbent Republican President Howard Taft’s *laissez-faire* and Roosevelt’s “regulated monopoly.” Wilson argued not for welcoming interest groups into the fold of the state, but for a politics of “the common good,” an update of the Jacksonian credo of “equal rights for all and special privileges for none.”

The great trusts, said Wilson, threatened democracy as well as economic freedom through their manipulation of corrupt political machines. He backed popular political reforms of the day, including the direct election of U.S. senators and use of referenda, initiative, and recall to break the power of the political bosses.

Wilson gave eloquent voice to fears that monopoly capitalism would sap Americans’ vaunted independence. “Your individuality is swallowed up in the indi-



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*Talking at times of “collectivism,” Teddy Roosevelt anticipated the New Deal with his call for a minimum wage, as well as national pension and health insurance systems.*

viduality and purpose of a great organization,” he told audiences on the campaign trail. “The core of Wilson’s thought,” notes historian William Leuchtenberg, “was a protest against paternalism, and he disliked the paternalism of the welfare state almost as much as he objected to the egregiousness of the trusts.”

Just laws, not a benign state, said Wilson, were needed to prevent the “strong from crushing the weak”:

We do not want a benevolent government. We want a free and a just government. Every one of the great schemes of social uplift which are now so much debated by noble people amongst us is based, when rightly conceived, upon justice, not upon benevolence.

Wilson translated his ideas into legislation “with remarkable success and fidelity,” notes historian Richard Hofstadter. He won the first major reduction in tariffs since the Civil War; enacted a progressive federal in-

come tax to recoup lost tariff revenue; incurred the wrath of the nation's leading bankers by creating a decentralized Federal Reserve system independent of their control; passed new anti-trust measures and created the Federal Trade Commission to ensure honest competition; and signed several important laws protecting the rights of labor.

Indeed, Wilson enacted virtually every plank of the Progressive Party platform, from the creation of the Federal Trade Commission to women's suffrage and the abolition of child labor. But behind that commonality with the progressives lay a substantially different attitude toward government. TR's paternalism suggested that an enlightened leadership acting in the name of the people could, in the words of historian Martin Sklar, "use the state to run the economy in their interests without giving the state despotic power over society."

For Wilson, however, who thought more in terms of markets and civil society, "government should serve society [and] by no means rule or dominate it." For Wilson, society was "vastly bigger and more important than its instrument, government." Free trade for Wilson was more than economic policy; it was an antidote to domestic privilege, a means of cutting the giant monopolies down to size without creating an overly intrusive federal government. Statism at home, he argued, was linked to "big stick" militarism abroad.

In November 1914, a still triumphant Wilson announced that his New Freedom program had been achieved and the progressive movement was at an end. He had decided that any further efforts would overreach the limited capacity of government. Just before he assumed the presidency, Wilson remarked that "it would be the irony of fate if my administration had to deal chiefly with foreign affairs." And indeed, World War I proved to be the graveyard for Wilsonianism. Many of his domestic accomplishments were ignored or overturned in the pro-business 1920s. When the country again turned, after the crash of 1929, to domestic reform, it would have a distinctly statist cast.

Brandeis, whom Wilson appointed to the U.S. Supreme Court, remained a revered figure; FDR referred to him as "old Isaiah." At the height of the New Deal, Brandeis through an intermediary, Tommy Corcoran, warned FDR, "We're not going to let this government centralize everything."

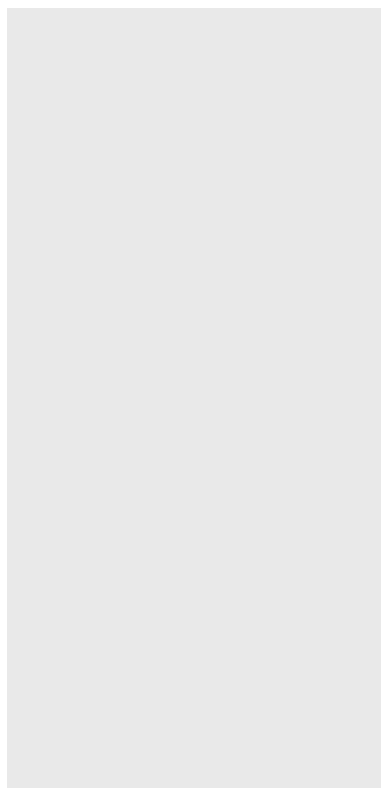
"As for your young men," he told Corcoran, referring to the politicians who helped create the federal colossus, "you call them together and tell them to get out of Washington—tell them to go home, back to the states, that is where they must do their work."

But the Brandeisian vision was overwhelmed at the time by a depression so severe that it discredited the volunteerist and decentralized approaches he had always championed. In those days, it was hard to argue with TR's assertion that it "is idle to ask us not to exercise the powers of government when only by that power . . . can we exalt the lowly and give heart to the humble and downtrodden."

### History's Arrow Reversed

A half-century after FDR's death, the age of monopoly is virtually over. The Galbraithian economy has been done in by new technologies and global competition, while the case for centralized compassion has been discredited by the creation of a government-enabled underclass. Today, as new information and communications technologies break up hierarchical, bureaucratic organizations, whether in business or the public sector, the impetus for innovation more often arises locally. History's arrow is reversed: The progressive impulse now leads to a decentralized model of governance that shifts decisions and responsibility from central institutions back to communities and individuals.

This shift makes possible a return to the ideals of the New Freedom, to Wilson's call for a government that serves society rather than tries to manage it. His emphasis on citizens rather than clients, markets rather than managers, is far better suited to the dispersal of power in the Information Age than the New Deal



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*Louis Brandeis, whom Wilson appointed to the U.S. Supreme Court, once warned FDR through an intermediary, "We're not going to let this government centralize everything."*

nostrums that once served us so well.

Brandeis and Wilson's insights are particularly useful to liberals and progressives as they grapple with four critical challenges:

◆ *Restoring opportunity for the many by confronting the privileged defenders of the old economic order.* The epochal transition from industrialism to global, knowledge-intensive enterprise requires a major redeployment of the nation's resources and new social bargains among investors, employers, and workers. Entrenched interests, however, fiercely resist these essential changes. U.S. corporations, for example, are loathe to give up billions of dollars of government subsidies that no longer serve a compelling economic or social purpose in the new economy. Organized labor demands policies more appropriate to the labor markets of the 1930s than the 1990s, presses for trade protection, and resists efforts to reorganize companies along more participatory and democratic lines. School teachers and administrators block attempts to replace a standardized, centralized public education system with a more competitive and decentralized model that expands choice and provides accountability.

Instead of allying itself to interests seeking to prop up the old industrial order, liberals should be equipping U.S. entrepreneurs and workers to succeed in the information economy while incorporating the three-quarters of the American workforce who have seen their incomes stagnate as global markets redistribute jobs and wealth.

Foreshadowing Bill Clinton's 1992 paeans to the "forgotten middle class" families who "work hard and play by the rules," Wilson likewise sought to "restore opportunity" for average Americans:

"The originaive part of America, the part of America that makes new enterprises, the part into which the ambitious and fitted workingman makes his way up, the class that saves, that plans, that organizes and presently spreads its enterprises until they have a national scope and character—that middle class is being more and more squeezed out by the processes which we have been taught to call processes of prosperity."

Ironically, today's "processes of prosperity" are creating a more open field of competition such as Wilson envisioned. U.S. workers today can no longer rely on big, hierarchical institutions for their economic security; they have no choice but to become more entrepreneurial and self-reliant. The hidden hand, however, cannot by itself guarantee an expanding middle class. There's still a vital role for government to play in assuring fair rules of com-

petition as well as rough equality of opportunity. It must, for example, enable U.S. workers to manage their own career security by continuously upgrading the education and skills the new economy demands.

◆ *Reclaiming government for the people.* Contemporary populism focuses on the iniquities, stupidities, and costs of big government. In 1992, Ross Perot held up the federal deficit and revolving-door lobbyists as examples of how an inept and unaccountable political class had hijacked the people's government. Bill Clinton tapped the same vein by vowing to "end welfare as we know it." The GOP takeover of Congress two years later confirmed an unsated public desire to end business as usual in Washington.

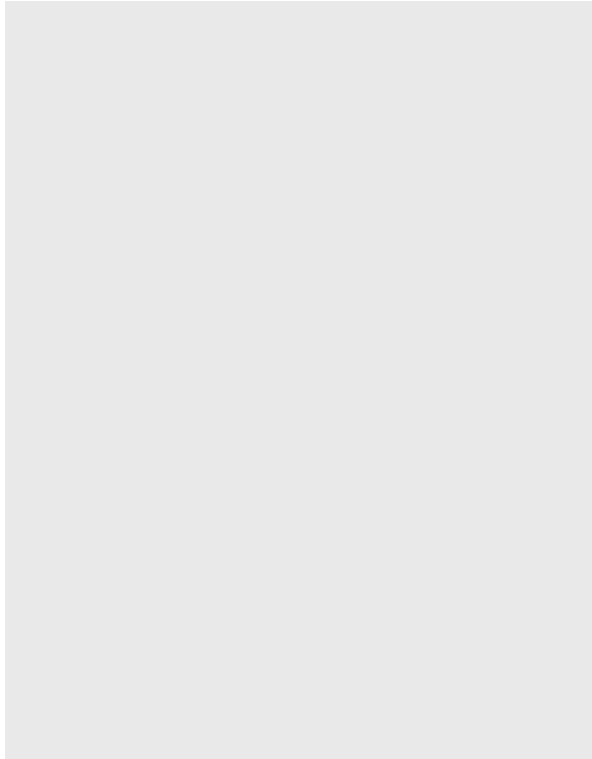
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This is the core dilemma of modern liberalism. For most of this century, liberals rightly saw strong government as the instrument of greater democracy. Now Washington often thwarts innovative efforts by Americans to invent new ways to solve their own problems. To restore confidence in government, progressives must invent new forms of governance that are decentralized, that expand choices rather than rely on bureaucratic monopolies, and, most importantly, that transfer more decisions and control over public resources from Washington to citizens and local institutions.

In addition to this agenda of reinvention and devolution, progressives must confront the phenomenon of "demosclerosis"—the petrification of government by special interests that block needed reforms in pet programs and otherwise shape public policy for private gain. As Democrats from Jefferson to Wilson well understood, fiscal discipline and free competition radically reduce opportunities for organized interests to secure special privileges and protections from government. And Brandeis' fear of the power of money in politics is



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*Depression-era postal workers cheer the unfurling of a National Recovery Administration “blue eagle” banner over their post office.*

amply justified today, as corporations and other wealthy interests generously lubricate the electoral machinery with cash contributions.

◆ *Forging a new social compact based on reciprocal responsibility.* Just as Wilson and Brandeis anticipated, welfare state paternalism, abetted in recent times by the “rights revolution,” has spawned a politics of one-way entitlement in which organized interests demand and government gives. This is a formula for both fiscal and moral bankruptcy. It has sent the costs of middle-class entitlements soaring and sapped the spirit of civic responsibility and community self-help that makes American democracy work. It has led to social welfare programs that foster dependency rather than self-reliance and that enable self-destructive behavior in poor communities.

The alternative is a politics of reciprocity that strikes a better balance between the rights and responsibilities of citizenship. In such a compact, government’s obligation to expand opportunities would be closely linked to

needy citizens’ willingness to take greater responsibility for their own betterment. In welfare, for example, this means replacing the current system of unconditional cash transfers with a new system that both requires and enables welfare recipients to work. The principle of reciprocity should be applied to all government benefits. For example, we should condition all federal college assistance on the willingness of beneficiaries to give something back through national service. The new social compact also envisions a much larger role for voluntary and community groups in tackling difficult social problems—such as illegitimacy—that simply can’t be solved by government bureaucracies, no matter how compassionate they may be.

◆ *Coping with global chaos.* The order and predictability that the Cold War imposed has given way to disorder and confusion. There are striking opportunities to extend the benefits of free markets and democracy, as well as the spreading danger of ethnic and national conflicts. As the world’s richest and strongest nation, America occupies a pivotal position. But in the absence of an external threat that imposes cohesion on our thinking, we are uncertain about our responsibilities.

*Realpolitik*, an essentially amoral diplomacy concerned with balances and distributions of power, is antithetical to liberalism. As Wilson understood, no U.S. policy that is not firmly grounded in the public’s democratic convictions can succeed. Yet this idealism must also be tempered by considerations of national interest, lest we risk what Lippmann termed diplomatic insolvency—setting goals that overreach the means we are willing to commit to international affairs. Liberals today should embrace a position of democratic realism—one that recognizes our vital role in undergirding global prosperity and stability, that maintains a qualitatively superior defense, that promotes open commerce, that reinforces democratic reform movements in strategic countries, and that seeks to establish effective international institutions for solving problems that would otherwise be dumped by default into our laps.

For Democrats, the path back to power lies not in recreating the failures of the European welfare state but in finding new ways to make the party’s traditional values of limited government and responsible individualism workable again. The Democratic Party’s future hinges on its ability to look past the New Deal to the lost tradition of American liberalism. ◆

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