

The New Deal in Brief

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The New Deal was one of the great public experiments in American history. Crafted pragmatically by the Roosevelt administration to fight the Great Depression of the 1930s, it helped the country recover from economic disaster and put millions of people back to work. In the long run, it ratcheted up the role of the federal government in national affairs and injected a unprecedented measure of responsibility for the welfare of all people. It also marked a dramatic shift in power over the workings of U.S. democracy.

President Franklin Delano Roosevelt's inauguration on March 4, 1933 heralded the New Deal. The famous Hundred Days of new initiatives followed. Measures passed by a solidly Democratic Congress included banking and monetary reform, the Federal Emergency Relief Act (FERA) to support the states, the National Industrial Recovery Act (NIRA) to stabilize prices, and the Agricultural Adjustment Act (AAA) to bolster farms and farm prices.

New policies and laws continued to appear throughout FDR's first term and more were added in the second term. Most commentators speak of a First New Deal in 1933-34 and a Second New Deal in 1935, and there is good reason to refer to a Third New Deal in 1937-38, after FDR's 1936 reelection.

The New Deal had five major effects on the country: stimulating economic recovery, creating jobs for the unemployed, building public works across every state, investing in public education and civic culture, and transforming the American federal system.

1. Economic Recovery

The Great Depression was the deepest and longest economic downturn in American history. By the time the economy hit bottom in 1933, GNP had fallen by a third. The proximate trigger for the collapse was the Great Crash of October 1929 on the New York stock exchange, but there were deeper problems of industrial overproduction, falling prices in agriculture (still constituting half of total U.S. output), and popping real estate bubbles from California to Florida. Industrial production hit the wall in 1930, falling by 25%. The banking system imploded in 1931-32, as savings, investment, and buying withered, and went into free-fall in early 1933. Multitudes lost their life savings as thousands of banks closed their doors on panicked clients.

A long-standing myth holds that recovery was painfully slow, but in fact GNP grew very fast from 1933 on (with the exception of 1938). By 1942, before World War II kicked into high gear, the U.S. economy had already climbed all the way back to normal (i.e., the trend line of the 1920s). (see **figure**)

US GDP Growth Versus Trend Line, 1919-1942

Ending of the Great Depression

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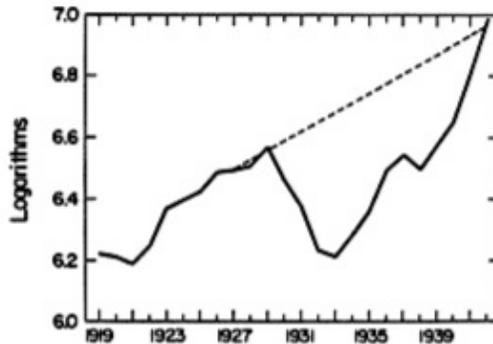


FIGURE 2

ACTUAL AND TREND REAL GROSS NATIONAL PRODUCT, 1919-1942

Note: Trend GNP, which is shown by the dashed line, is calculated by extrapolating the growth rate of real GNP between 1923 and 1927 forward from 1927. Therefore, this series does not start until 1927.

Source: The source for real GNP is the same as in Figure 1.

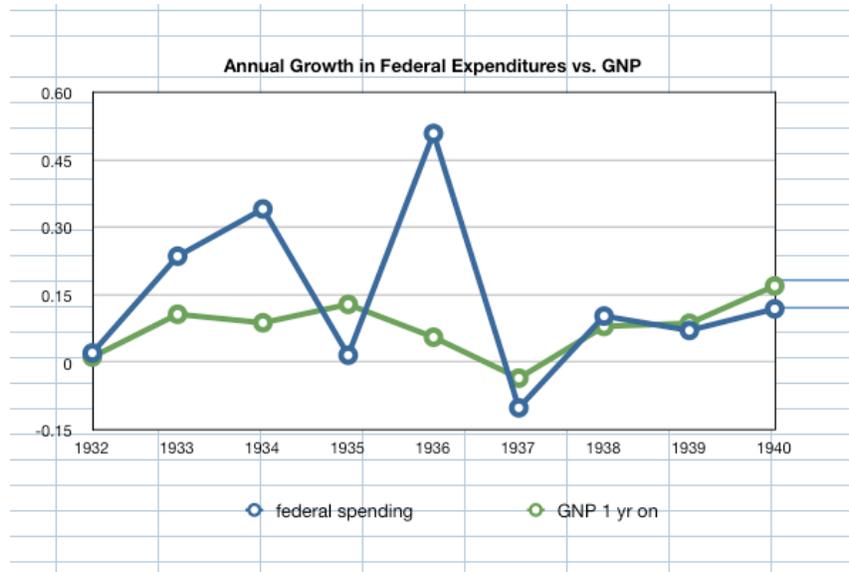
source: Romer 1992, p. 761

Did the New Deal cause the recovery? It sure helped. First, it salvaged the banking system. Congress passed the Federal Emergency Banking Act and the Glass-Steagall Act to provide bank oversight and federal deposit insurance. FDR took the US off the gold standard, letting the dollar fall by half to benefit exports, and the Federal Reserve Bank began to pump money into the banking system. Money could again flow through the veins of the economy, credit was loosened, and investment shot up.

The second face of the New Deal economic recovery effort was fiscal policy, or federal spending. Congress speedily authorized \$3.3 billion in emergency spending for job creation and relief of the states in 1933-34 under the National Industrial Recovery Act (NIRA), which included the Federal Emergency Recovery Agency (FERA) and Public Works Administration (PWA). The Civilian Conservation Corps (CCC) and Tennessee Valley Authority (TVA) contributed, as well. A further \$4.88 billion was added in the Emergency Relief Appropriation of 1935. Roughly half the federal budget during the Roosevelt Thirties consisted of emergency disbursements meant to fight the Depression.

Emergency spending supplemented appropriations for *existing* federal programs, many of which expanded markedly during the New Deal. This facet of federal expenditures is often overlooked, but it included such things as public roads, military outlays, and federal buildings. Broadly speaking, the federal government expended more than \$16 billion in grants and payments from 1933 to 1939 and over \$10 billion in loans for public works, farm supports and housing. Altogether, the federal government's share of GDP more than doubled, from about 4 to 9 percent. There were also loans programs to state and local governments that were mostly repaid as things recovered.

Growth of Federal Spending



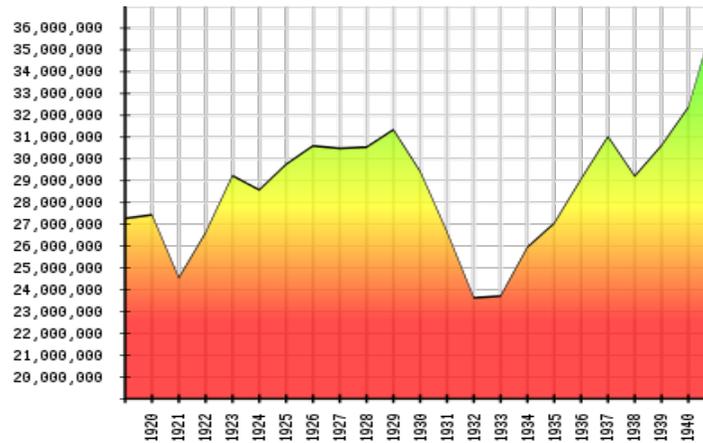
Source: www.bea.gov (thanks to Dean Baker)

Further proof that New Deal programs were largely responsible for economic recovery is the counter case of the 1938 recession. This sharp downturn was partly triggered (and definitely worsened) by cutbacks in federal spending and monetary policy. A major fiscal retrenchment took place that year, as FDR pulled in the reins on federal spending, Congress failed to renew a huge veterans pension payment and CCC remittances, and WPA wages were cut off, hurting the poorest and many local economies. In addition, Social Security taxes hit for the first time, further undermining consumer spending.

2. Employment and Income

After stabilization of business and finance, the most pressing task of the New Deal was to put people back to work. In the collapse of 1929-33, some 10-15 million people were without jobs and the unemployment rate had soared to 25% of the working population – and only half of the rest had full-time jobs. The new administration felt it had to act quickly to alleviate the misery of mass joblessness and to prime the economic pump.

Total Employment in the United States, 1928-1941



source: http://en.wikipedia.org/wiki/File:US_Manufacturing_Employment_Graph_-_1920_to_1940.svg

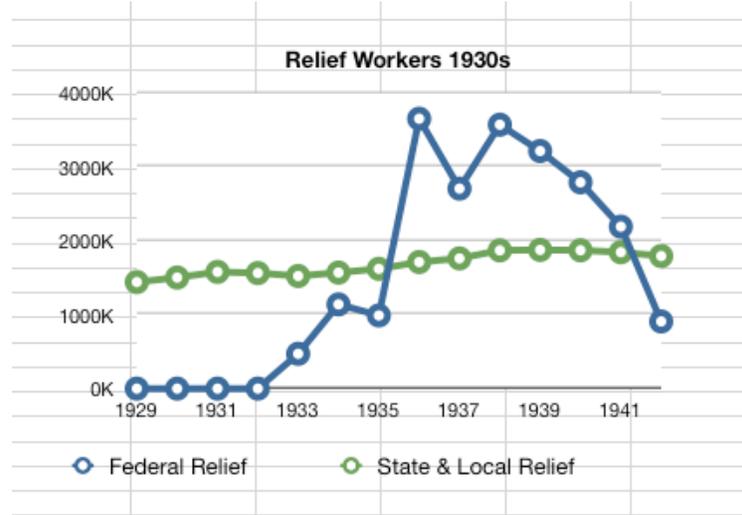
Three job creation programs were put into place during the first Hundred Days: the CCC, FERA and the PWA. The CCC, FDR's personal favorite, was intended to put young men without means, skills or prospects to work on conservation projects. The CCC was the most basic kind of 'make-work' initiative, putting "CCC boys" to work on reforestation, soil conservation and park improvements at a minimum wage.

FERA supplied 'direct relief' via grants to the states, which had been overwhelmed by mass impoverishment, business failures, and falling tax revenues. Many local governments had declared bankruptcy. FERA grants were used to support state emergency relief administrations (SERAs), which dispersed monies to local agencies (half the grants had to be matched 3:1 by state and local contributions). Because Americans prefer work to "handouts" as a means of dealing with destitution, the favored program was "work relief" in which those on the dole had to be approved for jobs.

Because the need was so urgent, FDR grew impatient. By Executive Order, he had Harry Hopkins, head of FERA, carve out a new program for direct hiring of the unemployed, the Civil Works Administration (CWA). The CWA mobilized almost 4.5 million workers in five months during the hard winter of 1933-34, but was soon terminated.

Nonetheless, the desperate condition of millions of unemployed did not abate. So Roosevelt and his advisors, led by Hopkins and Secretary of Labor Frances Perkins, realized that they needed direct federal action, and fast. So, in 1935 Roosevelt created the Works Progress Administration (WPA) out of the remnants of CWA and FERA, with Hopkins at the helm. The expansion of relief work was quick and decisive, and the WPA went on to the largest and best known of all New Deal programs.

Government Relief Employment



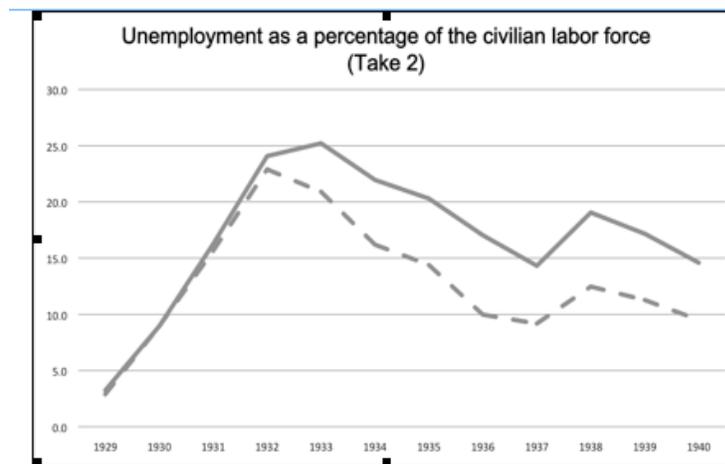
source: Bureau of Economic Analysis, bea.gov, Table Ea916-965

The CCC put 2.5 to 3 million men to work during its nine years. The WPA averaged over 2 million employed from 1936 to 1941 and often exceeded 3 million; it provided jobs for roughly one-third of the unemployed in the mid-1930s and put to work some 8.5 million people. The WPA generated about three-fourths of all works program jobs, CCC one-eighth, and PWA and all other agencies one-eighth.

The PWA was a more complicated program to build large public works in cooperation with federal agencies and the states. It gave out grants and loans and oversaw a system of contracting with the private sector to do the construction. The PWA, under Secretary of the Interior Harold Ickes, demanded strict oversight to insure against corruption. PWA funded projects that were responsible for creating a large number of jobs in the private sector. Hence, PWA's impact was gradual but substantial at its peak.

Overall, national employment picked up rapidly from the nadir of early 1933. The unemployment rate fell steadily from its peak of 25% in 1933 to 10% by 1937, then rose in 1938. By any measure this was an amazing achievement. Unfortunately, it has been underappreciated because early statistical work did not include government relief jobs in total employment, which raises the unemployment figure by 5%.

U.S. Unemployment Rate, 1929-1940 (Revised figures shown by dotted line)



Source: Rauchway 2008

New Deal jobs programs did more than create jobs for the destitute. They put to work people of every occupation and skill level. Federal works agencies reached out to African-Americans and CCC camps were integrated a decade before the military. Most of all, providing jobs with a public purpose renewed workers' sense of dignity.

The New Deal stanchd the bleeding in rural areas, bolstering farm incomes through AAA payments and price supports, easy loans from the Farm Credit Administration, and grants from the Resettlement Administration (later Farm Security Administration). The latter also created jobs directly, as did PWA, CCC and WPA projects in the countryside.

Unionization revived with the federal recognition of the right to organize offered by the NIRA in 1933 and by the National Labor Relations Act of 1935. The NIRA included the first minimum wage in the United States. As the shock of the crash wore off and the New Deal began to give them hope, workers launched the greatest wave of labor organizing in American history, a breakthrough that gave unions a place in American life.

3. Public Works and Housing

The New Deal altered the landscape of America through a wide range of programs to support the building of basic infrastructure. Job-relief agencies were also builders and financiers of public works: the Civilian Conservation Corps (CCC), Civil Works Administration (CWA), Public Works Administration (PWA), and Works Progress Administration (WPA). To these should be added the expanded Reconstruction Finance Corporation (RFC), Tennessee Valley Authority (TVA), Bonneville Power Authority (BPA), Rural Electrification Administration (REA), Soil Erosion/Conservation Service (SCS), Resettlement Administration (RA) / Farm Security Administration (FSA), and United States Housing Authority (USHA).

Nor should we overlook pre-existing federal infrastructure programs that the New Deal expanded through line appropriations, as well as grants from the PWA and loans from the RFC. Such agencies include the Bureau of Reclamation, Army Corps of Engineers, Public Building Administration (PBA), Bureau of Public Roads (BPR), and the Army and Navy. These agencies are often overlooked in discussions of the New Deal, yet they built noteworthy projects, such as the Grand Coulee dam and National Recovery Highways.

The biggest of the public works agencies were the PWA and the WPA. Harold Ickes intended the PWA to provide jobs by aiding the moribund U.S. construction industry. The PWA funded around 35,000 projects, ranging from city halls and sewage treatment plants to enormous dams and bridges. The WPA under Hopkins ran its own projects, generally smaller than those of the PWA, roughly 300,000 in all. Both agencies built dams, streets, highways, amphitheaters, tunnels, water mains and sewage lines, city halls, hospitals, airports and schools. Together they built close to 80% of the new sewers, 50% of waterworks, most of the airports, and most park improvements during the 1930s.

Expenditures by the major agencies were very large. Public works consumed roughly two-thirds of emergency funds and a goodly share of regular appropriations. We have assembled the best available data on expenditures by program for a total estimated federal outlay on public works of almost \$27 billion by the early 1940s (about \$425 billion in today's dollars).

FIGURE: Public Works Expenditures During the New Deal
(in millions of current dollars, rounded)

<i>Agency</i>		<i>Grants</i>	<i>Direct</i>	<i>Loans</i>
PWA	(1933-41)	3,310		795
WPA	(1935-43)	1,085	9,780	
CCC	(1933-42)		3,200	
TVA	(1933-42)		530	
CWA	(1933-34)		800	
FSA	(1933-39)	95		425
USHA	(1937-39)	125		450
RFC	(1933-39)			4,400
REA	(1936-39)			225
BPR	(1933-39)	1,555		
PBA	(1933-39)	175		
<i>Totals</i>		<i>6,345</i>	<i>14,310</i>	<i>6,295</i>
<i>All Public Works</i>		<i>26,900¹</i>		

¹ This is a low estimate for three reasons: it does not include regular authorizations for the Bureau of Reclamation or Army Corps of Engineers; some totals only go through 1939; and US Office of Government Reports figures appear to be lower than numbers collected by the agencies themselves.

In all cases, the emphasis was on *public* works: civic uses, public spaces, free roads, public power, and collective infrastructure. This is a crucial legacy of the New Deal: devotion to the Progressive ideal of the public good over private interest.

Federal public works programs were carried out in cooperation with state and local governments. Federal support made local projects put on hold by the Depression feasible once again, but not as a free ride. The PWA, in particular, sought local input into its projects; states and localities contributed roughly half the funds. WPA also worked closely with local agencies, but contributed something closer to 90% of all funds. Local designs were favored, making for a wide array of architecture and artwork. There was no template, although Art Moderne and stripped-down classicism were popular.

Quick action by the Roosevelt administration during the first New Deal salvaged the housing market. House values had fallen dramatically and foreclosures were rampant. FDR pushed through an expanded Home Owners Loan Act in 1933 and the Federal Housing Act in 1934. The Home Owners Loan Corporation (HOLC) attempted to restructure debt for underwater mortgage holders. The FHA bolstered the housing market by providing federal guarantees to mortgage lenders. Home prices recovered to 1920 peak levels by the mid-1930s. The Federal National Mortgage Association ("Fannie Mae") was created during the third New Deal to buy up mortgages from lenders, channeling more funds into housing.

4. Education & Culture

New Deal public works agencies demonstrated an unprecedented concern for promoting public education in all of its dimensions, not only as a means of extricating the U.S. economy from the Great Depression but as an initiative indispensable to self-governance. A 1937 WPA report stated flatly "that a democratic government must be established upon the foundation of an intelligent and informed citizenry is an accepted principle." The New Deal was steeped in the ethos of John Dewey and other Progressive educators.

The CWA built or repaired four thousand educational buildings ranging from rural schoolhouses to the University of Pittsburgh's Cathedral of Learning, and it employed over 50,000 schoolteachers. The WPA constructed 5,900 new schools, renovated 31,300 more, and built additions to 2,170, including auditoriums, libraries, laboratories and cafeterias. The PWA built 6,656 primary and secondary schools, and almost 700 colleges and university buildings. Altogether, the New Deal agencies accounted for 70% of new schools built in the U.S. in the 1930s.

In addition to schools, the PWA built 105 new public libraries. The WPA added another 140, enlarged or reconditioned 900 others, and provided aid and employees to thousands more. WPA workers assisted in the repair and renovation of some 94 million books. Both the PWA and WPA built and enlarged museums and, along with the CWA and CCC, restored historic structures as prominent as the Washington Monument and Statue of Liberty.

Most famously, four units within the WPA — the Federal Writers', Arts, Theater, and Music Projects (collectively known as Federal One) — employed thousands of artists to express their creativity for public benefit, and the Treasury Section of Painting and Sculpture and the Treasury Relief Art Program embellished federal buildings from the smallest towns to the largest cities.

5. Government & Politics

The greatest institutional legacy of the New Deal is undoubtedly the quantum expansion of the federal government. The federal share of government spending rose from 30 to 42%. Such a jump was unprecedented in peacetime and shifted the center of gravity of American federalism.

The speed with which the New Deal broke with the past is astonishing when viewed from today's rule-bound perspective. Roosevelt's team could move so fast to meet immediate needs precisely because there were few precedents. They made it up as they went along, and a solidly Democratic Congress at first offered little friction.

FDR and his advisors looked back to parallels with the national emergencies of the Civil War and First World War. The Roosevelt generation was also steeped in the ideas of the Progressive Era. The Progressives were the first to advocate for *systematic* government financing of public works, civic planning, and reform in the name of the public good. The New Deal built on the Progressive tradition of government regulation, as well. It expanded federal powers over radio broadcasting with the Federal Communications Act of 1934 and saw to the equitable allocation of the radio spectrum. It took charge of the airways with the Civil Aeronautics Act of 1938.

Roosevelt revitalized American democracy in three crucial ways. First, he led the Democratic Party back from the wilderness where it had been wandering since the Civil War. No Democrat had won a majority of votes for president since Franklin Pierce! Second, he gave the working class a seat at the table of national government, especially as the powerful opposition that coalesced during FDR's first term made him turn to the working class for support for his policies and reelection. The result was the greatest landslide in a presidential election, in 1936. Third, the New Deal emphasized the commonweal over private gain, setting a new standard for public service, public welfare, and concern for all the people, including the losers in the great competitive race.

For the full version of New Deal history, with more graphics and full citations, see Walker and Brechin, *The Living New Deal* (2009)