THE NEW DEAL RECONSIDERED

by Bradford A. Lee

"This nation asks for action, and action now," Franklin D. Roosevelt declared at his March 1933 inauguration. Eight months earlier, at the Democratic National Convention in Chicago, he had confidently promised the American people a "New Deal" to fight the Great Depression, and his "Brains Trust" advisers had been hard at work on a program ever since.

In the famous First Hundred Days of FDR's Presidency, he sent 15 major legislative proposals to Congress: the Agricultural Adjustment Act, which awarded subsidies to farmers who limited their crops; the National Industrial Recovery Act, which permitted industries to form cartels to limit output and fix prices; and 13 other major laws—some of them passed after only token debate.

Over the next five years, these would be followed by several major relief measures (including the $5 billion Emergency Relief Appropriation Act of 1935, the most expensive peacetime government program anywhere up to then), the establishment of the Social Security system in 1935, the Securities Exchange Act, and a host of other bills. The new government agencies created by Roosevelt strained the resources of the alphabet—AAA, CAB, CCC, CWA, FCA, FCC, FDIC, FERA, FHA, FSA, HOLC, NLRB, NRA, NYA, PWA, REA, SEC, TVA, WPA.

The results may have been mixed, but the impact was unmistakable. Even a cursory inspection of the New Deal shows that it reshaped American institutions and gave material sustenance to millions of people who had been thrown out of jobs and into various states of misery by the Depression. The greatest lift probably came from FDR himself. Of his predecessor in the White House, one observer remarked, "If you put a rose in Hoover's hand, it would wilt." Roosevelt, by contrast, radiated confidence. "Never was there such a change in the transfer of a government," *New York Times* columnist Arthur Krock exclaimed a week after the inauguration. "The President is the boss, the dynamo, the works."

Did any conscious grand design for American society underlie Roosevelt's policies? Pretty clearly, the answer is "No."

Civilian Conservation Corps workers in the field. The CCC was the inspiration for the Job Corps in President Johnson's War on Poverty.

Helen West Heller, for the WPA.

Roosevelt's advisers were perpetually at odds among themselves. Raymond Moley hoped to revive industry by allowing companies, in effect, to form cartels; his Columbia University colleague, Rexford G. Tugwell, advocated centralized government planning; and Felix Frankfurter, like Supreme Court Justice Louis Brandeis, wanted to break up big corporations and restore a bygone economy of small businesses. FDR flirted with all of these ideas, often at the same time.

Yet, for a historian simply to paint a picture of blooming, buzzing confusion would be to obscure three broad aims that Roosevelt and his advisers *did* share.

Apart from keeping their countrymen alive, their first goal was to bring the economy out of the Depression. Their second objective was to make the distribution of wealth and especially income more equal—or, as they were wont to say, more "balanced." The major cause of the Depression, in Roosevelt's view, was the relatively small amount of purchasing power in the hands of farmers and workers; the cure was redistribution of income. Finally, the New Dealers hoped to realign the groupings in American politics to keep the Democratic Party in power.

To what extent did Roosevelt succeed in his principal aim, the restoration of prosperity? The conventional wisdom has it that only mobilization for war at the end of the 1930s pulled the American economy out of the Depression. And, in fact, the Gross National Product did not surpass its 1929 level until 1941. But there were some remarkable ups and downs along the way.

While almost all the major industrial countries (except France) enjoyed a fairly steady recovery after mid-1932, interrupted only by a mild setback in 1937–38, the American economy (measured by GNP) took a wild roller coaster ride. It plunged between the 1932 election and the 1933 inauguration and recovered briefly. It fell again in the autumn of 1933. Then, from late 1934 to mid-1937, the American economy grew by an average of about 15 percent annually (in current prices)—a rate never equalled in peacetime before or since. Soon, however, the country was wracked by an industrial decline even steeper than that in the initial post-1929 crash. Between Labor Day 1937 and New Year's Day 1938, two million people were abruptly thrown out of work. The economy began to recover once more a year later, as a surge of defense spending rolled the country toward a wartime boom.

Coincidence and Calamity

"Roosevelt's depression" of 1937, as the Republicans called it, was the result of two mistakes. Never comfortable with deficit spending—he had attacked Herbert Hoover for heading "the greatest spending administration in peace times in all our history"—FDR cut back Washington's outlays on relief and public works in a great show of budget balancing in 1936, an election year. The other mistake was committed by the independent Federal Reserve Board, which took it upon itself in 1936 and 1937 to shrink the volume of credit outstanding in the banking system. The two decisions, though arrived at separately, coincided to produce calamitous effects.

And, unfortunately for Roosevelt's reputation as an economic policymaker, he cannot take much credit for the boom of the mid-1930s. The major economic stimulus seems to have been an extraordinary annual increase of more than 13 percent

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(on average) in the money supply between 1934 and 1936, due not to any calculated policy but to an influx of gold from politically unstable Europe.*

Federal fiscal policy did little to spur the economic expansion of the mid-1930s. Roosevelt's deficits were unprecedented in peacetime, reaching $3.6 billion during his first full year in office. But raw deficit figures are not a good indicator of how much the economy is being stimulated. Economists today measure the effect of a fiscal policy by calculating the size of the hypothetical surplus that it would produce if the economy were at its full-employment level. The higher the hypothetical surplus, the lower the stimulus. By this standard, Roosevelt's budgets throughout the '30s provided little stimulus in any year except 1936—and then only because Congress passed a $2 billion bonus payment for war veterans over his veto. Indeed, Herbert Hoover's fiscal policy in 1930 and 1931 had about the same effect as any two consecutive New Deal budgets.

It was not until 1938 that Roosevelt finally accepted the principles of Keynesian fiscal policy. Up until then, he had viewed deficits as a necessary evil, tolerable only because Washington had to finance programs to keep people working or, in some cases, eating. When John Maynard Keynes himself had tried to tutor FDR in his theories in 1934, the President was unimpressed. Keynes, he remarked, "left a whole rigamarole of figures. He must be a mathematician rather than a political economist."

Only Four Stripteases

From the start, Roosevelt put his faith instead in "structural" measures that would directly raise prices and wages. If farmers got more money for their crops and workers got more for their labor, they would buy more goods; if there were increased demand and higher prices, businessmen would earn greater profits. This was the rationale behind the two main elements of the New Deal economic program—the Agricultural Adjustment Act, administered by the AAA, and the National Industrial Recovery Act, run by the NRA. "The aim of this whole effort," Roosevelt declared, "is to restore our rich domestic market by raising its vast consuming capacity."

Under the NRA, 765 codes were drawn up to regulate output, fix prices, reduce working hours, and increase wages in various industries. The NRA's famous blue eagle symbol was

*The dollar was then a gold-backed currency. The Federal Reserve Board passively allowed the increase in gold reserves to be translated into an expansion of credit in the economy.

seen everywhere as the most obscure industries were urged to adopt special codes. New York's burlesque houses even agreed in a code to allow no more than four stripteases per show. The eagles disappeared abruptly after the Supreme Court declared the act unconstitutional in 1935 on the ground that Congress had delegated too much of its authority to the agency. The AAA was just as far-reaching. In 1933 alone, cotton farmers collected $100 million for taking 10 million acres out of production.

The AAA and NRA did indeed improve the lot of many farmers, workers, and businessmen. But, especially in the case of the NRA, the effect on the economy as a whole was not so positive.

Soaking the Rich?

Any economic stimulus will work itself out in a certain combination of increases in prices and increases in output, or quantities of goods and services produced (national income = prices × quantities). The NRA, AAA, and other government programs, such as those encouraging collective bargaining agreements, ensured that the economic stimulus provided by an expanding money supply would express itself more in terms of higher prices and less in terms of increased output. Thus, wholesale prices rose by 45 percent between 1933 and 1937—a perverse development at a time when millions of people were out of work and so many factories were operating at reduced capacity.

Higher output would have produced more jobs. In 1936, after two years of recovery, one out of six workers (about 17 percent of the labor force) remained unemployed. By diverting so much of the economy's upward thrust into higher prices, New Deal policymakers inadvertently prolonged the agony of joblessness for millions.

This brings us to the second question: How much did the distribution of income and wealth change during the New Deal?

Between the onset of the Depression in 1929 and the outbreak of the Korean War in 1950, there was a shift toward greater equality of incomes in America for the first time in well over a century. The share of total national income received by families in the bottom two-fifths of the scale rose from 12.5 percent to 15.7 percent; the share of income for the top fifth fell 13 points to 41.6 percent. There was a trend toward greater equality of wealth as well: The share of the national wealth held by the richest one percent of adults fell from 38 percent in 1929 to 22 percent in 1949. The two key questions are: To what extent did these changes take place in 1933–38, the heyday of the New

THE MAJOR NEW DEAL AGENCIES

To cope with the Depression and implement New Deal programs, Congress set up scores of new federal entities. Notable among them:

Agricultural Adjustment Administration (1933–42) Raised farm prices by subsidizing reduced crop production.

Civil Works Administration (1933–34) Hired jobless workers, from carpenters to artists, to practice their crafts. Peak enrollment: four million.

Civilian Conservation Corps (1933–42) Employed a total of three million relief recipients to reforest public land and improve national parks under Army supervision.

Farm Security Administration (1937–46) Granted low-interest loans for farm improvements and for land purchases by tenant farmers. Set up model camps for migrant laborers. Spending totaled $1 billion by 1941.

Federal Emergency Relief Administration (1933–37) Financed state-run employment projects. Grants totaled $3 billion.

Home Owners Loan Corporation (1933–51) Refinanced mortgages for home owners in distress. Took over more than one million loans by 1936.

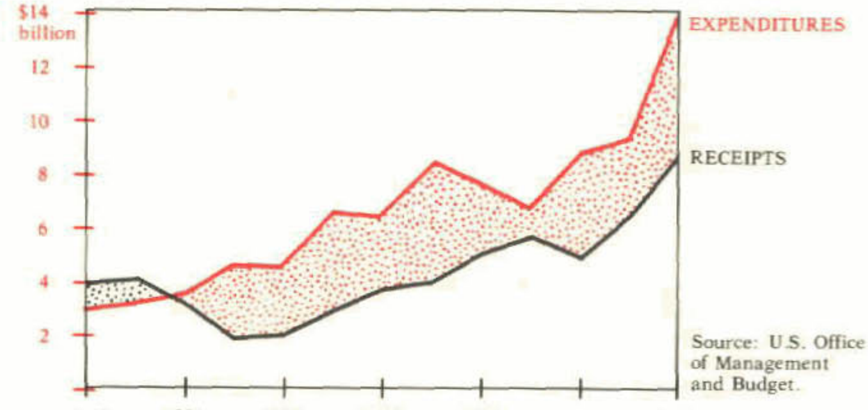
National Recovery Administration (1933–35) Directed government-business cooperation in cutting production and raising prices and wages.

Public Works Administration (1933–39) Provided jobs on major projects (highways and public buildings) for the unemployed. Spent some $6 billion.

Works Progress Administration (1935–43) Spent $11 billion to employ the jobless on small projects, from digging ditches to painting murals in government buildings.

Surviving New Deal agencies include: the Civil Aeronautics Board (formerly Authority); Commodity Credit Corporation; Export-Import Bank; Farm Credit Administration; Federal Communications Commission; Federal Deposit Insurance Corporation; Federal Housing Administration; Federal Savings and Loan Insurance Corporation; National Labor Relations Board; Rural Electrification Administration; Securities and Exchange Commission; Social Security Administration (formerly Board); Tennessee Valley Authority.

FEDERAL SPENDING DURING THE DEPRESSION



Federal deficits were relatively small during the 1930s and did little to stimulate the economy. Yet by some measures America's 130 million people were better off by 1940, despite nagging poverty and unemployment.

SOCIAL INDICATORS	1928	1930	1932	1934	1936	1938	1940	1980
Marriage rate (per 1,000 pop.)	9.8	9.2	7.9	10.3	10.7	10.3	12.1	10.9
Birth rate (per 1,000 pop.)	22.2	21.3	19.5	19.0	18.4	19.2	19.4	16.2
Infant mortality rate (per 1,000 live births)	68.7	64.6	57.6	60.1	57.1	51.0	47.0	12.5
Suicide rate (per 100,000 pop.)	13.5	15.6	17.4	14.9	14.3	15.3	14.4	12.7
Homicide rate (per 100,000 pop.)	8.6	8.8	9.0	9.5	8.0	6.8	6.3	11.3
Radios (% of households with)	27.5	45.8	60.6	65.2	70.5	79.2	81.1	99.9
Telephones (% of households with service)	40.8	40.9	33.5	31.4	33.1	34.6	36.9	96.3
Annual meat consumption (lbs. per capita)	124.3	121.7	124.2	134.1	120.9	118.6	134.1	157.2
College degrees (per 1,000 persons 23 yrs. old)	55	57	63	61	63	72	81	238

Source: American Telephone & Telegraph Co.; *Merchandising* (Mar. 1980); U.S. Department of Agriculture; U.S. Department of Commerce, Bureau of the Census; U.S. Department of Education; U.S. Department of Health and Human Services.

Deal, and to what extent were shifts within that period due to New Deal policies?

In the case of wealth, the answers are simple: The New Deal had no effect. Spurred on by the growing popularity of the flamboyant Louisiana "Kingfish," Senator Huey Long, and his Share the Wealth movement, Roosevelt pushed stiffer taxes on gifts and estates through Congress in 1935. (William Randolph Hearst, the newspaper mogul, ordered his editors to call Roosevelt's policies the "Raw Deal" from then on.) Yet the share of wealth held by the richest one percent of the population actually rose from 30 to 33 percent between 1933 and 1939.

The answers are more complicated in the case of income, but one point is quite clear: About two-thirds of the shift toward more equality came in just three years, 1941–44. As in other countries during the 20th century, war was the great equalizer.

The rest of the shift took place sometime between 1929 and 1941. Since there are adequate income statistics for only one intervening point—1935—it is difficult to pin down when much of this more modest change occurred. One can make an educated guess that the steep economic decline in 1929–32 hit those at the upper and lower ends of the income ladder much harder than those in the middle and that the net overall effect was a small increase in inequality of earnings. If so, we can infer that there must have been a significant, though hardly spectacular, increase in income equality after that. But we cannot assume that New Deal policies were responsible for the shift. Other factors, such as the recovery itself and normal changes within the economy, also contributed.

Benefits for Big Business

What, then, *can* we say about the role of federal policy? Higher taxes after 1935 did take a bite out of large incomes. But it is easy to overstate what can be achieved by "soaking the rich." Wesleyan University economist Stanley Lebergott has pointed out that if Washington had taxed away all personal income over $20,000 in 1970 and distributed it to those below the poverty line, each family would have received just $350. And Roosevelt never contemplated so confiscatory a tax (though he once remarked during World War II that no one needed an after-tax income over $25,000). In fact, the overall tax structure did not become much more progressive during the 1930s.

Roosevelt was rather more adventurous when it came to spending. But the sums expended on public works and relief were never enough (even allowing for a generous "multiplier"

"And if Roosevelt is not reelected, perhaps even a villa in Newport, my dearest sweet" was the caption of this 1936 cartoon.

effect) to support more than a fraction of the vast numbers of jobless and destitute at anything but a minimum level. Harry Hopkins's Works Progress Administration, established in 1935 with a budget of $1.4 billion, provided work for only three million of the estimated 10 million unemployed—at wages as low as $19 per month. This was by far the most ambitious New Deal relief effort. Such programs did not, therefore, have much effect on income distribution.

Indeed, it is not at all clear that the government's money went to those whose absolute need was greatest. The states in the richest region of the country, the West, got 75 percent more federal relief and public works money per capita than those of the poorest region, the South. Anyone with a modicum of cynicism will (rightly) sense politics at work: The "Solid South" fared badly because the Democrats were sure of its electoral support. The Western states did well because their political loyalties were up for grabs.

Still, for all their limitations, the taxing and spending policies of the New Deal did at least slightly narrow the gap between those at the very top and those at the very bottom. Other policies, however, pushed the people in between further apart. The AAA's crop-restriction and subsidy program, for instance, helped big farmers more than smaller ones. On large farms, with hired labor and large amounts of machinery, fuel, and fertilizer, costs could be cut in many ways when the payments for curtailing acreage began. But smaller farmers who relied on the labor of their families had few extraneous costs to cut. The subsidies were worth comparatively less to them.*

Large-scale operations and influential producers in industry also enjoyed an advantage under the shortlived National Recovery Administration. Big business was generally able to control the formulation and administration of the NRA codes that fixed prices and output; they showed no great concern for the interests of the "little guy."

Contradictions

Even among workers, there was a tendency for the most vulnerable to be left behind. The NRA pushed employers to pay higher wages, and unskilled workers gained even more than their skilled counterparts. Thus, the most dramatic dividing line was not between the skilled and the unskilled, but between those with jobs and those without them.

After the Supreme Court put the NRA out of business in 1935, labor got a new boost from Washington. The landmark National Labor Relations Act of 1935 gave labor unions even more help in their efforts to organize workers (by guaranteeing secret ballots in representation elections, for instance) and allowed them to press wage demands more successfully than before. But, again, higher wages, like higher prices, meant fewer jobs would be created for the unemployed.

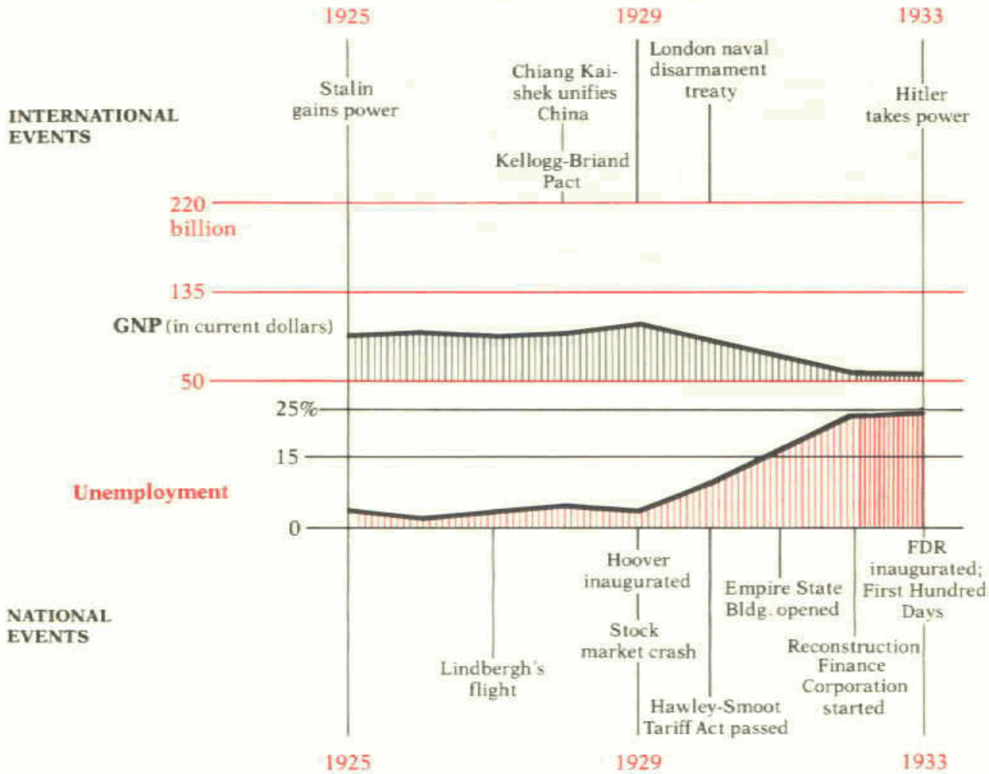
The unavoidable conclusion about New Deal economic policy is that, so far as both recovery and redistribution are concerned, FDR's "structural" measures offset much of whatever uplift effect his fiscal policy may have had. There was some progress during the New Deal, but government's contribution to it was scant.

All this, of course, is much clearer in hindsight than it was back then. When one looks over at the political side of the picture, it appears that a distinct majority of the American people at the time seemed quite satisfied with the New Deal—and wanted to play on. Or did they?

Roosevelt's victory in the 1932 election with more than 57

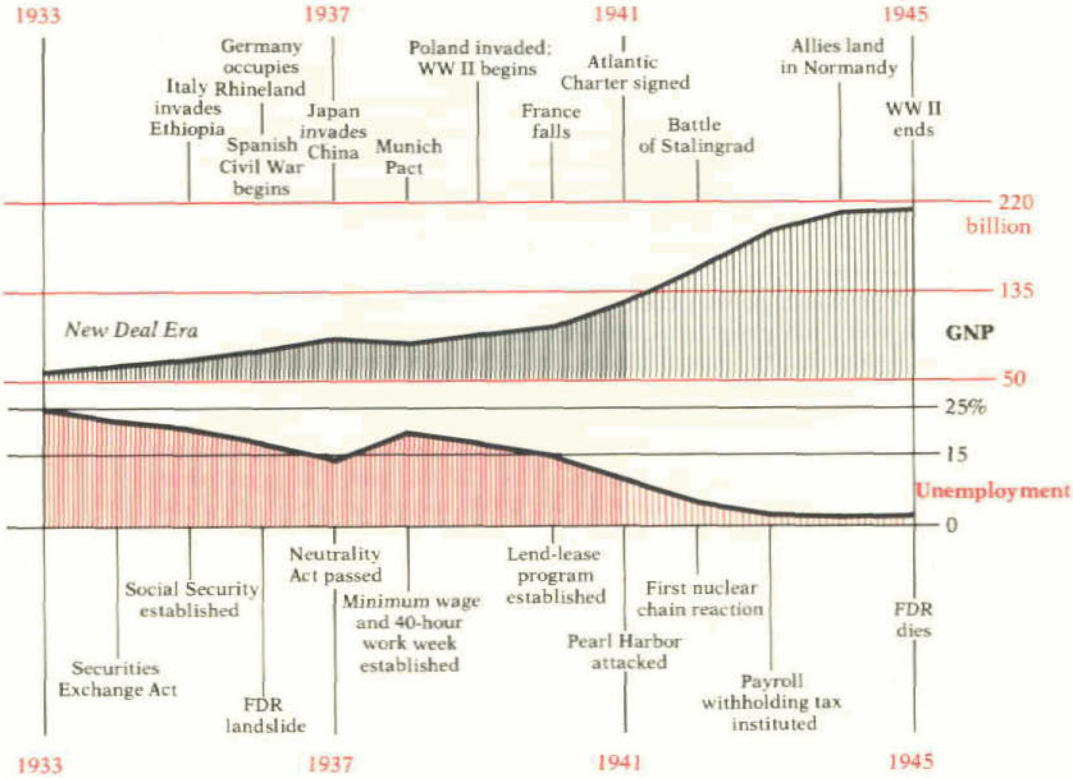
*There was another problem in the South, where there were many sharecroppers who customarily received from the landlord only a share of the crop they grew on his land. The sharecroppers were entitled to a corresponding portion of the AAA payments. But the program was implemented at the local level by farmer committees dominated by landlords, and, especially in cotton-growing areas, the sharecroppers did not get their due.

THE U.S. ECONOMY, 1925–45, including the NEW DEAL PERIOD



percent of the vote, and his even more spectacular triumph four years later with more than 60 percent, were the critical points in a massive electoral realignment. He put together a political coalition that has dominated American politics ever since, although the 1980 elections may have changed that. The realignment in the 1930s was the product of two phenomena. One was a switch-over among some Republicans to Roosevelt; the other was a surge of new participants into the electorate.

Prominent among the converts were blacks, who had been attached to the GOP, the party of Lincoln, since the Civil War. (A 1938 *Fortune* survey showed that 84.7 percent of the blacks polled supported Roosevelt.) But large numbers of white



Source: U.S. Department of Commerce, Bureau of the Census.

middle-class progressives and farmers switched as well. (Later, they tended to gravitate back toward the Republican fold.) The new voters included most of the young and many women; they came above all from enclaves of Poles, Italians, and other recent immigrants in the big Northern cities. The upshot was an incongruous coalition whose staunchest elements were "minorities" of all sorts and white Southerners with racist and nativist views.

It is easier to identify who voted for Roosevelt than to be sure precisely why they did so. The farmers and middle-class "swing" voters were probably spurning the Republican Party for its mishandling of the Depression—they had a kind of Hoover hangover. Southerners no doubt continued to vote for the Democratic Party largely because it was part of their tradition. The ethnic groups were mobilizing to preserve the relief and public-works jobs that they gained under the New Deal.

Yet the bond between New Deal *programs* and the general public was never as strong and far-reaching as many people have since assumed. It was during the 1930s that "scientific" public opinion surveys made their debut. The first Gallup poll, taken in September 1935, revealed that 60 percent of a national cross-section thought government expenditures for relief and recovery were "too great" while only nine percent deemed them "too little." In December 1935, 59 percent opposed the AAA; in September 1936, 56 percent were against reviving the NRA.

The message was clear. Roosevelt was much more popular than were his programs. By the end of the 1930s, even his personal popularity was in doubt. In 1938, a bitter Hugh Johnson, whom Roosevelt had fired from his job as head of the NRA, wrote, "The old Roosevelt magic has lost its kick. . . . His Falstaffian army can no longer be kept together and led by a melodious whinny and a winning smile." The Gallup polls suggest that only the war made it possible for FDR to run and win in 1940 and, again, in 1944 (garnering 54.7 and 53.4 percent of the popular vote, respectively).

Sheepskins from Harvard

The lack of widespread ideological support for the New Deal was soon reflected—indeed magnified—in Congress. In 1937, Roosevelt's congressional coalition crumbled, and a bloc of conservative Democrats—mostly from the South—joined with the Republicans to oppose almost all further New Deal legislation. This happened despite the fact that Roosevelt himself had carried every state but two in the 1936 election. (His advisers joked, "As Maine goes, so goes Vermont.") It would be more than a quarter of a century before another reform-minded Democratic President, Lyndon B. Johnson, could overcome that stalemate on Capitol Hill.

The basic animus of these conservative Democrats was directed against the rapid growth of the federal government under Roosevelt. They were also repelled by the growing power of the new bureaucratic breed who were intellectuals first and party operators second. One Congressman complained in mid-1937 that "unless an applicant can murder the broad 'a' and present a Harvard sheepskin he is definitely out."

Another development that stymied FDR during the late 1930s was the growth in the power of interest groups. Since the late 19th century, they had made their voices heard in Washington on more and more issues. They had won many "pork barrel" concessions, but seldom triumphed on matters of principle. Big Business, for instance, had failed to get from the Republican administrations of the 1920s what it most wanted—a drastic relaxation of the antitrust laws.

A New Power Structure

Roosevelt himself promoted the growth of interest groups after 1933, partly in hopes of defusing criticism of the increasingly powerful bureaucracy he presided over and partly to line up support for the New Deal. The Roosevelt administration worked with the American Farm Bureau Federation, for instance, in designing and running the AAA. The result: The Farm Bureau's membership increased by 150 percent between 1933 and 1937. Union membership soared under the NRA, and even more under the National Labor Relations Act. The NRA not only allowed Big Business most of what it had wanted but also encouraged the growth of more powerful trade associations.*

But the strategy backfired. Business, disillusioned with the NRA and outraged by New Deal fiscal policy, soon turned against Roosevelt, as the Farm Bureau did later on. Part of the labor movement, led by the fiery John L. Lewis of the new Congress of Industrial Organizations (CIO), broke with FDR in the late 1930s. Thus, while the creation of a new power structure in Washington was probably Roosevelt's most lasting achievement, he himself ended up being immobilized by it—one reason why he put so few major New Deal measures before Congress after 1935. Future occupants of the White House would face the same array of powerful interests in and out of Congress.

To a historian born after Roosevelt's death and writing almost half a century after his first term in office, the New Deal lacks the epic quality that it has for many who lived through it. But my purpose is not to rewrite the New Deal as a tragedy of missed opportunities. In countries with pluralistic political systems and market economies—and not just in those countries—it is difficult for any government to bring about sudden but endur-

*The New Deal fostered the explosive growth of farm, labor, and business groups by providing an easy solution to what University of Maryland economist Mancur Olson has described as the "free rider problem": No individual has a great incentive to join such a group if he can reap the benefits it wins without paying the costs of membership. A farmer, for instance, could benefit from crop subsidies whether he belonged to an organization that helped win them or not. By bringing such groups directly into the policymaking process, however, the Roosevelt administration helped promote the impression that they were at the center of the action and winning battles—a sense of "collective efficacy"—that won the groups new members.

ing transformations in the structure of society.

The independent movements, decisions, and mentalities of millions of people are, in other words, more than a match for the flow of paper from the top. Even to begin to alter the existing distribution of income, the democratic state must reach deep into the pockets of taxpayers far down the middle tax brackets—and, for its efforts, it is likely to get its hand bitten. To revitalize an economy from above is no easy matter either. The U.S. government's share of GNP in the 1930s was still so small that even relatively large increases in spending would not have had decisive results. It may be possible to concentrate political power early in a President's term, but in a political system whose constitutional underpinnings encourage fragmentation, a reaction is inevitable. No President of the United States has been able to get his own way for long.

This is not to endorse the new conventional wisdom that governments can do nothing constructive. It is simply to say that in complex, advanced societies such as the United States, governments are most effective when they pursue sharply defined ends through consistent, carefully designed means. FDR could have achieved far more with more thought and less action. So, no doubt, could have his heirs of the Johnson years. And those who would repudiate the spirit of the New Deal today are prone to the same incoherence of means, the same inattention to unintended consequences, and the same unrealistic inflation of hopes. As any historian knows, however, it is much easier to see this in retrospect than from the eye of the storm.