

# What the New Deal Did

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The United States now confronts a cascading economic crisis. Venerable banking houses collapse, once-mighty industries teeter on the brink of oblivion, and unemployment mounts. The air thickens with recollections of the Great Depression of the 1930s, and with comparisons between Barack Obama and Franklin D. Roosevelt.

So what was the Great Depression, and what did FDR do about it? The short answer is that the Great Depression was a rare political opportunity, and Roosevelt made the most of it, to the nation's lasting benefit. A longer answer would acknowledge that the Great Depression was a catastrophic economic crisis that Roosevelt failed to resolve, at least not until World War II came along, some eight years after he assumed office. A still longer answer would recognize the connection between FDR's short-term economic policy failure and the New Deal's long-term political success. Much misunderstanding surrounds these matters.

"At the heart of the New Deal," the distinguished historian Richard Hofstadter once wrote, "there was not a philosophy but a temperament." As a writer in *The New York Times* put it not long ago, "F.D.R. threw a bunch of policies against the wall, and the ones that stuck became the New Deal."<sup>1</sup>

That view of the New Deal—as a kind of unprincipled, harum-scarum frenzy of random, incoherent policies that failed to slay the Depression demon—has become deeply embedded in our national folklore. It is badly mistaken. If we are to understand the Great Depression's relevance to our own time, it is imperative to understand the relationship between the economic crisis of the 1930s and that decade's signature political legacy, the New Deal.

Into the years of the New Deal was crowded more social and institutional change than in virtually any comparable compass of time in the nation's past.

<sup>1</sup> Richard Hofstadter, *The American Political Tradition and the Men Who Made It* (New York: Alfred A. Knopf, 1948), XXX; *The New York Times*, 16 January 2001, Sec. A, p. 23.

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Change is always controversial. Change on the scale the New Deal wrought has proved interminably controversial. Debate about the New Deal's historical significance, its ideological identity, and its political, social, and economic consequences has ground on for three quarters of a century. Roosevelt's reforms have become a perpetual touchstone of American political argument, a talisman invoked by all parties to legitimate or condemn as the occasion requires, an emblem and barometer of American attitudes toward government itself. So just what, exactly, *did* the New Deal do?

It might be well to begin by recognizing what the New Deal did not do. It fell pathetically short of achieving full economic recovery. Roosevelt's programs made a substantial dent in the 25 percent unemployment rate of 1933, but unemployment averaged 17 percent throughout the 1930s and never went below 14 percent until World War II occasioned massive federal spending and effectively wrote finis to the Depression Decade. Among the reasons that the New Deal failed to overcome the Depression and World War II did was the simple fact that the war made intellectually conceivable and politically possible deficit spending on a level that was neither dreamed nor attempted before the war came. The biggest New Deal deficit was some \$4.2 billion in 1936, largely because of the veterans' "Bonus Bill," which passed, not incidentally, over Roosevelt's veto. No New Deal deficit reached 6 percent of GNP. In 1943, by contrast, the federal deficit was \$53 billion, more than an order of magnitude larger than in 1936, and as a share of GNP nearly six times the largest New Deal deficit, at 28 percent.

What is more, much mythology and heated rhetoric notwithstanding, the New Deal did not substantially redistribute the national income. America's income profile in 1940 closely resembled that of 1930, and for that matter 1920. The falling economic tide of the Depression lowered all boats, but by and large they held their relative positions. What little income levelling there was resulted more from Depression-diminished returns to investments, rather than redistributive tax policies. True, the so-called "wealth tax," or "soak-the-rich" tax, that Roosevelt pushed through Congress in 1935 imposed a 79 percent marginal tax rate on incomes over \$5 million; but that rate applied to but a single taxpayer in all the United States — John D. Rockefeller. The basic rate remained 4 percent, and even that applied to a decided minority of Americans. Until the war-time Revenue Acts hugely expanded federal tax collections, fewer than one American household in twenty paid any income tax at all. A Depression-era couple with an income of \$4,000 would have been in the top tenth of all income receivers; if they had two children, they would have paid a federal income tax of \$16 in 1936. A similar family making \$12,000 — placing them in the richest 1 percent of households—would have paid \$600.

Nor, with essentially minor exceptions like the Tennessee Valley Authority's (TVA) electric-power business, did the New Deal challenge the fundamental tenet of capitalism, private ownership of the means of production. In contrast with the pattern in virtually all other industrial societies, whether

communist, socialist, or capitalist, no significant state-owned enterprises emerged in New Deal America.<sup>2</sup>

It is also frequently said that the New Deal conformed to no pre-existing ideological agenda, that it never produced a spokesman, not even Franklin Roosevelt, who was able systematically to lay out the New Deal's social and economic philosophy. Then and later, critics have charged that so many inconsistent impulses contended under the tent of Roosevelt's New Deal that to seek for system and coherence was to pursue a fool's errand. That accusation has echoed repeatedly in assessments that stress the New Deal's mongrel intellectual pedigree, its improbably plural constituent base, its political pragmatism, its abundant promiscuities, inconsistencies, contradictions, inconstancies, and failures. What unity of plan or purpose, one might ask, was to be found in an administration that at various times tinkered with inflation and with price-controls, with deficit spending and budget-balancing, cartelization and trust-busting, the promotion of consumption and the intimidation of investment, farm-acreage reduction and land reclamation, public employment projects and forced removals from the labor pool?<sup>3</sup> "Economically," one historian concludes with some justice, "the New Deal had been opportunistic in the grand manner."<sup>4</sup>

And yet, illumined by the stern-lantern of history, the New Deal can be seen to have left in place a set of institutional arrangements that constituted a more coherent pattern than is dreamt of in many philosophies. That pattern can be summarized in a single word: security.

It is fitting that the New Deal's most durable and consequential reform bears that very word in its title: the *Social Security Act* of 1935. A measure of security was the New Deal's gift to millions of Americans—farmers and workers, immigrants and blue-bloods, children and the elderly, as well as countless industrialists, bankers, merchants, mortgage-lenders, and home-buyers, not to mention enormous tracts of forest, prairie, and mountain.

Forget about the colorful creations of the decidedly frenzied and much ballyhooed Hundred Days, like the Civilian Conservation Corps and the National

<sup>2</sup>See, for example, Mark H. Leff, *The Limits of Symbolic Reform: The New Deal and Taxation, 1933-1939* (Cambridge: Cambridge University Press, 1984); U.S. Bureau of the Census, *Income Distribution in the United States* (Washington, DC: GPO, 1966); Simon Kuznets, "Long Term Changes in the National Income of the United States of America since 1870," in Kuznets, ed., *Income and Wealth Series II* (Cambridge: Bowes and Bowes, 1952); Jeffrey G. Williamson and Peter H. Lindert, *American Inequality: A Macroeconomics History* (New York: Academic Press, 1980), and Robert Lampman, *The Share of Top Wealth-Holders in National Wealth* (Princeton, NJ: Princeton University Press, 1962).

<sup>3</sup>The classic study of the New Deal's tangled intellectual genealogy in the realm of economic policy is Ellis W. Hawley, *The New Deal and the Problem of Monopoly* (Princeton, NJ: Princeton University Press, 1966).

<sup>4</sup>James MacGregor Burns, *Roosevelt: The Lion and the Fox* (New York: Harcourt, Brace and Co., 1956), 322.

Industrial Recovery Act. Most of them were short-lived and ultimately inconsequential. But all of the New Deal reforms that endured – The Federal Deposit Insurance Corporation, the Securities and Exchange Commission, the Federal Housing Administration, the National Labor Relations Board, the Fair Labor Standards Act, and above all the Social Security Act—had a common cardinal purpose: not simply to end the immediate crisis of the Depression, but to make life less risky and more predictable, to temper for generations thereafter what FDR repeatedly called the “hazards and vicissitudes” of life.

The New Deal provided more assurance to bank depositors (FDIC), more reliable information to investors (SEC), more safety to lenders (FHA), more stability to relations between capital and labor (NLRB), more predictable wages to the most vulnerable workers (FLSA), and a safety net for both the unemployed and the elderly (Social Security). Those innovations transformed the American economic and social landscape. They profoundly shaped the fates of Americans born long after the Depression crisis had passed. With the exception of FDIC, none of them dates from 1933. Had economic health been miraculously restored in the fabled Hundred Days, a swift return to business as usual might well have meant politics as usual as well, and none of those landmark reforms would have come to pass. Indeed, there would have been no New Deal as we know it.

To be sure, Roosevelt sought to enlarge the national state as the principal instrument of the security and stability that he hoped to impart to American life. But legend to the contrary, much of the security that the New Deal threaded into the fabric of American society was often stitched with a remarkably delicate hand, not simply imposed by the fist of the imperious state. And with the notable exceptions of agricultural subsidies and old-age pensions, it was not usually purchased with the taxpayers' dollars.

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Nowhere was the artful design of the New Deal's security program more evident than in the financial sector. At the tip of Manhattan Island, south of the street laid out along the line where the first Dutch settlers built their wall to defend against marauding Indians, beats the very heart of American capitalism. Deep in the urban canyons of the old Dutch city sits the New York Stock Exchange, whence had come the first herald of the Depression's onset. As the great crash of 1929 reverberated through the financial system, annihilating billions of dollars in asset values and forcing bank closures, it raised a mighty cry for the reform of “Wall Street,” a site that early and late has been beleaguered by threatening hordes incensed at its supposedly inordinate power. The New Deal heeded that cry. Among its first initiatives was the reform of the American financial sector, including the banks and the securities markets. What did it accomplish?

Faced with effectively complete collapse of the banking system in 1933, the New Deal confronted a choice. On the one hand, it could try to nationalize the system, or perhaps create a new government bank that would threaten eventually to drive all private banks out of business. On the other hand, it could accede to the long-standing requests of the major money-center banks—especially those headquartered around Wall Street—to relax restrictions on branch and interstate banking, allow mergers and consolidations, and thereby facilitate the emergence of a highly concentrated private banking industry, with just a few dozen powerful institutions to carry on the nation's banking business. That, in fact, was the pattern in most other industrialized countries. But the New Deal did neither. Instead, it left the astonishingly plural and localized American banking system in place, while inducing one important structural change and introducing one key new institution.

The structural change, mandated by the Glass-Steagall Banking Act of 1933, was to separate investment banks from commercial banks, thus securing depositors' savings against the risks of being used for highly speculative purposes. The same Act created a new entity, the Federal Bank Deposit Insurance Corporation (FBDIC, later simply FDIC). Guaranteeing individual bank deposits up to \$5,000 (later raised), and funded by minimal subscriptions from Federal Reserve member institutions, the FDIC forever liberated banks and depositors from the fearful psychology of bank "runs," or panics. These two simple measures did not impose an oppressively elaborate new regulatory apparatus on American banking, nor did they levy appreciable costs on either taxpayers or member banks. But they did inject unprecedented stability into the American banking system. Bank failures, which had occurred at the rate of hundreds per year even before the Depression's descent, numbered fewer than 10 per year in the several decades after 1933.

If speculation and lack of depositor confidence had been the major problems of the banking system, the cardinal affliction of the closely related securities industry had been ignorance. Pervasive, systemic ignorance blanketed Wall Street like a perpetual North Atlantic fog before the New Deal, badly impeding the efficient operation of the securities markets and leaving them vulnerable to all kinds of abuses. Wall Street before the 1930s was a strikingly information-starved environment. Many firms whose securities were publicly traded published no regular reports, or reports whose data were so arbitrarily selected and capriciously audited as to be worse than useless. It was this circumstance that had conferred such awesome power on a handful of investment bankers like J.P. Morgan, because they commanded a virtual monopoly of the information necessary to making sound financial decisions.<sup>5</sup> Especially in the secondary markets where reliable information was all but impossible for the average investor to come by, opportunities abounded for

<sup>5</sup> For a vivid description of the workings of the pre-New Deal financial marketplace, see Ron Chernow, *The House of Morgan* (New York: Atlantic Monthly Press, 1990).

insider manipulation and wildcat speculation. "It's easy to make money in this market," the canny speculator Joseph P. Kennedy had confided to a partner in the palmy days of the 1920s. "We'd better get in before they pass a law against it."<sup>6</sup>

The New Deal did pass a law against it, and assigned Joseph P. Kennedy to implement that law, a choice often compared to putting the fox in the henhouse, or setting a thief to catch a thief. In 1934 Kennedy became the first chairman of the new Securities Exchange Commission, one of just four new regulatory bodies established by the supposedly regulation-mad New Deal.<sup>7</sup> The SEC's powers derived from statutes so patently needed but so intricately technical that Texas Congressman Sam Rayburn admitted he did not know whether the legislation "passed so readily because it was so damned good or so damned incomprehensible." Yet some years later, Rayburn acknowledged that the SEC, thanks in part to the start it got from Kennedy, was "the strongest Commission in the government." A study of the federal bureaucracy overseen by Herbert Hoover called the SEC "an outstanding example of the independent commission at its best."<sup>8</sup>

For all the complexity of its enabling legislation, the power of the SEC resided principally in just two provisions, both of them ingeniously simple. The first mandated disclosure of detailed information, such as balance sheets, profit and loss statements, and the names and compensation of corporate officers, about firms whose securities were publicly traded. The second required verification of that information by independent auditors using standardized accounting procedures. At a stroke, those measures ended the monopoly of the Morgans and their like on investment information. Wall Street was now saturated with data that were relevant, accessible, and comparable across firms and transactions. The SEC's regulations unarguably imposed new reporting requirements on businesses. They also gave a huge boost to the status of the accounting profession. But they hardly constituted a wholesale assault on the theory or practice of free-market capitalism. All to the contrary, the SEC's regulations dramatically improved the economic efficiency of the financial markets by making buy and sell decisions well-informed decisions, provided that the contracting parties consulted the data now so copiously available. This was less the reform than it was the rationalization of capitalism, along the lines of capitalism's own claims about how free markets were supposed to work. To

<sup>6</sup> Kennedy quoted in Michael R. Beschloss, *Kennedy and Roosevelt: An Uneasy Alliance* (New York: W.W. Norton, 1980), 60.

<sup>7</sup> The others were the National Labor Relations Board, the Civil Aeronautics Authority, and the Federal Communications Commission. Some existing agencies were also considerably strengthened, notably the Federal Power Commission, the Federal Trade Commission, the Interstate Commerce Commission, and the Federal Reserve Board.

<sup>8</sup> Congressman Sam Rayburn and the Hoover Commission Report quoted in Thomas K. McCraw, *Prophets of Regulation* (Cambridge, MA: The Belknap Press of Harvard University Press, 1984), 175, 153-54.

be sure, a later generation's financial prestidigitation eluded the SEC's capacity responsibly and effectively to exercise its regulatory functions; but that sorry development supported an argument for updating and upgrading the Commission, not for challenging its essential rationale.

The New Deal's housing policies provide perhaps the best example of its techniques for stabilizing a major economic sector by introducing new elements of information and reliability — and offer another lesson in what can happen when government agencies fail to keep pace with changes in the private sector. By its very nature, the potential demand for housing was then and later large, widespread, and capable of generating significant employment in countless localities. John Maynard Keynes was not alone in recognizing that housing was a sector with enormous promise for invigorating the Depression-era economy. Well before Keynes urged Roosevelt to put his eggs in the housing basket, Herbert Hoover had patronized the Better Homes for America Movement in the 1920s. In 1931, as new home construction plunged by 95 percent from its pre-1929 levels, he had convened a national presidential conference on Home Building and Home Ownership. Its very title, especially the latter phrase, advertised Hoover's preferred approach to the housing issue.<sup>9</sup>

As in the banking sector, the New Deal faced a choice in the housing field. It could take Keynes's advice and get behind proposals from congressional liberals like Robert Wagner for large-scale, European-style public housing programs. Or it could follow Hoover's lead and seek measures to stimulate private home building and individual home ownership. Despite its experimentation with government-built model communities like the so-called Greenbelt Towns (of which only three were built), and its occasional obeisance to public housing programs (as in the modestly funded Wagner-Steagall National Housing Act of 1937), the New Deal essentially adopted—and significantly advanced—Hoover's approach. Two new agencies implemented the New Deal's housing program, the Home Owners' Loan Corporation and the Federal Housing Administration, later supplemented by the Federal National Mortgage Association (Fannie Mae) in 1938, the Veterans' Administration's housing program after World War II, and the Federal Home Loan Mortgage Corporation (Freddie Mac) in 1970.<sup>10</sup>

The HOLC began in 1933 as an emergency agency with two objectives: to protect defaulting homeowners against foreclosure and to improve lending institutions' balance sheets by re-financing shaky mortgages. With much publicity, the HOLC stopped the avalanche of defaults in 1933. But its lasting

<sup>9</sup> For a study of Hoover's policies, see Karen Dunn-Haley, *The House that Uncle Sam built: the Political Culture of Federal Housing Policy, 1919–1932*, (Ph.D. Dissertation, Stanford University, 1995).

<sup>10</sup> The discussion of housing here is much indebted to Kenneth T. Jackson's pioneering work, *Crabgrass Frontier: The Suburbanization of the United States* (New York: Oxford University Press, 1985). Parallel programs, legislated by the Farm Mortgage Refinancing Act of 1934, and the Frazier-Lemke Federal Farm Bankruptcy Acts of 1934 and 1935, gave similar relief to farm owners.

legacy was a quieter affair. Just as the SEC introduced standardized accounting practices into the securities industry, the HOLC, to facilitate its nation-wide lending operations, encouraged uniform national appraisal methods throughout the real estate industry. Its successor, the FHA, created in 1934 to insure long-term mortgages in much the manner that the FDIC insured bank deposits, took the next logical step and defined national standards of home construction. The creation of Fannie Mae completed the New Deal's housing program apparatus. Fannie Mae furnished lending institutions with a mechanism for reselling their mortgages, thus increasing the lenders' liquidity and making more money available for subsequent rounds of construction. Taken together, the standardization of appraisal methods and construction criteria, along with the mortgage insurance and re-sale facilities the New Deal put in place, removed much of the risk from home-lending.

The FHA and Fannie Mae themselves neither built houses nor loaned money. Nor did they manage to stimulate much new construction in the 1930s. But they arranged an institutional landscape in which unprecedented amounts of private capital could flow into the home construction industry in the post-World War II years. The New Deal's housing policies, cleverly commingling public and private institutions, demonstrated that political economy need not be a zero-sum game, in which the expansion of state power automatically spelled the shrinkage of private prerogatives. Once the war was over, this New Deal "reform" proved not to have checked or intimidated capital so much as to have liberated it. And eventually it revolutionized the way Americans lived.

Before the New Deal, only about four Americans in ten lived in their own homes. Homeowners in the 1920s typically paid full cash or very large down payments for their houses, usually not less than 30 percent. The standard mortgage was offered by a local institution with a highly limited service area, had only a five to ten year maturity, bore interest as high as 8 percent, and required a large "balloon" payment, or refinancing, at its termination. Not surprisingly, under such conditions a majority of Americans were renters.

The New Deal changed all that. Uniform appraisal procedures made lenders much more confident in the underlying value of mortgaged properties. F.H.A. insurance made them less nervous about loans going sour. Consequently, lenders began to accept down payments of ten percent, and to offer thirty-year fully amortized mortgages, with level monthly payments. Interest rates on mortgages also came down as the element of risk diminished. Finally, nationally standardized appraisal and construction standards, along with Fannie Mae's (and, later, Freddie Mac's) national market for mortgage paper, allowed funds to flow out of regions of historic capital surplus to regions of historic capital deficit—that is, from city to suburbs and from the Northeast to the South and West.

The New Deal, in short, put in place an apparatus of financial security that allowed private money to build post-war suburbia and the Sunbelt. Private



money built private homes. Four decades after the New Deal, nearly two-thirds of Americans lived in owner-occupied houses. By the opening of the twenty-first century, nearly 70 percent were homeowners — a signal social achievement, though too many among the last increment of new owners proved unable to service their mortgages. Only one percent, usually the poorest of the poor, lived in public housing. By contrast, in John Maynard Keynes' England, nearly half the population lived in public housing in the early post-war years, as did more than a third of the population of France.<sup>11</sup>

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In the financial and housing sectors, the New Deal built structures of stability by the inventively simple devices of standardizing and promulgating relevant information, and by introducing industry-wide self-insurance schemes that calmed jittery markets and offered dependable safeguards to capital. In many other sectors, the New Deal's technique was somewhat less artful; it was, simply, to suppress competition, or at least to modulate its destructive effects. But everywhere the objective was the same: to create a uniquely American system of risk-reduced, or risk-managed, capitalism.

The New Deal applied its crudest version of the anti-competitive approach to the chronically volatile agricultural sector. There it contained destabilizing competition with the ham-handed device of simply paying producers not to produce, keeping price-depressing surpluses off the market altogether. Some of the same logic of mandatory and even subsidized reduction of competition was also apparent in the New Deal's treatment of labor markets. Franklin Roosevelt declaimed about social justice in his campaigns for the Social Security Act and the Fair Labor Standards Act, and he achieved much justice, too. But those Acts also shaped a manpower policy that had nearly as much to do with stability, plain and simple, as it did with social justice. Prohibitions on child labor, combined with virtually obligatory retirement by age 65, statutorily shrank the size of the labor pool and therefore reduced wage-competition. Retirees were, in effect, paid not to work, just as farmers were paid not to produce (though all but the first generation of Social Security pensioners were ostensibly paid from their own forced-savings accounts, while farmers unapologetically drew their subsidies from general Treasury revenues). The Fair Labor Standards Act, as well as the industry-wide bargaining power of the new CIO unions, also built broad floors under wages and thereby further reduced the ability of employers and employees alike to compete by lowering labor costs.

<sup>11</sup> Jackson, *Crabgrass Frontier*, 224. Jackson also demonstrates that both the private and public housing programs encouraged by the New Deal frequently reinforced and even exacerbated racial segregation in housing. It is also worth noting that by the 1990s, Britain had substantially abandoned the public housing model, and a majority of Britons had become homeowners.

In some sectors, new regulatory commissions provided orderly forums where the rules of competition could be agreed on and the clash of interests accommodated in a peaceful manner. The National Labor Relations Board constituted a compelling example of that technique. Elsewhere, as in large infrastructural industries like transportation, communications, and energy, as well as in the wholesale distribution and retail marketing sectors, the New Deal sought stability by directly curtailing price and cost competition, often by limiting new entrants. The Civil Aeronautics Board, created in 1938, performed those functions for the infant airline industry; the Interstate Commerce Commission for the older railroad industry, and, after the passage of the Motor Carrier Act of 1935, for truckers as well. The Federal Communications Commission, born in 1934, did the same for telephones, radio, and, later, television; the Federal Power Commission, though with more difficulty, for oil and gas production. The Federal Trade Commission, newly empowered by two New Deal "fair trade" laws, was charged with limiting price competition in the retail and wholesale trades. (The Robinson-Patman Act of 1936 prohibited chain stores from discounting below certain stipulated levels, a way of insulating "mom-and-pop" corner stores against aggressive price pressure from the high-volume giants. The Miller-Tydings Act of 1937 legalized price-maintenance contracts between wholesalers and their distributors, a way of stabilizing the prices of nationally marketed name-brand goods.)

The creation of this array of anti-competitive and regulatory instruments has often been criticized as an inappropriate response to the Great Depression. The economic historian Peter Temin, for example, writes that "the New Deal represented an attempt to solve macroeconomic problems with microeconomic tools." Recent writers, including conspicuously Amity Shlaes, have levelled similar charges.<sup>12</sup> But that kind of judgement about the New Deal not only ignores the substantial, if incomplete, economic recovery that Roosevelt's policies did achieve. It also rests on the assumption that solving the macroeconomic problem of insufficient demand and high unemployment by inducing economic recovery was the New Deal's highest priority. Certainly Roosevelt said on countless occasions that such was his goal. But if actions speak louder than words, then it may be fair to conclude that perhaps not in stated purpose, but surely in actual practice, the New Deal's premier objective, at least until 1938, and in Roosevelt's mind probably for a long time thereafter, was not economic recovery *tout court* but structural reform for the long run. In the last analysis, reform, not simply recovery, was the New Deal's highest ambition and its lasting legacy.

Roosevelt signalled as much in his Second Inaugural Address on 20 January 1937. On that occasion he uttered one of his most-quoted and most-

<sup>12</sup> Temin's remark is in Gary M. Walton, ed., *Regulatory Change in an Atmosphere of Crisis: Current Implications of the Roosevelt Years* (New York: Academic Press, 1979), 58; Amity Shlaes, *The Forgotten Man: A New History of the Great Depression* (New York: HarperCollins, 2007).

misunderstood lines: "I see one-third of a nation ill-housed, ill-clad, ill-nourished." He was emphatically *not* speaking in that passage about the victims of the Great Depression. Just moments earlier he had boasted about the return of at least a measure of prosperity since he had assumed the presidency in 1933. But then, in one of the most extraordinary and revealing remarks in the entire canon of presidential addresses, he said: "Such symptoms of prosperity may become portents of disaster!" Here was an unmistakable indication of Roosevelt's sensitivity to the relationship between economic crisis and political opportunity. Like a later president, Barack Obama, who told an interviewer in February 2009 that hard times are "when the political system starts to move effectively," Roosevelt knew that the Depression had created a rare moment of political and institutional malleability when the tectonic plates of American political life could be consequentially shifted.<sup>13</sup>

The pattern of economic restructuring that the New Deal put in place arose out of the concrete historical circumstance of the Depression, but it was not wholly or perhaps even mainly determined by that circumstance. It also had a more coherent intellectual underpinning than is customarily recognized. Its cardinal aim was not to destroy capitalism, but to de-volatilize it, and at the same time to distribute its benefits more evenly. New Deal regulatory initiatives were precipitated from decades of anxiety about overcapacity and cut-throat competition, the very issues that had so disrupted the first great national industry, the railroads, in the nineteenth century, and led to the creation of the country's first regulatory commission, the Interstate Commerce Commission, in 1887. Against that background, the Depression appeared to mark the final, inevitable collapse of an economy that had been beset for at least fifty years by overproduction and an excess of competition. The regulatory regime that the New Deal put in place seemed, therefore, but a logical extension of the kind competition-controlling remedies that the ICC had first applied to the railroads half a century earlier, and a fitting climax to five decades of sometimes wild economic turbulence.

Those views found their most systematic formulation in Franklin Roosevelt's 1932 campaign address at San Francisco's Commonwealth Club. As much as any single document can, that speech served as a charter for the New Deal's economic program.

"The history of the last half century," said Roosevelt in San Francisco, is "in large measure a history of a group of financial Titans...."

As long as we had free land; as long as population was growing by leaps and bounds; as long as our industrial plants were insufficient to supply our own needs, society chose to give the ambitious man free play and unlimited reward provided only that he produced the economic plant so much desired. During this period of

<sup>13</sup> FDR's inaugural, accessed at <http://bartelby.com/124/pres50.html>; Obama interview with Jim Lehrer, 27 February 2009.

expansion, there was equal opportunity for all and the business of government was not to interfere but to assist in the development of industry."

But now, said Roosevelt, "our industrial plant is built; the problem just now is whether under existing conditions it is not overbuilt. Our last frontier has long since been reached, and there is practically no more free land.... We are now providing a drab living for our own people....

Clearly, all this calls for a re-appraisal of values. A mere builder of more industrial plants, a creator of more railroad systems, an organizer of more corporations, is as likely to be a danger as a help. The day of the great promoter or the financial Titan, to whom we granted everything if only he would build, or develop, is over. Our task now is not discovery, or exploitation of natural resources, or necessarily producing more goods. It is the soberer, less dramatic business of administering resources and plants already in hand, of seeking to reestablish foreign markets for our surplus production, of meeting the problem of underconsumption, of adjusting production to consumption, of distributing wealth and products more equitably, of adapting existing economic organizations to the service of the people. The day of enlightened administration has come.... As I see it, the task of government in its relation to business is to assist the development of ... an economic constitutional order."<sup>14</sup>

The National Recovery Administration, of course, with its measures to stabilize production and limit price and wage competition, was the classic institutional expression of that philosophy. But even after the NRA's demise in 1935, the thinking that had shaped it continued to inform New Deal efforts to erect a new "economic constitutional order."

That thinking rested on three premises, two of them explicit, the other usually implicit. The first was the notion, so vividly and repeatedly evident in Roosevelt's Commonwealth Club Address, that the era of economic growth had ended. With his references to the closing of the frontier, Roosevelt, echoing Frederick Jackson Turner's celebrated thesis about the 1890s, suggested that the Depression did not mark a transient crisis but heralded instead the death of an era and the birth of a new historical epoch. Many other New Dealers, from Rexford Tugwell to the young Keynesians who rose to prominence in the second Roosevelt administration, shared this view. It deeply colored their thought right down to the end of the Depression decade. "The economic crisis facing America is not a temporary one," the economist Lauchlin Currie wrote to his boss, Marriner Eccles, in 1939. "The violence of the depression following 1929," Currie continued, "obscured for some time the fact that a profound change of a chronic or secular nature had occurred."<sup>15</sup> That change, Currie concluded, was the emergence of a "mature" economy, one whose capacity for growth was largely exhausted. The best that could be hoped for, therefore,

<sup>14</sup> PPA, Vol. I, 742-756.

<sup>15</sup> Currie quoted in Alan Brinkley, *The End of Reform: New Deal Liberalism in Recession and War* (New York: Alfred A. Knopf, 1995), 122.

was to restore the gross levels of production of the late 1920s, and to effect a more equitable distribution of consuming power so as to sustain those levels indefinitely. Roosevelt himself said consistently that his "goal" was to raise national income to "ninety or one hundred" billion dollars. "When, the Lord only knows," he remarked to reporters as late as October 1937, "but that is a perfectly sound goal..."<sup>16</sup> Measured against a national income of nearly 87 billion dollars in 1929, it was also a perfectly modest goal, a goal inspired by visions of economic restoration, not economic expansion.

The second premise that informed New Deal policy was closely related to the first, and was also evident in Roosevelt's Commonwealth Club address. It was the idea that the private sector, left to its own devices, would never again be capable of generating sufficient investment and employment to sustain even a 1920s-level economy. That premise was the starting-point for Harry Hopkins' Works Progress Administration. Both he and Roosevelt presumed that WPA would be a permanently necessary government employment program. ("The time...when industry and business can absorb all able-bodied workers," said Hopkins in 1936, "seems to grow more distant with improvements in management and technology.")<sup>17</sup> The same assumption about the long-term structural inadequacies of the private sector in "mature" economies formed much of the intellectual core of Keynesian analysis. Even before Keynes gave the idea full articulation, this motif ran like a bright thread through the writings of the professional practitioners of the dismal science in the 1930s. Alvin Hansen, a Harvard economist destined to become America's leading Keynesian, gave forceful expression to this notion in 1938 in *Full Employment or Stagnation?*, a book that helped to popularize the concept of "secular stagnation" while also arguing that government spending was indispensable to make up for the permanent deficiencies of private capital.<sup>18</sup>

The third premise that moulded the economic thinking and policies of the New Deal was the assumption, less consciously held than the other two, but powerfully determinative nonetheless, that the United States was an economically self-sufficient nation. That concept of economic isolationism had underlain Roosevelt's frank declaration in his first inaugural address that "our international trade relations ... are in point of time and necessity secondary only to the establishment of a sound national economy." It had formed the basis of his inflationary schemes of 1933 and 1934. It formed the filament on which a series of New Deal measures, from crop-supports to minimum-wage and price-fixing legislation, was strung. When Roosevelt spoke of "balance"

<sup>16</sup> PPA, 1937 Vol., 476; see also Roosevelt's Annual Message to Congress of January 3, 1938, in PPA, 1938 Vol., 3.

<sup>17</sup> Harry Hopkins, *Spending to Save* (New York: W.W. Norton, 1936), 180-181.

<sup>18</sup> Alvin H. Hansen, *Full Employment or Stagnation?* (New York: W.W. Norton, 1938). Witnessing the economic impact of World War II, Hansen later revised his views on secular stagnation. "All of us had our sights too low," he wrote in 1944. See Alvin H. Hansen, "Planning Full Employment," *The Nation*, 21 October 1944, 492.

between American industry and agriculture, or when he posited the requirement “that the income of our working population actually expands sufficiently to create markets to absorb that increased production,” he was clearly envisioning an America for which foreign markets, not to mention foreign competitors, did not exist.<sup>19</sup>

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From those intellectual building blocks, composed of a theory of history, a conception of the nature of modern economies, and an appraisal of America’s unique position in the world, the New Deal erected an institutional scaffolding designed to provide unprecedented stability and predictability for the American economy. In time, that edifice would serve as the latticework on which the post-war economy grew like kudzu, the “mile-a-minute vine” that carpets much of the South. The unparalleled economic vitality of the post-1940 decades owed to many factors, not least the gusher of deficit spending triggered by World War II, as well as the long exemption from foreign competition that the results of the war conferred on the United States. But the elements of financial reliability, modulated competition in commodity, transportation, communication, retail, and labor markets, well-ordered relations between management and labor, and government support of at least minimal levels of aggregate demand—developments that owed much to the New Deal—must surely figure largely in any comprehensive explanation of the performance of the American economy in the post-war quarter-century.

Yet economic growth as a later generation would know it formed little part of the New Deal’s ambition, even after FDR’s timid, attenuated acceptance of Keynesian deficits in 1938. Roosevelt remained reluctant to the end of the 1930s to engage in the scale of compensatory spending adequate to restore the economy to pre-Depression levels, let alone expand it. Nor would he relax his attacks on business sufficiently to encourage capital to take full advantage of the stabilizing elements his own government was putting in place. Ironically, he succeeded in building structures of stability while maintaining throughout the 1930s, so far as businessmen and investors were concerned, an atmosphere of uncertainty. Capital can live with restrictions, but it is terrorized by insecurity. “Business is now hesitant about making long term plans,” the head of the New York Federal Reserve Board wrote to Marriner Eccles in 1937, “partly because it feels it does not know what the rules of the game are going to be.”<sup>20</sup> That sentiment was widely shared in the business community. It was not so much the regulations that the New Deal imposed that intimidated businessmen in the 1930s; it was the fear of what new and unknown provocations Roosevelt

<sup>19</sup> *PPA*, 1933 Vol., 14, and 1937 Vol., 496.

<sup>20</sup> Quoted in Richard Polenberg, “The Decline of the New Deal, 1937–1940,” in John Braeman, et al., eds., *The New Deal: The National Level* (Columbus: The Ohio State University Press, 1975), 255.

might yet unleash. When at last Roosevelt declared the New Deal's reform phase at an end, and when the war compelled government spending on an unexampled scale, capital was unshackled, and the economy energized, to a degree that he and other New Dealers could scarcely have imagined in the Depression decade. And ever after, Americans assumed that the federal government had not merely a role, but a major responsibility, in ensuring the health of the economy and the welfare of citizens. That simple but momentous shift in perception was the newest thing in all the New Deal, and the most consequential, too.

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Humankind, of course, does not live by bread alone. Any assessment of what the New Deal did would be incomplete if it rested with an appraisal of New Deal economic policies and failed to acknowledge the remarkable array of social innovations nourished by Roosevelt's expansive temperament.

The world is not a finished place, the philosopher William James once said, nor ever will be. Neither was the New Deal a finished thing, though in later years some scholars lamented its incompleteness, its alleged political timidity, and its supposedly premature demise.<sup>21</sup> But what needs emphasis, in the final accounting, is not what the New Deal failed to do, but how it managed to do so much in the uniquely plastic moment of the mid-1930s. That brief span of years, it is now clear, constituted one of only a handful of episodes in American history when substantial and lasting social change has occurred—when the country was, in measurable degree, remade. The American political system, after all, was purpose-built in the eighteenth century to prevent its easy manipulation from the national capital, to bind governments down from mischief, as Jefferson said, by the chains of the Constitution, especially by the notoriously constraining system of checks and balances. It is hardly surprising, therefore, that political stasis defines the “normal” American condition. Against that backdrop, what stands out about the New Deal are not its limitations and its temerity, but the boldness of its vision and the consequent sweep of its ultimate achievement.

For all his alleged inscrutability, Franklin Roosevelt's social vision was clear enough. “We are going to make a country,” he once said to Secretary of Labor Frances Perkins, “in which no one is left out.”<sup>22</sup> In that unadorned sentence Roosevelt spoke volumes about the New Deal's lasting historical

<sup>21</sup> Works that generally share a critical posture toward the New Deal include Barton J. Bernstein, “The Conservative Achievements of Liberal Reform,” in Bernstein, ed., *Towards a New Past* (New York: Pantheon, 1968); Howard Zinn, *New Deal Thought* (Indianapolis, IN: The Bobbs-Merrill Company, 1966); Paul Conkin, *The New Deal* (Arlington Heights, IL: Harlan Davidson, 3d edition, 1992); Alan Brinkley, *The End of Reform* (New York: Alfred A. Knopf, 1995), and Michael Sandel, *Democracy's Discontent* (Cambridge, MA: The Belknap Press of Harvard University Press, 1996).

<sup>22</sup> Frances Perkins, *The Roosevelt I Knew* (New York: Viking, 1946), 113.

meaning. Like his rambling, comfortable, and unpretentious old home on the bluff above the Hudson River, Roosevelt's New Deal was a welcoming mansion of many rooms, a place where millions of his fellow citizens could find at last a measure of the security that the patrician Roosevelts enjoyed as their birthright.

Perhaps the New Deal's greatest achievement was its accommodation of the maturing immigrant communities that had milled uneasily on the margins of American society for a generation and more before the 1930s. In bringing them into the Democratic Party and closer to the mainstream of national life, the New Deal, even without fully intending to do so, also made room for an almost wholly new institution, the industrial union. To tens of millions of rural Americans, the New Deal offered the modern comforts of electricity, schools, and roads, as well as unaccustomed financial stability. To the elderly and the unemployed it extended the promise of income security, and the salvaged dignity that went with it.

To black Americans the New Deal offered jobs with the CCC, WPA, and PWA, and, perhaps as importantly, the compliment of respect from at least some federal officials. The time had not come for direct federal action to challenge Jim Crow and put right at last the crimes of slavery and segregation, but more than a few New Dealers made clear where their sympathies lay, and quietly prepared for a better future. Urged on by Eleanor Roosevelt, the President brought African-Americans into the government in small but unprecedented numbers. By the mid-1930s they gathered periodically as an informal "black cabinet," guided often by the redoubtable Mary McLeod Bethune. Roosevelt also appointed the first black federal judge, William Hastie. Several New Deal Departments and agencies, including especially Ickes' Interior Department and Aubrey Williams' National Youth Administration, placed advisers for "Negro affairs" on their staffs.

In the yeasty atmosphere of Roosevelt's New Deal, scores of social experiments flourished. Not all of them were successful, not all of them destined to last, but all shared the common purpose of building a country from whose basic benefits and privileges no one was excluded. The Resettlement Administration laid out model communities for displaced farmers and refugees from the shattered industrial cities, though only a handful of those social experiments survived, and they soon lost their distinctive, utopian character. The Farm Security Administration maintained migrant labor camps that sheltered thousands of families like John Steinbeck's Joads. The Tennessee Valley Authority brought electricity, and with it, industry, to the chronically depressed Upper South. The Bonneville Power Authority made a start on doing the same for the Columbia River Basin in the long-isolated Pacific Northwest. The New Deal also extended the hand of recognition to Native Americans. The Indian Reorganization Act of 1934—the so-called Indian New Deal—ended the half-century-old policy of forced assimilation and alienation of tribal lands. The new law encouraged tribes to establish their own self-governing bodies and



to preserve their ancestral traditions. Though some Indians denounced this policy as a “back-to-the-blanket” measure that sought to make museum pieces out of Native Americans, the Act accurately reflected the New Deal’s consistently inclusionary ethos.

The New Deal also succored the indigent and patronized the arts. It built roads and bridges and hospitals. It even sought a kind of security for the land itself, adding some 12 millions acres of national parklands, including Olympic National Park in Washington State, Isle Royal in Lake Superior, the Everglades in Florida, and King’s Canyon in California. It planted trees and fought erosion. It erected mammoth dams—Grand Coulee and Bonneville on the Columbia, Shasta on the Sacramento, Fort Peck on the Missouri—that were river-tamers and nature-busters, to be sure, but job-makers and region-builders, too.

Above all, the New Deal gave to countless Americans who had never had much of it a sense of security, and with it a sense of having a stake in their country. And it did it all without shredding the American Constitution or sundering the American people. At a time when despair and alienation were prostrating other peoples under the heel of dictatorship, that was no small accomplishment.

The columnist Dorothy Thompson summed up Franklin Roosevelt’s achievements at the end of the Depression decade, in 1940:

We have behind us eight terrible years of a crisis we have shared with all countries. Here we are, and our basic institutions are still intact, our people relatively prosperous, and most important of all, our society relatively affectionate. No rift has made an unbridgeable schism between us. The working classes are not clamoring for [Communist Party boss] Mr. Browder and the industrialists are not demanding a Man on Horseback. No country in the world is so well off.<sup>23</sup>

In the last analysis, Franklin Roosevelt faithfully discharged his duties, in John Maynard Keynes’s words of 1933, as “the trustee for those in every country” who believed in social peace and in democracy. He did mend the evils of the Depression by reasoned experiment within the framework of the existing social system. He did prevent a naked confrontation between orthodoxy and revolution. The priceless value of that achievement, surely as much as the columns of ciphers that recorded national income and production, must be reckoned in any final accounting of what the New Deal did.


The New Deal powerfully revitalized American life in the second half of the twentieth century. It built a platform for sustained economic growth, spread the benefits of prosperity widely, made more people more secure than they had ever been, and helped set the stage for the civil rights movement that brought at least a measure of long-delayed social justice for African-Americans.

<sup>23</sup> *New York Herald Tribune*, 9 October 1940, reprinted in Arthur M. Schlesinger, Jr., *The History of American Presidential Elections* (New York: McGraw Hill, 1971), Vol. IV, 2981–93.

Yet as the century waned and a new generation came to power, national attitudes toward risk, security, and the role of government shifted consequentially. "Government is not the solution to our problem," Ronald Reagan declared. "Government is the problem." The policies that flowed from that political theology did not fully dismantle the New Deal, but they badly compromised the capacity of government to adapt to the rapidly changing character of the global post-industrial economy. As a new generation of political leaders peer into the maw of another monstrous economic calamity, they would do well to remember the enduring relevance of the New Deal: that government has not only a right, but an obligation, to make a country in which no one is left out, and in which all can live in safety and security.\*

\* This article is adapted and updated from David M. Kennedy, *Freedom From Fear: The American People in Depression and War, 1929-1945* (New York: Oxford University Press, 1999).

# New Deal

 Gale Encyclopedia of U.S. Economic History, 1999  
From U.S. History in Context

The New Deal (1933-1939) was a series of programs intended to alleviate the suffering caused by the Great Depression (1929-1939), an abrupt economic collapse that began in 1929 and resulted in massive unemployment throughout the 1930s. The New Deal began with the inauguration of Franklin Roosevelt (1933-1945) as President of the United States in 1933.

To restore confidence in the American financial system Roosevelt declared a "bank holiday," closing all banks for four days until Congress met to pass bank reform legislation. The immediate banking crisis ended soon after when Congress passed the Emergency Banking Act, which required the Treasury Department to inspect all banks before they could reopen. Three-fourths of the Federal Reserve system banks reopened within three days.

Even though these measures stemmed the immediate crisis, more comprehensive measures were needed. Congress passed the first program, the Agricultural Adjustment Act, in May 1933. The most important aspect of the act was its establishment of the Agricultural Adjustment Administration, which provided subsidies to farmers who were told to reduce crop production by leaving part of their land idle. In 1936 the Supreme Court ruled that it was unconstitutional for the government to require farmers to limit production and the act became inoperable. However, within weeks Congress passed the Soil Conservation and Domestic Allotment Act, which allowed the government to pay farmers to reduce production. In addition, the Roosevelt administration helped poor farmers by setting up the Resettlement Administration in 1935, succeeded by the Farm Security Administration in 1937, which helped farmers on marginal lands relocate to better land by providing loans.

Saving the industrial economy was the most significant challenge facing the Roosevelt administration. On the one hand, businesspeople wanted to stop rapid deflation by relaxing antitrust laws to allow the cooperation of trade associations and stabilize prices. On the other hand, New Dealers wanted business to recognize the rights of workers to organize and bargain collectively in unions, which would allow workers' wages to rise with prices. The resulting compromise was the National Industrial Recovery Act (NIRA), passed in June 1933, which established a new federal agency, the National Recovery Administration (NRA). The NRA called for every business to abide by a temporary "blanket code," with a minimum wage of between 30 and 40 cents an hour, a maximum workweek of 35 to 40 hours a week, and the abolition of child labor. Those employers who followed the code displayed the NRA symbol of the Blue Eagle in their windows.

The NRA also set up codes for most of the country's major industries to establish price and wage floors, below which the specific industry could not go. However, the hastily devised codes would fail. Most importantly, federal officials, inexperienced in running such a large program, did not have the capacity to administer it. In addition, Section 7(a) of the NIRA gave workers the right to form unions, but had no mechanism for enforcement. Thus, the program failed to raise workers' wages and increase consumer purchasing power. In 1935 the Supreme Court nullified NRA legislation when it ruled in the *Schechter* case that in giving the president the power to shape the NRA codes, the Congress had acted unconstitutionally. Consequently, the failing program was abolished.

One of the most successful New Deal programs was legislation enacted in 1933 to create the Tennessee Valley Authority (TVA), a project for building a dam at Muscle Shoals and for the comprehensive redevelopment of the region. By building dams and waterways in the region, the TVA nearly eliminated flooding in the area and provided electricity to thousands of people. But the Roosevelt administration also initiated major financial reforms. On April 18, 1933, Roosevelt made an inflationary move by signing an executive order, which took U.S. currency off the gold standard. Enabling the government to manipulate the value of the dollar, government management of currency set a significant precedent in federal policy and changed the relationship between the government and business. The New Deal also gave the government authority in areas of the economy that previously were weakly regulated. The Glass-Steagall Act of June 1933 allowed the government to regulate irresponsible speculation by banks. The act also established the Federal Deposit Insurance Corporation (FDIC), which guaranteed all bank deposits up to \$2,500. In 1935 Congress passed a banking act which transferred the authority of the regional Federal Reserve to the Federal Reserve Board in Washington, D.C. Congress sought to protect stock market investors by passing the Truth in Securities Act of 1933, which required corporations to provide accurate and complete information to the public. In addition, in June 1934, the Securities and Exchange Commission (SEC) was established as a stock market watchdog.

The expansion of federal relief provided to millions of unemployed Americans was an enormous undertaking. One of President Roosevelt's first programs was the Federal Emergency Relief Administration (FERA), which gave grants to states in which relief agencies had run out of money. However, the FERA relief would not be enough. The second program, the Civil Works Administration (CWA), provided work relief to more than four million people between November and April during the president's first year in office. But both FERA and CWA were intended as only relief measures, not as long-term programs meant to save the country's economy. By 1934, Roosevelt began to dismantle the CWA. His administration also established the Civilian Conservation Corps (CCC), which employed millions of young men, mostly urban, to work in camps at national parks and forests on conservation and reforestation projects. Though the programs devised for the early years of the New Deal were intended to be temporary, they provided a basis for later social measures that became part of a permanent welfare state.

In 1935 Roosevelt began a new set of programs called the "Second New Deal." Noted for its shift to a decidedly anti-corporate stance, the president proposed one of the most progressive tax systems in American history. Called a "soak the rich" plan by conservatives, the system had taxes reach as high as 75 percent on income for the richest of Americans.

Another significant development during the New Deal was the growth of labor militancy. When the Supreme Court nullified the NIRA in 1935, Senator Robert F. Wagner of New York introduced the National Labor Relations Act (also called the Wagner Act) in Congress. The new law gave workers more federal protection than Section 7(a) provided by including an enforcement mechanism in the National Labor Relations Board (NLRB), which was given the power to require employers to recognize unions. While showing few signs of challenging employers in the 1920s, union leaders and workers, encouraged by the Wagner Act in 1935, stepped up organizing efforts. John L. Lewis of the United Mine Workers helped start the Committee on Industrial Organization to begin organizing unskilled factory workers, a group that the more conservative American Federation of Labor ignored because of their commitment to organizing only skilled workers. The number of workers in recognized unions jumped from three million in 1932 to eight million in 1937, and to 10 million in 1941.

In 1935 Congress passed the Social Security Act (SSA), one of the most important pieces of social welfare

legislation in American history. The act established several programs. First, it provided for federal assistance to the elderly in poverty, who could receive \$15 a month. The act started a pension system, in which workers and their employers would pay a payroll tax, beginning in 1940, to provide an old age pension of \$10 to \$85 a month for many workers, though it excluded domestic servants and agricultural workers. The SSA also set up an unemployment insurance system, and provided aid to handicapped people and dependent children.

In addition, the Roosevelt administration set up the Works Progress Administration (WPA) in 1935, a much larger work relief program than the CWA. Between 1935 and 1941, the WPA employed about 2.1 million workers. WPA workers built 110,000 public buildings, 600 airports, and over 500,000 miles of roads, and over 100,000 bridges.

Though President Roosevelt won a landslide victory in 1936, he faced a conservative backlash during the following years. Although the economy had improved by the summer of 1937, a recession struck the economy that year. In 1938, the president asked for emergency funds for public works and relief programs, and as the government's spending saturated the economy, a recovery seemed possible. The American economy, however, would not recover from the Great Depression until World War II. Only the massive federal spending needed to produce the men and material to fight the war brought the depression to an end and laid the ground work for the postwar economic boom. Even though New Dealers failed to meet their goal of rejuvenating the American economy, they had remade the federal government and its relationship to the corporate world.

Though the programs devised for the early years of the New Deal were intended to be temporary, they provided a basis for later social measures that became part of a permanent welfare state.

- New Deal Programs, Chart, 1933-1938

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## Further Readings

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# The Second New Deal: 1935-1938

*The Great Depression and the New Deal*, 1999  
From U.S. History in Context

In mid-January 1935, just days after the Seventy-fourth Congress convened, President Franklin D. Roosevelt (1882-1945) proposed two programs of gigantic proportions: In a message to Congress, the president called for an emergency public employment program; days later, Roosevelt asked Congress for social security legislation.

## WORK RELIEF

Under Roosevelt's jobs program, in which he proposed to spend almost \$5 billion, workers were to receive a wage more than double what they got on the relief dole. The president wanted to provide work for 3.5 million jobless but turn the remaining 1.5 million on relief back to the states or local charity as unemployable. The dole, he told Congress, was "a narcotic, a subtle destroyer of the human spirit. . . . The Federal Government must and shall quit this business of relief."

After much wrangling, Congress approved the Emergency Relief Appropriation Act of 1935, the greatest single peacetime appropriation in the history of the United States or any other nation up to that time. The law, which permitted Roosevelt to spend this huge sum largely as he saw fit, marked a significant shift of power from Congress to the president.

## SOCIAL SECURITY

The stiffest opposition to Roosevelt's jobs program came from legislators and others who felt the president was not asking enough, and the social security program was intended to meet some of those objections. The administration's social security bill outlined a national system of old-age insurance and safeguards for the unemployed, dependent mothers and children, the crippled, and the blind. Senator Robert F. Wagner (1877-1953) of New York, an immigrant and the son of a janitor, steered the social security measure through the Senate. Congressman David Lewis (1869-1952) of Maryland, who had gone to work in a coal mine at the age of nine, guided the bill through the House. On the other side were men such as Senator A. Harry Moore (1879-1952) of New Jersey, who protested that the measure "would take all the romance out of life."

Yet, as in the case of the relief bill, opposition to the measure centered not in conservatives but in congressmen who argued that the measure would do too little. Advocates of the then-popular Townsend Plan rallied behind a proposal for monthly pensions of \$200. Their bill failed, but they impressed Congress with the need to adopt some kind of legislation that would quiet the demand for old-age pensions, and the House passed the social security measure overwhelmingly in April. The Senate would approve the bill two months later.

## THE RESETTLEMENT ADMINISTRATION

Soon after the House voted for Social Security, Roosevelt set up the Resettlement Administration (RA) to meet the problem of rural poverty, and he named the leader of the agrarian reformers, Rexford Tugwell (1891-1979), to head the operation. The RA took over the rural rehabilitation and land programs that Harry Hopkins (1890-1946) had initiated with the Federal Emergency Relief Administration (FERA), as well as the subsistence homestead projects. The latter were not high on Tugwell's agenda. His chief assignment was not communitarianism but resettlement; he sought to move impoverished farmers from submarginal land and give them a fresh start on good soil. But he never had enough money to do very much, and the RA settled only 4,441 families, instead of the planned 500,000. Beginning in 1937, its successor agency, the Farm Security Administration (FSA), extended loans to farmers and aided migrants, especially by establishing sanitary, well-run migratory labor camps. Yet it, too, lacked money and was never able to accomplish anything on a massive scale.

## FDR'S INACTION IN 1935

The midterm elections of 1934 had seemingly been a mandate for radical change. Yet in the early months of 1935, Roosevelt was still striving to hold business support. Some observers believed he hoped to ward off the political threat posed by radicals such as Huey P. Long (1893-1935), Father Charles E. Coughlin (1891-1979), and Francis Townsend (1867-1960) not by instituting reform measures but by encouraging new investment so that he could face the country in the 1936 campaign with a record of having restored prosperity.

Many said the president had grown cautious, even conservative. His jobs program had turned millions of "unemployables" back to the states, thus denying to the least fortunate—the aged, the crippled, the sick—a part in the federal program. His social security plan was in many respects an astonishingly conservative piece of legislation. It relied on regressive taxation through payroll withholding, denied coverage to numerous classes of workers, including those who needed security most (notably farm laborers and domestic workers), and disregarded sickness (in normal times the main cause of joblessness).

By May, Congress had passed only a single piece of legislation—the work relief bill—and Roosevelt had proposed nothing new. He seemed uncertain where he was headed, and this left his progressive followers in a quandary. They could not accept his conservative posture, yet they feared to break with him because at any moment he might take charge of the reform movement as he had in the past.

Just then, at its convention in early May, the U.S. Chamber of Commerce broke with Roosevelt and denounced the New Deal. More than anything else, this attack led Roosevelt to question the viability of trying to keep business in his political alliance. The president felt stung. "[I]n all of these speeches made" at the Chamber of Commerce convention, he said, "I don't believe there was a single speech which took the human side, the old-age side, the unemployment side." On May 14, Senate progressives seized the opportunity, telling the president bluntly that the time had come for him to assert leadership.

## THE "SICK CHICKEN" CASE

As Roosevelt weighed the advice of the progressives, the U.S. Supreme Court handed down a momentous decision. From the very first, the New Dealers had feared that the Court would hold reform legislation unconstitutional. Four members of the bench—James McReynolds (1862-1946), George Sutherland (1862-1942), Willis Van Devanter (1859-1941), and Pierce Butler (1866-1939)—were tenacious conservatives. If



any one of the remaining five justices joined these four, the whole New Deal program might be impaired. Justices Louis Brandeis (1856-1941), Benjamin Cardozo (1870-1938), and Harlan Fiske Stone (1872-1946) seemed safely in the liberal camp, but there were limits to how great an extension of government power even they would approve. More likely to join the conservatives were the two justices who occupied middle ground: Chief Justice Charles Evans Hughes (1862-1948) and Justice Owen Roberts (1875-1955).

The New Dealers' efforts to pigeonhole the justices proved entirely beside the point. On May 27, 1935, in a unanimous decision, the nine-member Court let the guillotine fall on the New Deal. The decision came in *Schechter Poultry Corporation v. United States*, the so-called "sick chicken" case, by which the Court struck down the National Industrial Recovery Act (1933) and the National Recovery Administration (NRA), the code-making agency created by that act. The Schechter brothers, Brooklyn poultry jobbers, had been convicted of violating the NRA's Live Poultry Code by selling diseased chickens, and of not abiding by the code's wage and hour stipulations. Even the justice best disposed toward the New Deal, Cardozo, said that the act's sweeping delegation of legislative power to the executive branch was "delegation running riot." More important, the Court found the Schechters' business was in intrastate commerce; hence the federal government, which could regulate only interstate commerce, had no authority over working conditions in the firm. The Court had both destroyed Roosevelt's industrial recovery program and, by its narrow interpretation of the commerce clause, threatened the remainder of the New Deal.

If the president had already begun to move in a new direction, the *Schechter* verdict served as the final goad. In early June, with Congress prepared to adjourn for the summer, Roosevelt suddenly galvanized the administration into action. He insisted on the passage of four major pieces of legislation: the social security bill (still before the Senate), a labor measure sponsored by Wagner, a banking bill, and a public-utility holding company measure. He summoned House leaders to the White House and, thumping his desk for emphasis, told them Congress must pass his entire program before it could go home. Thus began the "Second Hundred Days."

## THE WAGNER ACT

The first beneficiary of Roosevelt's change of direction was Wagner's labor-relations measure. The senator had introduced his bill several times, but he had never had administration support. His bill proposed to set up a National Labor Relations Board as a permanent independent agency empowered to conduct union elections and restrain business from committing "unfair labor practices." In mid-May, Wagner had won Senate approval for his bill. Now the president (for reasons that are still not clear) announced that he not only favored the Wagner bill but regarded it as "must" legislation. Once Roosevelt gave his blessing, the measure had clear sailing. On June 27, the bill won final congressional approval, and on July 5, Roosevelt signed the National Labor Relations Act.

## THE WEALTH TAX ACT

One week before the Wagner bill was approved, Roosevelt jolted conservatives by firing at Congress a fifth piece of "must" legislation for this congressional session: a "soak the rich" tax scheme. The plan reflected a variety of influences, including that of Felix Frankfurter (1882-1965), the backstage Roosevelt adviser who, guided by his mentor, Justice Brandeis, had long argued that big business was inefficient and dangerous, and had outlined his views in a tax memorandum to Roosevelt. Perhaps, too, Roosevelt was motivated by resentment at business criticism and a desire to "steal Huey's thunder." If his intention was to do an end run

around Huey P. Long and his Share Our Wealth program, the tax legislation seems to have had its effect. As Roosevelt's message was being read, Long swaggered through the Senate chamber, chortling and pointing to his chest. If the president's intention was to irritate business, he seems to have been successful there, too. The publishing magnate William Randolph Hearst (1863-1951) directed his editors to use the phrase "Soak the Successful" in all references to the tax measure and the words "Raw Deal" instead of "New Deal."

In its final form, the Wealth Tax Act of 1935 destroyed most of the Brandeis-Frankfurter distinction between big and small business, did little to redistribute wealth, and did still less to raise revenue. Yet since the act stepped up estate, gift, and capital stock taxes, levied an excess-profits tax (which Roosevelt had not asked for), and increased the surtax to the highest rates in history, it created deeper business resentment than any other New Deal measure. The outcry from high-income brackets obscured the fact that much of Roosevelt's tax program was sharply regressive. His insistence on payroll levies to help finance social security cut into low-income groups, and his emphasis on local responsibility for unemployables helped stimulate the spread of the regressive sales tax. The proportion of national wealth controlled by the top 1 percent even increased a bit after passage of the Wealth Tax Act.

### BREAKING UP THE POWER CONGLOMERATES

Even before the Second Hundred Days, the president had committed himself to a program the Brandeis-Frankfurter faction cherished still more than wealth taxes: regulating holding companies. Roosevelt shared the popular outrage at the electric power octopuses. Indeed, he wished to destroy the combines entirely. Persuaded to adopt a more moderate course, he still insisted that Benjamin Cohen (1894-1983) and Thomas Corcoran (1900-1981)—two Frankfurter men working for the White House—write a bill that breathed fire. They responded with a draft that included a so-called "death sentence" provision, which would empower the Securities and Exchange Commission (SEC) to dissolve any utility holding company that could not justify its existence.

The House of Representatives voted down the death sentence. Yet the final version of the bill empowered the SEC to eliminate holding companies more than once removed from operating companies (that is, companies that owned smaller companies which in turn owned power companies) if the SEC determined that they were not in the public interest. Most of the great utility empires were to be broken up within three years.

### THE RURAL ELECTRIFICATION ADMINISTRATION

Public-power enthusiasts viewed the Public Utilities Holding Company Act as one more indication that Roosevelt was with them. Already, in May 1935, Roosevelt had created the Rural Electrification Administration (REA). Perhaps no single act of the Roosevelt years changed more directly the way people lived. Under Morris L. Cooke (1886-1971), the REA revolutionized rural life by offering low-cost government loans and sponsoring the creation of nonprofit electric cooperatives. In the next few years, farmers voted, by the light of kerosene lamps, to borrow hundreds of thousands, even millions, of dollars from the government to string power lines into the countryside. In 1935, one out of ten American farms had electricity; by 1941, four out of ten; by 1950, nine out of ten.

### THE BANKING ACT

Roosevelt played only an indirect role in the adoption of the last major achievement of the Second Hundred Days: the Banking Act of 1935. In November 1934, he had named as governor of the Federal Reserve Board an unorthodox Utah banker, Marriner Eccles (1890-1977). Eccles quickly helped draft a new banking bill that called for radical revision of the Federal Reserve System, lodging control of the system in the White House, lessening the influence of private bankers, and making the Federal Reserve Board an agency for conscious control of the monetary mechanism. The bill had been introduced in Congress in February 1935; in June it became one of Roosevelt's "must" items.

Conservatives greatly rewrote the bill, but the final act, observed the journalist Walter Lippman (1889-1974), constituted a victory for Eccles "dressed up as a defeat." The law empowered the president of the United States to appoint the seven members of the new Board of Governors of the Federal Reserve System for fourteen-year terms. It gave the board greater authority to control the money supply and aimed to bring all large state banks under the jurisdiction of the board by requiring them to join the Federal Reserve System if they wished to enjoy the benefits of the Federal Deposit Insurance Corporation (FDIC), created by the Glass-Steagall Act of 1933. With the passage of the 1935 measure, Roosevelt had completed his program of establishing government control over currency and credit.

## A SUMMARY OF SOME KEY LEGISLATION

On August 27, the historic first session of the Seventy-fourth Congress came to an end. No other session of Congress had ever adopted so much legislation of permanent importance: social security; the labor bill; holding company, banking, and tax measures; a massive relief law; and a host of "minor" legislation.

Social Security, for all its faults, was a landmark. It reversed historic assumptions about the nature of social responsibility, and it established the proposition that the individual has clear-cut social rights. It was framed in a way that withstood tests in the courts and changes of political mood. In fact, the employee contributions, even though they were regressive taxes, have been responsible for saving the system. "[T]hose taxes," Roosevelt declared later, ". . . are politics all the way through. We put those payroll contributions there so as to give the contributors a . . . right to collect their pensions and their unemployment benefits. With those taxes in there, no damn politician can ever scrap my social security program."

As for the National Labor Relations Act, it was one of the most dramatic legislative innovations of the decade. It threw the weight of government behind the right of labor to bargain collectively, and compelled employers to accede peacefully to the unionization of their plants. It imposed no reciprocal obligations of any kind on unions. No one, then or later, fully understood why Congress passed so radical a law.

## THE WORKS PROGRESS ADMINISTRATION

By pre-1930s standards, Roosevelt's works program marked a bold departure. By any standard, it was an impressive achievement. The president opted to give almost 30 percent of his \$5 billion to his aide Harry Hopkins to create and run the new Works Progress Administration (WPA). The WPA built or improved thousands of schools, hospitals, airports, and playgrounds. It restored an old theater in Charleston, South Carolina; erected a magnificent ski lodge atop Oregon's Mount Hood; conducted art classes for the mentally ill in Cincinnati, Ohio; drew a Braille map for the blind at Watertown, Massachusetts; and ran a pack-horse library in the Kentucky hills.

The WPA's highly experimental Federal Theatre Project (FTP) employed actors, directors, and crafts workers to produce plays, circuses, vaudeville shows, and marionette performances. It presented *Dr. Faustus* by Christopher Marlowe (1564-1593) without scenery, using lighting to achieve effects, and offered *Macbeth* by an all-black company in a Haitian locale. One night, the curtain rose almost simultaneously on twenty-one stages in eighteen cities on the first presentation of *It Can't Happen Here* by Sinclair Lewis (1885-1951); there were even versions in Yiddish and Spanish. The FTP's most striking innovation, the "Living Newspapers," offered a kaleidoscopic dramatization of contemporary social and political issues, although critics protested that "editions" like *Power* presented New Deal propaganda.

The Federal Writers' Project (FWP) turned out about 1,000 publications, including over 100 regional, state, territorial, and city guides. The 150 volumes in the "Life in America" series ranged from the moving *These Are Our Lives* to *Baseball in Old Chicago* and embraced a notable series of ethnic studies.

The Federal Art Project (FAP) gave jobs to unemployed artists. At night, in schools, in settlement houses, and in rural churches, hundreds of teachers taught painting, clay modeling, weaving, and carving. To prepare an *Index of American Design*, artists copied objects that had been used since the first days of settlement—andirons and skillets, cigar-store Indians and ships' figureheads. Although the British critic Ford Madox Ford (1873-1939) found the level of WPA artwork "astonishingly high," much of the original painting was inevitably second-rate. Yet the FAP revived the art of mural decoration, which had been dead in the United States for seventy-five years.

The National Youth Administration (NYA), also part of the WPA, aimed to help the millions of young Americans who could not find work. In the seven years of its existence, the NYA gave part-time employment to more than 600,000 college students and to over 1.5 million high-school pupils. Most of the jobs were routine clerical assignments, but NYA directors tried to find work related to a student's field: Many history students, for instance, found positions in the document divisions of state historical societies.

Despite all of these achievements, however, the New Deal job programs never came close to meeting Roosevelt's goal of giving jobs to all who could work. Of the more than 10 million jobless, the WPA cared for about 3 million. Other programs employed comparatively paltry numbers.

## THE SECOND NEW DEAL

Confronted by another cornucopia of alphabetic agencies, the country tried to discern a pattern in what the 1935 Congress had wrought. Both contemporary writers and historians have contended there was such a pattern, a break between the legislation of 1935 and that of 1933 so sharp that the acts of 1935, and the ideology that underlay them, constituted a "Second New Deal." But writers have differed sharply on what they meant by that term. Contemporaries and early historians of the New Deal believed that Roosevelt and Congress had moved in a radical direction in 1935. Later writers argued that the change ran in a more conservative direction. The second view was stated by the historian Arthur M. Schlesinger, Jr.: "The First New Deal characteristically told business what it must do. The Second New Deal characteristically told business what it must *not* do."

Yet we should not exaggerate the extent of the shift from 1933 to 1935. Many of the 1935 measures had long been in the works, and it was only a question of when they would be adopted. Nor can the Second Hundred Days be viewed simply as the triumph of the "small-is-beautiful" ideas of the Brandeis-Frankfurter

faction over the advocates of large-scale central planning (Rex Tugwell, for instance). At no time, even in 1933, had Roosevelt seriously considered the creation of a planned economy, and to represent the events of 1935 as the defeat of the planners is to confuse shadow with substance. A planned economy had never been in the cards.

Even the most precedent-breaking New Deal projects reflected capitalist thinking. Social Security was modeled on private insurance systems, while relief directors were forbidden to approve projects that interfered with private profit-taking. And the federal Home Owners' Loan Corporation (HOLC) foreclosed more mortgages than the villain of a thousand melodramas, dispossessing more than 100,000 families who could not make house payments.

Roosevelt's program rested on the assumption that a just society could be secured by imposing a welfare state on a capitalist foundation. Without challenging the system of private profit, the New Deal reformers were employing the power of government not only to discipline business but to bolster unionization, pension the elderly, succor the crippled, give relief to the needy, and extend a hand to the forgotten men and women. The editor William Allen White (1868-1944) did not see this as radical. The achievements of the Second Hundred Days, he wrote, which brought "the American people up to . . . modern standards," were "long past due."

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